RESEARCH REPORT SERIES

No. 30

# The Use of Import Privileges as Incentives to Exporters in Pakistan

By

W.E. Hecox



PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS
OLD SIND ASSEMBLY BUILDING
BUNDER ROAD, KARACHI
PAKISTAN

No. 30

# The Use of Import Privileges as Incentives to Exporters in Pakistan

By

W.E. Hecox



1965

PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS
OLD SIND ASSEMBLY BUILDING
BUNDER ROAD, KARACHI-1
(PAKISTAN)

# THE USE OF IMPORT PRIVILEGES AS INCENTIVE TO EXPORTERS IN PAKISTAN

by

Walter E. Necox*

INTRODUCTION

This Research Report deals with two separate topics, namely, early export promotion measures, and import licensing procedure after the Revolution. The reason for putting them in a Research Report is to make the information available to others doing research on these topics. The author's purpose originally was to look at all measures used to promote exports in Pakistan. The two methods of export promotion primarily used in Pakistan have been 1) additional import privileges based on export performance, and 2) additional import licenses made available under the regular import policies.

The first section of the Report deals with export promotion measures used prior to the introduction of the Export Bonus Scheme in 1959.[1/] As can be seen from their contents, the current Bonus Scheme draws heavily on its predecessors mistakes and shortcomings. In addition, the recommendations of the Export Promotion Committee of 1952, also discussed, foreshadowed many of the export promotion measures later adopted. There were other means used to encourage exports during the period prior to 1959, many of which are mentioned in passing, but the Export Incentive Scheme and the Export Promotion Scheme were the most important. A look at the current Bonus Scheme will show the similarities between the recommendations of the Committee and the practices of the two earlier promotion schemes.

The new regime which took political control of Pakistan in October, 1958 introduced two primary changes in the promotion of exports in January, 1959. One was the Export Bonus Scheme which

---

*The Author is Fulbright Student at the Pakistan Institute of Development Economics for the Academic year 1964-65.

rewarded exporters with import privileges based on a percentage of actual export performance,[2/] and the other was a gradual liberalization of restrictions on import privileges. It is the second of these subjects which this paper covers in the section dealing with the history of import licensing after the Revolution. Major emphasis has been placed on that part of licensing dealing with exports, although mention has been made of liberalization in imports for other sectors of the Pakistan economy. The purpose has been to trace the evolution of import licensing from a very strict policy immediately after the Revolution through the period when it was gradually liberalized and changed to encourage more export performance as well as to achieve other objectives. The major innovations which will be looked at are the Automatic Basis of licensing, the Open General License (OGL), the Request Basis of licensing, and the Free List. [3/]

It is the author's contention that the incentives offered exporters under industrial licensing may have been as great as, or greater than, the incentives under the Bonus Scheme. The long-run aim of the author's program of study is to compare these incentives. Presently, however, not enough work has been done to say anything quantitatively about this question. But a description of the operation of the systems is a first step in this direction.

REPORT OF THE EXPORT PROMOTION COMMITTEE

During 1952 a Government appointed Export Promotion Committee studied in great detail the question of the future of Pakistan's exports. Its report,[4/] which was ready in late 1952, listed a number of practical solutions whose implementation would diversify and strengthen export trade. This was the nation's first complete study of barriers to trade, and as such is the original source of many changes which were made in later years. The main suggestions are summarized below.

At the time of the 1952 investigation, the export of articles containing parts imported from abroad, or those using materials imported from outside Pakistan in their manufacture, was strictly regulated. The Committee felt that this approach towards control of exports was wrong. If the imported parts were used in the manufacture of exportable goods, the country could only stand to gain by earning foreign exchange. The fear that the export of such commodities would lead to increased domestic prices for the goods was dismissed by the Committee. They felt that the competitive position of the manufactures of these goods was so weak that it would be almost impossible to find markets on a large enough scale to affect the domestic supply position. The Committee stated that the only time when restrictions were justified was in the very extreme cases where the ingredient raw material was of a very essential nature and that it constituted 50 per cent or more of the value of the exported item, and was imported from a hard-currency area. In addition, they asked that the import of all such materials and articles as were required for the manufacture of export articles should be allowed freely, upon the importer's furnishing a bond which would commit him to re-export the manufactured articles at a value higher than the imported cost [3, pp. 4-5].

In the case of goods or commodities which actually should be controlled, the licensing system should be automatic and as simple as possible, the Committee stated. The necessity to take out licenses for individual shipments had been acting as a deterrent to people entering the export trade. This caused a serious loss in foreign exchange when a large number of contracts had to be cancelled when the Korean boom ended due to the sharp decline in prices because shipments could not be effected in time for want of a license [3, p. 6].

An organizational bottleneck was created by the regulation of the Export Control Order by not only the Ministry of Commerce, but also by the Ministry of Food and the Ministry of Industries in some cases. This led to delays which were harmful to export trade.

The Committee recommended that all measures of export control should be placed under the control of the Ministry of Commerce, who should periodically consult other Ministries and establish policy [3, p. 6].

A comprehensive and coordinated policy for the promotion of cottage industries was asked for, which would be able to assist the cottage worker at every stage of his work. Help was called for in:

1. Finance
2. Supplying of raw materials at cheap prices
3. Research in techniques, processing, design, etc.
4. Marketing and sales of goods [3, p. 8]

More radical in approach was the request for a subsidy to be paid to exporters of manufactured goods. The Committee suggested that exporters be entitled to receive a certain percentage of the foreign exchange they earned. Furthermore, they should be allowed to sell this foreign exchange through authorized banks at the open market rates. The foreign exchange made available in this manner could be utilized for the import of those items which were not essential to the country and were considered luxury items. These "luxury items" could then be eliminated from the items importable under regular license. This incentive would help turn manufactures towards the export trade. The profit which the exporter could make on the sale of foreign currency would make competitive a number of products which could not compete in international markets without some type of subsidy. Another possibility was to earmark foreign currencies equivalent to a certain percentage of prices of exported goods for the use of exporters in making payments overseas, travelling overseas, paying brokerage for agents abroad, or the import of raw and processed material for exportable goods. The committee felt that although there was a very strong case for direct subsidy of exporters of manufactured goods, the problems of administration and the additional strains this would place on the already burdened Government made impossible direct subsidy. The program outlined above was considered adequate to achieve the results of a subsidy without many of its problems [5] [3, pp. 10-11].

A general review and reduction of taxes on exported commodities and goods was requested. When there had been a shortage of raw materials on the world market, the Government imposed certain taxes in order to take up the difference between prices in the producing and consuming countries and to share in the profits made by the middlemen. But with the onset of the recession in demand for raw materials, these duties should have been removed. Revenue from export duties constituted an important share of total internal revenue of the Government. In 1951-52 export dutie s formed 39 per cent of total revenue. The Committee felt that in cases where exports did not face any special competition, the taxes should remain. But other commodities' levies should be reduced or eliminated so that they would not burden their competitive capacity. Also sales taxes should be discouraged [3, p. 17]

The final suggestion the Committee made was for the establishment of a Department of Trade Promotion. This was for the purpose of making available the most up-to-date information regarding developments in foreign countries and relating to market control, tariffs, prices, etc. The Department would analyze market trends and constantly review the competitive position of Pakistan's products in foreign markets [3, p. 17].

These were merely suggestions, but the policies in later years mirrored these ideas. In fact, almost all of the recommendations were in some form or another adopted by the Government in its various attempts to upgrade export performance. As shown in the folllowing sections, the Export Incentive Scheme and the Export Promotion Scheme were limited attempts to achieve the indirect subsidy for exporters that the Committee had suggested.

EXPORT INCENTIVE SCHEME - JUNE 28, 1954 TO September 30, 1955

By the middle of 1954 the limited exchange earning capacity of Pakistan's primary products had become evident in an international market of declining prices. There was a need to encourage the export of manufactured goods and primary products. This need brought about the announcement of the Export Incentive Scheme by the Ministry of Commerce on June 28, 1954. The purpose was to give encouragement to items other than the main Pakistan exports of jute, cotton, hides and skins, and tea.

Under this Scheme exporters of certain primary and manufactured goods were entitled to import licenses for specified goods up to a prescribed percentage of the value of the exports made. Originally effective until March 31, 1955, the Scheme provided that upon proof of export and receipt of exchange by an exporter (of one of the specified items) the State Bank would issue a voucher for 30 per cent of the value of the export earnings. This voucher was applicable for the import of items eligible for import under the plan. In cases where the 30 per cent entitlement came to less than Rs. 5,000, no vouchers were issued (i.e., a minimum of Rs. 5,000). The vouchers were exchangeable for import licenses from the Chief Controller of imports and Exports for the import of the specified value of the specified goods. When the voucher entitlement was between Rs. 5,000 and Rs. 50,000 the exporter was entitled to automatically receive import licenses for the items and values applied for. In cases where the amount was above Rs. 50,000, the exporter was required to apply for at least four items on the import list, indicating in order of preference the proportionate distribution of his entitlement over the indicated items. Import licenses were issued as far as possible in accordance with the applications. The list of primary export commodities eligible under the Scheme contained twenty minor items, while the list of manufactured items numbered sixteen. The items importable against these exports numbered twenty-seven.

At the same time that this Scheme was announced, the Government placed all manufacutred articles and commodities, except artemisis, on export OGL and took steps to remove all hindrances in the way of exports and to facilitate issuance of import licenses. The most promising primary export commodities in the Scheme were rock salt, crushed bone, firewood, timber, and betelnuts. Some of the manufactured goods had equally good possibilities for increased foreign earnings. The State Bank attempted to modify the harmful effects of the high minimum level of earnings necessary to obtain vouchers by permitting accumulation of export earnings by several small exporters. But the Bank would not issue vouchers for less than Rs. 1,000 each, which meant that an exporter had to export enough so that his cumulative voucher privileges equaled Rs. 1,000 [4, August 1954, p. 60]

By October 18, 1954 various changes were necessary in the Scheme and the CCI&E in a Public Notice specified these alternations. The list of primary export commodities eligible under the plan was expanded from twenty items to thirty-four items, while the list of manufactured goods received twenty-eight items, making a total of forty-five, A total of thirty-five items were made eligible for import with vouchers, making sixty-two items in all. The exporters were entitled to continue to receive 30 per cent of export earnings in the form of vouchers, except for four items in the primary goods' list and ten items in the manufactured goods' list which were entitled to receive only 20 per cent of the foreign exchange they earned. The additional items became eligible for vouchers from the day of the announcement [4, January 1955, pp. 64-65].

Although the Scheme was scheduled to end on March 31, 1955, it was extended on that day up to September 30, 1955. The decision to extend the duration of the Scheme was apparently based on a favourable performance in the seven months of its existence. Not only was an additional source of foreign exchange created, but the plan also helped solve the problem of financing the import of essential goods. Most of the items included in the lists of eligible exports had either negligible or nil performance before the imposition of the Scheme [4, August 1955, pp.1-2,6].

The major objective of the Export Incentive Scheme was to step up the export of Pakistan's minor exportable items. In this sense, it was successful in terms of some items, but not all. Compared with the trade year 1953-54, the export of rape seed oil cakes, beef and sheep casings, saltpetre, and crushed bones registered an increase under the Scheme, as well as other items. In addition, the Scheme was instrumental in introducing to overseas buyers a number of new commodities from Pakistan [4, May 1956, pp.5-9,11].

When measured as a portion of total export trade, however, the Export Incentive Scheme did very little to substantially increase Pakistan's export proceeds. In the shipping period January-June 1955, for example, exports under the Scheme were only 1 per cent of total exports. One breakdown of earnings under the Incentive Scheme is given in Table 1 below (figures for the period June 28, 1954-September 30, 1954 are not available):

TABLE I

QUARTERLY EXPORTS UNDER THE EXPORT INCENTIVE SCHEME

(thousand Rs.)

| Period | From E. Pak. | From W.Pak | Total |
|---|---|---|---|
| Oct/Dec 1954 | 213.3 | 886.6 | 1,099.9 |
| Jan/Mar 1955 | 450.5 | 1,660.4 | 2,110.9 |
| April/June 1955 | 313.3 | 4,286.5 | 4,599.8 |
| July/Sept 1955 | 1,528.8 | 5,572.4 | 7,101.2 |
| Total | 2,505.9 | 12,405.9 | 14,911.8 |

Source: [4,May 1956,pp.5-9,11]

The figures in Table I indicate that in the first, second, and third quarters of 1959 exports under the Scheme roughly doubled over the immediately preceding quarter. Apparently the incentive was sufficient to induce a higher amount of subsidized exports each quarter. However, these figures do not cover the entire duration of the Scheme. Another source has estimated that Rs. 20.1 million worth of exports were affected during the entire duration of the Scheme [4, April 1955, pp. 1-5].

Apparently these two estimates, from the CCI&E's Office, measure only exports reported during the duration of the Scheme. But when the Scheme was removed after September, 1955, those exporters who had made shipments during the period of operation of the Scheme and had not applied for vouchers were still eligible to apply for exchange vouchers. These requests for vouchers continued to be received for several years. Thus, the above figures cover only part of the exports eligible for subsidy because of a delayed receipt of claims. The State Bank lists Rs. 48.14 million as the amount of exchange earned under the Scheme for the entire period (including delayed claims) for which Rs. 11.16 million in exchange vouchers were issued [4, April 1955, pp. 1-5].

The limited scope of the Scheme meant that it had very little effect on total export earnings. It was estimated that in 1954-1955 the Scheme covered exports valued at Rs. 20 million as compared with exports of the same commodities in earlier years of Rs. 6.9 million in 1952-53 and Rs. 8-4 million in 1953-54 6/. Thus, the exports covered amounted to only about 1.7 per cent of the total value of exports on private account for the year 1954-55 [5, pp.53-54]. This is not to minimize the beneficial effects which this project had in terms of introducing exports to the international market, although in terms of percentage of total export earnings the new items will be a small although growing share for many years to come.

With the occurence of devaluation in 1955 and the termination of the extended Export Incentive Scheme, the decision had to be made on whether any additional incentive would be extended to exporters. The feeling of the Government was that devaluation conferred great concessions on exporters, enabling them to face rival suppliers by offering competitive quotations. It was realized, however, that this conclusion applied more to primary products than to processed commodities. It was obvious that traders would be more interested in the importing than in the exporting field unless somy type of incentive was continued. The Scheme had, to some extent, stimulated interest in the export trade, but it was felt that the withdrawal of concessions would lead to a slackening of this activity and a cessation of interest in introducing further new items which had not yet been exported. Also, many of the new items which had been exported for the first time under the Incentive Scheme had not yet gained a sufficiently firm grasp in overseas markets. Therefore, it was decided to retain parts of the Incentive Scheme under a new plan entitled the Export Promotion Scheme which became effective October 1, 1955.

EXPORT PROMOTION SCHEME-OCTOBER 25, 1955 TO JANUARY 15,1959

The Export Promotion Scheme established two schedules of items. The first one dealt with primary commodities and listed sixty-seven items, the export of which would entitle the trader to receive import licenses valued at 15 per cent of the foreign exchange earned. The same schedule listed forty-six items which could be imported with the vouchers earned. The second schedule contained fifty-three goods of Pakistani manufacture which were entitled to receive import licenses of 25 per cent of the foreign exchange earned. Against each export item there were specified the imports of machinery, raw materials, and packing materials which could be brought into the country with the vouchers earned.

The new Scheme differed from the previous Export Incentive Scheme in several ways. Under the old Scheme exporters could import any of the items on the established import list. The new Scheme limited the choice in the case of manufacturers (schedule II) to raw materials, machinery, packing material, transport equipment, and spare parts used in the manufacturing process of that industry. This limited manufacturers to the import of only such commodities as were required for the manufacture, processing, and packing of the goods. This was done to reduce the cost of products and thus help in meeting foreign competition in external markets. The procedure for importing under schedule I remained the same as in the previous Incentive Scheme. Vouchers earned could be used to import any of the items eligible for import, subject to certain restrictions listed below.

Upon the receipt of Bills of Exchange the exporters approached the Assistant Exchange Controller of the branch of the State Bank concerned for the issue of a voucher. No vouchers were issued where the voucher entitlements were less than Rs. 1,000. Those exporters who shipped items whose entitlement came to less than Rs. 1,000 could accumulate voucher entitlements until their aggregate value came to Rs. 1,000, at which time they could obtain their vouchers. Import licenses against the vouchers were issued to any exporter for the face value of the vouchers held, unless in the case of exports of the items in Schedule I the aggregate value of the vouchers was Rs. 50,000 or more. In that case, the exporter had to apply for at least four items of import included in schedule I in order of preference. Where possible, these preferences were followed. The import licences were valid for about six months from the date of issue, and imports could take place against these licences anywhere in Pakistan [4, November 1955, pp. 43-56].

The concessions granted to exporters under this Scheme, which ran for an initial period until September 30, 1956, were in addition to normal licensing privileges. Another help to exporters extended at this time was the refunding of customs duties collected on raw materials which were used by industry in the manufacture of goods for export outside of Pakistan. This was allowed only where the functions of importer, manufacturer, and exporter were combined in a single company [4, November 1955, pp. 1-2].

In the list of primary commodities (schedule I) eligible for vouchers only those items which had not been exported at all or had moved only in insignificent quantities were included. Items like crushed bone, sheep casings, mustard seeds, oil cakes, and rape seed, which together had accounted for 60 per cent of the earnings under the Export Incentive Scheme, were excluded. The Government stated that devaluation had removed the main obstacle which stood in the way of sales of Pakistan's primary commodities and was a sufficient incentive in itself. But the Government extended the operation of the Scheme to a number of commodities as an additional incentive. The provision of a 15 per cent import entitlement was, therefore, felt to be a great concession to primary products producers on the part of the Government. It was thought that this additional earning power would enable exporters to meet the cost of market surveys in countries where other competitions had already established themselves. The Government also stated that the duration of the Scheme for a whole year (the Export Incentive Scheme had originally been announced for a period of only six months, and later extended) would be a sufficiently long period to enable exporters to establish business contacts abroad and undertake market research [4, November 1955, pp. 1-2].

In March, 1956 five more manufactured items were made eligible under schedule II for earning vouchers, and one more item was added to the primary commodities in schedule I [4, April 1956, p. 49]. During the shipping period January - June 1956 earnings under the Scheme totalled Rs. 7.64 million. In addition, exports under the Scheme during the second quarter of 1956 were almost double the earnings during the first quarter. The regional break down by quarters is shown in Table II.

TABLE II

EXPORT UNDER THE EXPORT PROMOTION SCHEME
(January - June 1956)

(thousand Rs.)

| Period | From West Pakistan | From East Pakistan | Total |
|---|---|---|---|
| January-March 1956 | 155.6 | 2,554.1 | 2,709.7 |
| April-June 1956 | 874.3 | 4,062.4 | 4,936.7 |
| Total | 1,029.9 | 6,616.5 | 7,646.4 |

Note: Post parcel figures not available.

Source: All figures based on data compiled by Export Wing of Office of CCI&E, Govt. of Pakistan, as cited in [4, November 1956, pp. 4-9].

On October 8, 1956 the Government announced the extension and revision of the Export Promotion Scheme for another year from October 1, 1956 to September 30, 1957. Primary commodities were covered by schedule 1. A total of thirty-two items were eligible, upon proof of export, to receive import licenses valued at 15 per cent of the foreign exchange earned. This could be used for the import of any one or more of the fifty-eight importable items listed in schedule 1[7]. Items of Pakistani manufacture in schedule II were treated in a manner similar to the treatment under the previous schedule II. The thirty-two manufactured items listed in schedule II received import licenses for 25 per cent of the foreign exchange earned. This was applicable to the import of any one or more of the raw materials, packing materials, or spares listed against each manufacture. A new addition in this period of the Promotion Scheme was a schedule III also covering manufactured items. The exportable items on this schedule, numbering twelve, were eligible to receive vouchers worth 40 per cent of the amount exported. This was applicable towards the import of any specified items of machinery, raw materials, or packing materials listed against each export item (similar to the import procedure under schedule II). The list of Pakistan manufactures receiving this added incentive contained the following:

1. Brass and copper wares, all sorts

2. Aluminium wares
3. Surgical instruments
4. Musical instruments
5. Cutlery
6. Machinery, the following:
   i. Lathes, drill chucks, oil expellers, oil engines, sugar cane crushers and parts thereof, certifugal and deepwell turbine pumps
   ii. Sewing machines and parts thereof
   iii. Machine tools including hand tools
7. Trucks, buckets, safes, despatch boxes, and hospital furniture and equipment
8. Hurricane lanterns
9. Cycle tires and tubes, rubber soles and heels, and surgical rubber goods
10. Locks and padlocks
11. Spectacle frames
12. Plastic manufactures, all sorts.

As in the previous period, no vouchers were issued for values under Rs. 1.000, but exporters could accumulate their entitlements until they equaled this sum. Exporters had to apply within one month of the receipt of vouchers for their import licenses. For those exporters in schedule I with vouchers above Rs. 50,000, four items had to be listed in order of preference, indicating the proportionate distribution among the items when applying for import licenses. The import licenses themselves were valid for six months from the date of issue [4, December 1956, pp. 54-57].

The rationale behind the inclusion of schedule III, with an entitlement of 40 per cent, was to provide those industries which largely depended on imported raw materials with sufficient supplies to ensure production, help decrease costs, and thereby raise the volume of exports of these items. In June, 1957 one more export item was added to schedule I and four items to schedule II which were eligible for voucher earnings [4, June 1957, p. 54].

A review of the operation of the Export Incentive Scheme and the Export Promotion Scheme concluded that the schemes, coupled with devaluation and rabate on import duties, had been major factors in cutting costs and encouraging growth of both small scale and large scale industries. Also, Pakistan had been able to import a range of useful items under the earnings of the schemes. But some bad effects of the schemes also were touched upon. Various malpractices by exporters were reported and complaints about the cumbersome operations were related. An Export Promotion Board was set up at this time to review all measures relating to export promotion and help correct any malfunctions. Lastly, the review [4, April 1958, pp. 1-5] showed a summary of the schemes and their earnings as shown in Table III.

The Ministry of Commerce in a Press Note on October 15, 1957 again extended the Export Promotion Scheme for a period of one year from October 1, 1957 to September 31, 1958. In another announcement on January 22, 1958, various changes were made in the Scheme. The minimum limit of Rs. 1,000 below which vouchers were not issued was lowered to Rs. 250, and import licenses were made valid for one month instead of six months as previously. Also various minor additions and changes were made to the three schedules [4, February 1958, pp. 51-52].

The Export Promotion Scheme was further extended and altered on July 5, 1958. It was made applicable to exports through June 30, 1960[8/]. The three previous schedules were retained, but with various changes made in the number of exports covered, as follows:

Schedule I - 9 export items added

Schedule II - 55 export items added

Schedule III - 42 export items added

also schedules II and III became schedules III and IV respectively in order to create a new primary goods schedule (II). This list

TABLE III

VALUE OF EXPORT VOUCHERS ISSUED UNDER THE EXPORT INCENTIVE AND EXPORT PROMOTION SCHEMES

(thousand Rs.)

| Scheme and Period | Schedule | Amount of exchange proceeds realized | Amount of exchange vouchers issued |
|---|---|---|---|
| Export Incentive Scheme, from July, 1954 to September, 1955 | All commodities | 48,141 | 11,168 |
| Export Promotion Scheme No.I from November, 1955 to October, 1956 | Schedule No. 1 - Primary commod. | 10,275 | 1,511 |
| " " " | schedule No. II - Pak. manufactures | 13,040 | 3,198 |
| Export Promotion Scheme No.II from November, 1956 to October, 1957 | schedule No. I - primary commod. | 9,823 | 1,427 |
| " " " | schedule No. II - Pak. manufactures | 16,642 | 4,083 |
| " " " | schedule No. III - Pak. manufactures | 350 | 331 |
| Total of Export Incentive Scheme | All commodities | 48,141 | 11,168 |
| Total of Export Promotion Scheme No.1. | Schedules I & II | 23,323 | 4,709 |
| Total of Export Promotion Scheme No. II | schedules I,II, & III | 27,317 | 5,841 |
| Grand Total | | 98,781 | 21,718 |

Source: State Bank of Pakistan as cited in [4, April 1958, pp. 1-5] eighteen commodities. Exporters of these items were entitled to receive vouchers valued at 10 per cent of the foreign exchange earned, for the import of goods importable under schedule I of the Scheme and/or machinery and equipment required for the production of the items exported.

In addition, the Government decided that 5 per cent of exchange earnings from the export of manufactures included in schedules III and IV could be utilized for the import of the items admissible under schedule I. This 5 per cent had to be within the total entitlement admissible in the case of the export of the various items. The import entitlement on the export of art silk fabrics was raised from 25 per cent to 50 per cent at the same time [4, August 1958, pp. 3-4, 24].

A special Export Promotion Scheme for Mill-made Cotton Textiles was set up on June 12, 1958 to run for one year. This applied only to coarse and medium varieties of yarn and cloth. Exporters were entitiled to receive import licenses for values equal to 25 per cent and 10 per cent of the FOB value of cloth and yarn respectively. Vouchers were issued for Rs. 5,000 and multiples thereof (lowered to Rs. 1,000 on August 26, 1958 ) and holders of vouchers had to apply for import licenses within six months of the exchange transaction. The import licenses, in turn, had to be used within six months for the import of specified machinery and chemicals [4, July 1958, pp. 56-57].

Even though the Export Promotion Scheme had been extended in duration until June 30, 1960, the new regime abrogated it on January 15, 1960 with the announcement of the Export Bonus Scheme. Figures are not presently available to evaluate the overall effect and significance of the Promotion Scheme, but it is obvious that it had inherent in it many of the same weaknesses as the earlier Export Incentive Scheme. Primarily, this weakness was due to the opinion of the Government that any type of incentive in addition to devaluation was merely a favour, and that exporters should be able to compete in the world market because of devaluation. This is shown by the fact that the items which had moved most rapidly under the earlier Incentive plan were excluded from the Promotion Scheme, since they were presumed to have become established. Obviously with this type of attitude the Government was unable to provide a system of incentives designed to significantly step up export performance. Other weaknesses were the uncertainty about the duration of the Scheme, its very limited coverage, and the low rate of bonus. Another possible weakness might have been the lack of liberal provision for imports to accompany the incentives. Perhaps the monetary bonus by itself was not enough in light of limited supplies of necessary inputs for production.

Time after time the different incentives were extended and changed in hopes that one more year would witness significant strides. The failure of this type of attitude is shown by the sad shape of export earnings at the time of the Revolution in October, 1958, after five years of incentive schemes. The failure of the schemes can be laid to their limited scope. Certainly the items which were included in the schemes increased in terms of export performance, but they were an insignificant part of total exports and therefore their improvement had no apparent influence on export earnings as a whole.

THE EXPORT INDUSTRIES SPECIAL LICENSING SCHEME - JUNE 1, 1957 TO MAY 31, 1958

One of the major draw backs of the Export Promotion Scheme was the requirement that firms have export performance to their credit before being able to import needed materials. The Government decided in May, 1957 that one of the main hindrances to export promotion in some lines of manufactured goods was the inadequate supply of imported raw materials needed for the manufacture of goods. The Export Promotion Scheme provided facilities for the import of specified items to some extent, but did not fill the need in all cases, as it required exports to be effected before the industrialist became entitled to an import license. There were in existence some firms capable of manufacturing quality goods and marketing them abroad if sufficient quantities of raw materials were available to them

In order to meet this need, the Export Industries Special Licensing Scheme was announced on May 31, 1957 and ran until May 31, 1958. The Scheme provided for the import of raw materials and packing materials not produced in Pakistan for the manufacture and packing of goods destined for export. The Scheme contained the following classes of manufactures:

1. Established industrial importers
2. Other manufacturers who had no established import categories, but who could satisfy the Government of their ability to export their products if the needed raw materials or manufacturing were made available to them.

The schedule listed theiry-seven items eligible for the benefits of the Schems. Against each item was listed the items of raw materials and packing materials which could be imported in advance and the performance stipulated to qualify for the benefits. Below are some examples of this type of export requirement:

Artificial Leather Cloth - 250 per cent of the value of imported materials, or 100 yards of finished cloth for every Rs. 200 worth of imported materials.

Boot Polish - One ton of boot polish for every Rs. 2,590 worth of imported materials (including Rs. 1,760 worth of Tinplate, Tinstrip, and Aluminium Foil, and Rs. 830 worth of other materials out of the specified list).

Electric Bulbs - 383 finished electric bulbs for imported material worth Rs. 100.

Macaroni, Spaghetti, and Vermicelli - 20 times the value of imported materials. [4, May 1958, p. 29].

Advance licenses were given for the raw materials and packing materials, subject to maximum limits fixed by the Government in each case. But these limits could not exceed the minimum amounts for which raw materials' import licenses were given to the industries through the normal import licensing procedure during any of the previous three shipping periods. As for as possible, preference was given in granting licenses to the firms which had the largest export performance in the particular lines during the previous three shipping periods. The advance licenses were issued on the understanding that the applicants would export manufactured goods of FOB value in a previously determined ratio to the value of the licenses issued. For those industries which had made previous exports of the items included in the Speical Licensing Scheme, these privileges were extended only to those exports over and above the maximum performance during preceding shipping periods (when the Schems was not in operation).

Manufacturers were allowed six months from the date of issue of the licenses to export the goods required. For those firms failing in this endeavor, an amount proportional to the shortfall in exports was deducted from the normal and/or commercial licenses which the firm would otherwise have received in the shipping period immediately following the expiration of the six month period. In cases where the value of regular licenses did not cover the advance licenses, the remainder was taken out in the next shipping period. This proceedure applied both to firms exporting only partial requirements and those making no exports under the Scheme.

Import licenses were valid for five months from date of issue. Imports against these licenses were allowed only in that Wing of Pakistan in which the applicant firm was located. The Small Industries Corporation handled the mass import and distribution of materials and assured the export of required items in return for those small industries over which it had control. It was clearly stated that exporters against whom complaints were received about poor quality or non-conformity with the agreed specifications rendered themselves liable to being denied the benefits of the Scheme. Industries also included under the Export Promotion Scheme were entitled to receive the benefits of both, provided that they exported enough to meet the requirements of the licenses granted to them under the Spcical Scheme as well as those under the Export Promotion Scheme /_4. June 1957, pp. 1-3_7. Various alterations in the items of export eligible for advance imports and the items importable against specific items were made on April 19, 1958 /_4. May 1958, p. 29_7.

The Special Licensing Scheme was limited in scope and was not renewed after its one year of existence. Yet it foreshadowed later attempts to provide manufacturers with the necessary imported components so that they could manufacture for export. This later provision of advanced materials was primarily extended through the import licensing procedure rather than through the Export Bonus Scheme, although anyone was free to buy Bonus Vouchers and import any of the items eligible for import.

SUMMARY

The three incentive schemes prior to the Revolution were valuable experience in the field of export promotion. The discouraging results during this period helped make the Export Bonus Scheme a much sounder program. The Government found that Pakistani manufacturers were not able to compete in international markets successfully and that they needed help on a long-term basis. Also it became apparent that in order to boost total export earnings significantly, incentives would have to apply to a large segment of items exported or those with the possibility of being exported with proper encouragement. The suggestions of the Export Promotion Committee and the lessons learned from the various incentives were blended into the new Export Bonus Scheme announced on January 15, 1960.

Although the analysis given above is incomplete, it does show the attempts made to increase trade. Failure can be blamed more on a misunderstanding of the scope and magnitude of the problem than on a lack of attempts to allieviate it. The schemes were undertaken in all sincerity, but they were inadquate to cope with the long-term problems facing the Pakistan economy.

NEW INITIATIVES TAKEN BY THE GOVERNMENT AFTER THE REVOLUTION

Soon after the new regime took control military law in October, 1958, several stop-gap measures were instituted to control the domestic economy and the foreign exchange situation. Because of the confused import licensing situation coupled with serious balance of payments problems, a temporary freeze was placed on all unutilized import licenses as of December 31, 1958. This was necessary because payments pressures had been steadily increasing during 1956-57 and 1957-58, and reached a peak in July-September 1958 when the current account deficit rose to Rs. 163.2 million, the highest level since 1952. At the same time gold, dollar, and sterling reserves reached a new low at the end of September, 1958, standing at Rs. 726.2 million, less than enough to meet three month's payments. The new regime promised to un-freeze the outstanding licenses as soon as a complete survey was taken of the amount of licenses held by trade and industry [1,pp. 34-36].

Other short-term and long-term measures were adopted to halt the deteriorating situation. Credit creation in the Government sector was sharply cut and borrowing by the State Bank in the form of ad hoc Treasur Bills was stopped. New controls were instituted to prevent smuggling, both a cause and a symptom of leakages from the exchange control, and holders of foreign exchange were asked to declare and surrender all foreign assets illegally held by them to the State Bank. For this purpose an amnesty was granted for declarations made in the specified time, resulting in the turnover of Rs. 82.2 million. At the same time, a deliberate policy of increasing foreign exchange reserves to a safe level was instituted, even at the expense of increasing domestic shortages and enhancing import and exchange controls. An indication of the success of these bold steps was the decrease in the rate of increase in the money supply. It rose by 9 per cent over the three year period from 1958-59 to 1960-61, as against 37 per cent in the preceding three year period [1, pp. 34-36].

By January, 1959 the Government had been able to evaluate the economy, to design positive policies to correct its weaknesses, and to replace the emergency stop-gap measures. The Minister of Commerce, Mr. Zulfikar Ali Bhutto, announced the bold new changes in a press conference on January 14, 1959. After reviewing the reasons for the serious situation in the foreign exchange sector of the economy, and the indadequate steps taken to correct this situation by the former regime, he listed several new plans to help aspects of the problem. One was the Export Bonus Scheme which would not only expand the export sector, but would also liberalize imports within the limits of foreign exchange resources. A new procedure was set up by the State Bank to cetralize the handling of foreign exchange. Under the system import licenses were to be issued only upon accrual of foreign exchange earnings, thus eliminating the dangers of excess budgeting of foreign exchange. For this purpose three accounts were established which were continuously supplied by incoming foreign exchange (after the Government made provisions for building up reserves to a safe level). Account No. I contained 20 to 40 per cent of foreign exchange earnings from exports of items eligible for bonuses under the Bonus Scheme for the purpose of issuing bonus import licenses. The balance of foreign exchange earnings was to be divided into Account No. II for Government imports and Account No. III for private imports.

Another step taken was a new process of export trade control. Previously only those goods specified by the Government could be exported, all others being banned. The Government changed this policy and listed only those items which, because of their essential role in the country's economy and security, were prohibited for export. Thus, only sixteen items were included on the list, all others being freely exportable. Other steps included increased facilities for businessmen and industrialists to travel abroad and set up offices, simplification of the procedure for rebate of import duties paid on raw materials used in the production of exported goods; and consideration of tax privileges for traders. Simplification of export control by means of centralization in the Ministry of Commerce, and simplification of customs formalities were also instituted.

Mr. Bhutto outlined Government policy concerning the proposed shift from a fully regulated economy to a freer economy. The use of Export Bonus Vouchers was intended to replace in some cases the need for specific import licenses out of the funds in Account No. III. This change would take time, however, and he stressed that intermediate steps would be taken to ease the change-over. In some industries earnings of export vouchers were expected to cover requirements of raw materials and spare parts. These industries were to receive import licenses from Account No. III only until they had accumulated Bonus Vouchers sufficient to replace their previous source of imports. For other industries Voucher earnings were not expected to cover all import requirements and in these cases specific licenses would continue. Finally, for non-export industries essential for the national economy and for essential commodities for the domestic market licenses would continue to be issued out of Account No. III [4, February 1959, pp. 5-7,9].

Although many changes were instituted in January, 1959 to revive the economy and step up foreign trade, the primary ones were the introduction of the Export Bonus Scheme and the gradual but continuous liberalization of imports as announced every six months in the Import Policy pronouncement. The latter, change, in some ways less spectacular and a more gradual change than the

Bonus Scheme, will be reviewed her. It will be done in a chronological manner in an attempt to trace the evolution of import policy from strict regulation to a more liberal position.

JANUARY - JUNE 1959 9/

In light of the Government's determination to build up foreign exchange reserves to a safe level, the import policy for the shipping period January-June 1959 was obviously restrictive. Not only had imports been cut with the freezing of un-utilized licences from the previous period (not unfrozen until July, 1959), but the new import policy dropped from the licenceable list a number of items and lowered the ceilings on other items. A reason for this cut, besides the low reserves, was the fact that an investigation of the frozen licences showed heavy commitments against small resources.

Import licences were issued for the items shown in the import list (which contained 174 items), and were valid for the import of only the items specified and not prohibited. Industrial consumers were, however, allowed, upon obtaining prior approval, to import items not on the licenceable list which were essential for their requirements. Licences were issued under "cash" and under "aid," 10/ with the licences valid for all countries of the world except those issued under Triangular Aid or Bilateral Trade Agreements which specified the country of origin. Applications from additional commercial and industrial importers were not invited, but applications for emergency replacement of parts and machinery in case of break down were permitted. The basis of industrial licencing, published by the regional Controllers of Imports and Exports, listed next to each industry for the categories of raw materials, spare parts, and capital goods, the percentage, if any, of value or quota allowed.

JULY - DECEMBER 1959

By July, 1959 the foreign trade sector of the economy was moving rapidly towards a more normal and stable condition. Government reserves of foreign exchange had considerably improved due both to Government efforts in the export sector (the Export Bonus Scheme primarily) and additional ICA Aid amounting to $15 million dollars. Thus, in July imports were being made against the previously frozen licenses, against normal licenses issued during the January-June 1959 shipping period, against import licenses issued under the Bonus Scheme, and against the normal licenses for the July-December 1959 shipping period.

The licensable list for this shipping period contained 201 items as against 174 in the preceding period. There were important additions to consumer goods and 37 items were licenses exclusively to industrial consumers. The liberalization during this period extended not only to the number of items, but also to the ceilings fixed for the various items. An increase of about 58 per cent in the allocation of licenses for consumer goods over the previous period was made, which was even an increase over the period July-December 1958. In addition, the ceiling for books was raised by about 17 per cent and the policy stated that drugs and medicines were to be adequately provided for.

In announcing the Import Policy on July 11, 1959, Mr. Bhutto stressed the industrial bias in the policy. He said that although commerce was the forerunner of industrial development, an industrial bias had to be maintained "... because rapid industrial development is imperative for general economic and social development. Also commerce is bound to benefit with the development of industry." [4, July 1959, p.5] Larger ceilings were provided for industrial raw materials, machinery, spares, and for balancing and replacing of machinery wherever necessary. For raw materials the increase was 43 per cent higher than in the previous period and 25 per cent higher than the July-December 1958 ceiling. The increase in the case of machinery was about 42 per cent.

Several changes were also made in the licensing procedure. First, some industries and items were issued licences for import on an annual basis for the first time. This was not an entirely new idea, since in the past certain commodities under aid were licenses annually, but its scope was widened and it now applied to cash licenses also. This step was taken to ensure a regular flow of essential items into the country and to enable the importers to import the goods on more favorable terms. Secondly, an amalgamation of categories 11/ was completed. The purpose was to enable importers to concentrate on their main lines of business, to reduce the number of categories, and to eliminate the necessity of issuing licenses for small amounts. For the same reasons, the Government decided to group small license holders together for the issue of licenses. This was being done for aid licenses at the time of the announcement, and was slated to be extended to cash licenses also.

Mr. Bhutto also announced that it would be impossible to allow newcomers into the import sector, in light of the limited amount of exchange. He pointed out that the current importers were getting only a fraction of their import categories, and it was difficult to keep industries supplied with enough imported raw materials and spare parts. However, he stressed that imports were available to outsiders, as to everyone, under the Bonus Scheme/ 4, July 1959, pp. 1-17/.

The Government attempted to help encourage trade in this period through the establishment of additional barter and trade agreements. From 1948 to the end of 1959 the Government of Pakistan had concluded seventy-five trade agreements with twenty-eight countries and had entered into barter deals with twenty countries. The nation also had concluded major long-term agreements or treaties with three countries: Britian, Iran, and the United States.

But out of this number, three of the seventy-five trade agreements, fourteen of the twenty barter deals, and two of the three major agreements were concluded in 1959 by the new regime [4, March 1960, pp. 14-16]. Other measures taken during the year were the establishment of two Inland Freight Rates Committees and an Overseas Freight Study Committee to help the export trade. In addition, two Export Promotion Councils, for cotton textiles and cotton, were established.

JANUARY - JUNE 1960

The Import Policy for January-June 1960, announced by the Chief Controller of Imports and Exports on December 29, 1959, continued the trend towards more liberal licensing allocations. The list of licensable items stood at 200 during this period, with the only difference from the previous list being the removal of newsprint from the list. Out of this list, 38 items were exclusively licensable to industrial consumers, and 7 items were meant only for East Pakistan. The new policy was designed to achieve two objectives: to increase production in the country and to increase the supplies of consumer goods in the market. The general level of licensing for most items remained the same as in the preceding period, with some increased levels. Generally there was an increase of over 9 per cent in the total budget for consumer goods [4, February 1960, pp. 16-17].

A major step towards liberalization during this period was the creation of an "automatic approval system" for drugs and medicines. This step was a predecessor to the Automatic licensing system which was later set up. The liberalization in the import of drugs and medicines was subject to certain safeguards against the possibility of indiscriminate issuance of licenses and excessive import of inessential types of drugs and medicines. Within these limits, importers were allowed to import 250 per cent of their category if it was between Rs. 5,000 and Rs. 100,000, and 150 per cent if their category was above Rs. 100,000. In addition, they were entitled to apply for additional licenses as soon as previous ones had been utilized fully and properly. Also chemists and druggists who had been in the business for a long period but were not registered as importers were entitled to apply for licenses. Finally, the industrial capacity in the country which produced drugs and medicines was supplied with raw materials at 100 per cent of their assessed requirements. This was the first step on the road back towards liberal licensing under Open General Licensing (OGL) and Automatic licensing.

The industrial bias in the Import Policy was continued, although a gradual shift towards more licensing for everyday consumer items started in this period. A speed up in the issuance of licenses after the announcement of the policy was attempted for both cash and aid licenses. Also an amalgamation of categories for commercial importers, started in 1956, was finished and a book of categories was published. In Karachi a new licensing procedure for commercial importers was set in motion on January 1, 1960. This system shifted some of the licensing work onto Scheduled Banks and provided pass books for the individual imports and a book of categories [4, February 1960, pp. 32-36].

On March 28, 1960, the Government announced a further release of foreign exchange for the import of certain consumer and producer's goods. Additional licenses were issued for thirteen commercial items (consumer goods) and to twelve industries engaged in the production of consumer goods for additional raw materials' imports [4, May 1960, pp. 47-48].

JULY - DECEMBER 1960

After the experience of putting drugs and medicines on Automatic licensing in the previous period, this practice was continued and expanded to a larger sector of the economy. During this shipping period twenty-eight items were placed on Automatic licensing in the same way that drugs and medicines had been before. These items included essential industrial raw materials and vital consumer goods. The reasons given for this liberalization, in addition to a more favorable foreign exchange position, were the desire to provide recognized industrial capacity with adequate raw materials to work efficiently and competitively, and the desire to stabilize the prices of essential consumer goods at a reasonable level through increased supply. It was estimated that with the raw materials placed on Automatic licensing some 130 industries, including major industries engaged in the manufacture of consumer goods, would be provided with essential raw materials adequate to operate at 100 per cent of single shift capacity. In most cases industrial consumers entitled to received licenses for these goods received them at 100 per cent of assessed capacity. Upon proof of utilization of earlier licenses, they had the right to apply for another license. Commercial importers of these items likewise could reapply for another license after proper utilization. Even with the liberal licensing of these items, there were cases where essential items were not included. In these instances the Government expected industry to use Bonus Vouchers to meet their additional needs in order to operate at 100 per cent of single shift capacity.

In the consumer sector there were complaints of shortages of essential goods and increases in their prices. The successful experience of placing drugs and medicines on Automatic licensing, which improved the supply of all essential medicines at reasonable prices, led the Government to place additional consumer items under this system. The list also contained items to help agricultural production, speed the development of fishing, and items meant exclusively for East Pakistan. Commercial importers received initial licenses at 100 per cent of their categories, and repeat licenses in the usual manner.

In addition to the ~~Automatic Basis of licensing~~, Automatic licensing for industries was begun in this period. This policy allowed fourteen specified industries to receive initial licenses for their import requirements at 100 per cent of assessed single shift capacity. Also repeat licenses were issued after 100 per cent utilization of previous licenses. The difference between the two kinds of automatic licensing rested on the classification of imports covered. Under the Automatic Basis of licensing the import of any items (raw materials or spare parts) listed was allowed at a percentage of entitlement or assessment by either commercial or industrial importers. On the other hand, Automatic licensing for industries (no commercial importers) provided for the import of all requirements of the industries listed, as well as repeat privileges (i.e. based on the industry, not the item imported).

In the case of some goods imported both under normal licensing and under Bonus, a price discrepancy arose. Since the Bonus Vouchers were bought at a premium, the cost of items imported in this manner was higher than the cost when imported under normal licensing procedure. Naturally, the price of goods imported under normal licensing was the same as the price under Bonus. In order to eliminate this windfall profit under normal licensing, certain items had to be removed from Bonus import and licensed exclusively under normal procedure 12/. The items removed were essential consumer goods whose higher price drastically hurt the low-income consumers. Ceilings for import under the new system were set so that they would be no less than what was imported during the first shipping period under normal licensing plus Bonus licensing.

The licensable list for July-December 1960 contained 188 items versus 200 items in the previous list. Eleven items regarded as luxury items were eliminated from the list, and one item was removed because of adequate domestic production.

For the first time newcomers were invited by the Government into the trade (other than in drugs and medicines under Automatic licensing). The purpose was to intoduce into the import trade genuine traders from the comparatively less-developed areas of Pakistan. For this purpose, newcomer applications were invited from traders in towns other than Karachi, Lahore, Dacca, and Chittagong for twenty items. Ten of the items were common to both Wings, eight items were meant exclusively for East Pakistan, and two items exclusively for West Pakistan. Applications were eligible to apply for only one item, and had to provide certain information upon application. Finally, the new licensing procedure introduced in Karachi during the last shipping period for commercial importers was extended to the whole of Pakistan for both commercial and industrial importers [4, July 1960, pp. 24-27].

JANUARY - JUNE 1961

The Import Policy for this period contained certain features which were summarized by the Commerce Minister, Mr. Hafizur Rahman, in a speech on December 19, 1960. He stressed that the policy was designed to generate greater productivity in all sectors. Substantial facilities were provided to a large number of industries engaged in the production of essential consumer goods or producer goods for the import of their requirements. In addition, many consumer goods were brought under the Automatic Basis of licensing. He also announced that newcomers would be introduced during this shipping period into the field of import trade for as many as twenty-seven items. The principle of bulk licensing of industries was also established for certain industries to enable them to import what they actually needed. He stated that a definite export bias existed in the Import Policy. Upon the recommendations of the Exporters' Convention, the Government decided to place twelve industries under Special Automatic Licensing. Of the 650 units in these industries, those with reasonable export performance to their credit were entitled to receive not only Automatic licensing privileges,[13] but also licenses for balancing and modernization machinery to enable them to work on a more economic and competitive basis[14]. Those units without adequate performance received Automatic licensing privileges, but were at the same time warned that failure to expand exports would ultimately lead to a reduction in their import privileges. In licensing newcomers, preference was given to applicants with export performance to their credit, and they received licenses at a rate higher than admissible to other non-exporting applicants [4, January 1961, p. 20].

As shown above, the Automatic Basis of licensing was widely expanded during this period, in terms of items eligible. Thirty-three new items were added to the twenty-nine items already on the list of imports under Automatic licensing from the immediately preceding period. Out of these new additions, seventeen were for industrial use only, twelve were consumer goods, and four were restricted for import into East Pakistan only. In respect of items under Automatic licensing, both industrial consumers and commercial importers were entitled to apply for repeat licenses, upon proof of utilization of the previous (or initial) license. Proof in this case meant a Bill of Lading certified by a Scheduled Bank and accompanied by relevant invoices for the full amount of the outstanding licenses.

The initial licenses for Automatic licensing imports were in most cases issued to industrial consumers at 100 per cent of their assessed requirement on a single-shift basis. Unless the Assessing Authority had made a change in an industrial consumer's assessed requirements, they were the same as during the July-December 1960 shipping period. Before issuance, the Licensing Authority adjusted the amount for any advance licenses issued, and reserved the right to call for evidence of proper utilization of licenses issued during 1960. For commercial importers licenses were issued at 100 per cent of category in most cases. As shown above, these categories were originally computed as an average of those imports brought into Pakistan by the importer during the five shipping periods under OGL (July, 1950 - November, 1952). These categories were consolidated and adjusted during 1959 and 1960 and published by the regional licensing authorities as a Book of Categories.

There were 118 industries under Automatic licensing during the January-June 1961 period as compared to 14 industries in the previous period (as shown in Annexure II of the Import Policy). They received initial licenses at 100 per cent of assessed single-shift capacity and repeat licenses after 100 per cent utilization of previous licenses. Within Annexure II, 12 industries were singled out for special treatment to enable them to expand their export business. The industries were as follows:

1. Sports goods
2. Leather footwear
3. Leather manufactures
4. Rubber footwear
5. Rubber manufactures
6. Cutlery
7. Surgical instruments
8. Fish, canned
9. Paints (including varnishes)
10. Toilet requisites (cosmetics)
11. Electric fans
12. Leather tanning

Licenses for these industries were issued only after documentry proof of the extent of export performance during the year 1959-60. Those units within the 12 specified industries which had sufficient export performance to their credit were allowed the full privileges of Automatic licensing as described above. In addition, they were allowed to request permission to import machinery or capital equipment for replacement, balancing, and modernization. These requests were given favorable consideration. Those units which did not have export performance to their credit were allowed to receive initial licenses at 100 per cent of their assessed capacity, but were not allowed repeat facilities. Further, they were warned that if within six months they did not establish themselves in the export market, action would be taken to reduce their licensing. Thus, the non-export units were treated like industries in Annexure III (to be described below) while exporting units were treated like industries in Annexure II, but also received additional licensing for balancing and modernization.

A list of fifty-one industries were given in the Import Policy as Annexure III; there were entitled to imports at 100 per cent of their assessed requirements, but repeat facilities were not available to them. Industries listed in neither Annexures II nor III were treated separately and announced by the respective Licensing Authorities. Thus, during this shipping period approximately four-fifths of the industries in Pakistan were granted at least 100 per cent of their requirements for single-shift production [1, pp. 35-38].

A provision was inserted in the Import Policy which allowed industrial consumers to plan their imports on a more realistic basis. They were allowed to indicate the amounts of the various items of their approved requirements which they would like to import (within their entitlement). As far as possible, these requests were granted, except where restrictions were necessary for particular items. In establishing such a system, the Government expected industries under Automatic licensing to achieve optimum production and to reduce the prices of their products. It was announced that units which did not fulfill this requirement were liable to have their requirements reduced [2, December 19, 1960].

## RE-ESTABLISHMENT OF THE OPEN GENERAL LICENSE

On March 8, 1961 Mr. Hafizur Rehman, Commerce Minister, announced that the Presidential Cabinet had decided to place eleven items on Open General License (OGL) with immediate effect [15/]. The items were:

1. Iron and steel (including metals)
2. Drugs and medicines (life saving and essential medicines only, a list of which was separately notified)
3. Tractors (standardized makes only) and tractor spares
4. Cement (for East Pakistan only)
5. Spare parts for automotive vehicles
6. Tires and tubes
7. Milk food
8. Typewriters and office machines
9. Laboratory glassware and scientific instruments (for technical and educational institutions only)
10. Books
11. Tools and workshop equipment (specified items only)

The Government stated that this action was taken to assure the consumer that his legitimate interests were fully safeguarded and that the trade sector was not allowed to either create artificial shortages or to take advantage of scarcity conditions by charging high prices.

The items under OGL were not exhaustive, but included some of the more important items, especially those that had previously been removed from price and distribution controls. It was also announced that if the need arose, subject to foreign exchange availability, additional items would be placed on the list. The procedural organization was somewhat different from that existing during the OGL period in 1950-52. The previous OGL suffered from a lack of financial discipline and had no basic structure. This led to a conglomeration of imports which did not conform to any scheme of priorities. As a result, the country had to pay for the mistakes made during the OGL period for several years after its withdrawal. In order to avoid this problem in the new OGL, it was decided to pattern the issuance procedure after the successful manner in which Automatic licensing procedure was handled. This would ensure expeditious issuance of licenses and also provide a means of accounting for the items imported.

The announcement listed two basic features of the new OGL. First, imports were not to be limited to any particular class of importers. Secondly, any person genuinely interested in importing an item on OGL should be able to place an order without waiting indefinitely for administrative approval. As a result, for the import of items under OGL, an y person engaged in any trade who was a legistimate resident national of Pakistan could register himself as an importer and through his bank open a letter of credit for any one item on the above list (up to a maximum specified amount). Imports for personal use did not have to go through the registration procedure. A repeat facility was also included. This provided that upon production of bills of lading up to or more than 75 per cent of the value of the earlier license, another license would be issued. This procedure applied not only to OGL imports, but was extended to all commercial items and industries under both types of Automatic licensing. The repeat licenses, in this case, were equal to the amount for which bills of lading were presented, rather than the full value of the previous license.

In rules of eligibility stated that a firm or individual applying for a license under OGL for a commercial or industrial purpose had to be genuinely engaged in some trade, and possess proof of this fact. Initial licenses for each of the eleven items were issued at a flat rate. But a registered importer who was able to show reasonable export performance to his credit was granted a license for any item under OGL to the extent of 25 per cent in excess of the prescribed ceilings. Importers were not allowed to register themselves for more than one item. Persons already registered as commercial importers were eligible to apply in a shipping period for the import of any one item under OGL provided that the importer did not already hold a category of Rs. 1,000 or above for that particular item. Any registered industrial consumer was ineligible to seek any OGL license for a commercial purpose. The object in establishing the OGL was not to further strengthen established importers of the particular items, but to introduce new applicants into the import trade. Therefore, established importers with a category of Rs. 1,000 or above in any item on the licensable list for July-December 1960, or any importer whose aggregate of categories totaled Rs.1,000 or more was prohibited from applying for the import of any item under OGL. On the other hand, no rights or claims for receipt of licenses in the future were created through import under the OGL. Normal import licenses under the twice yearly import policies were to be issued as usual, but with repeat facilities available at the more liberal rate as described above [4, April 1961,pp.10-13].

JULY - DECEMBER 1961

This period witnessed a de-emphasis of Automatic licensing for industries and a move towards a "Request Basis." The Automatic Basis of licensing was continued for certain items which both commercial and industrial importers used. A group of industries remained under the Automatic licensing for industries procedure which was similar to the previous period. But with the existence of the OGL imports, Automatic licensing became less important. A total of 184 items were importable during this period, as against 186 in the previous period. Out of these items, 40 were licensed exclusively to industries, 14 items were on the Automatic list (versus 51 in January-June 1961), and 49 items were on OGL ( versus 11 items in the preceding period).

Both commercial and industrial importers who held categories or quotas for the 14 items on the Automatic Basis of licensing list were eligible to obtain initial licenses at 100 per cent of category or quota, except where a higher licensing factor was adopted for particular items. Repeat licenses were issued upon proof of utilization of 75 per cent or more of the value of the earlier licenses. All repeat licenses were issued at 100 per cent of category or quota.

The Open General License basis of importing continued during this shipping period according to the rules announced on March 8, 1961 when it was established. Whereas there were only 11 items on the OGL import list when it was first established in March , 1961, during this period the Government placed 49 items on the list.

For 173 industries "Request Basis" was established to take the place of the Annexure 11 Automatic licensing for industries procedure of the immediately preceding period (although Automatic licensing for industries continued during this period for a smaller number of industries and was listed as Annexure III). The amount of foreign exchange licensed to these industries was based on requests made by the industrial consumers themselves. In most cases, however, the amount licensed for industries worked out to 125 per cent of assessment on a single-shift basis, even though they submitted their own requests. In any case, the Import Policy stated that the industries"...will be licenses on 'Request Basis' for such amounts as may be asked for by an industrial consumer to meet his requirements for raw materials and spare pa-parts for the next 12 months." [2, July-December 1961] This, of course, was dependent upon a reasonable and responsible request having been made.

These industrial consumers were required to produced proof of utilization of licenses for previous periods before receiving new ones. Cases where such proof was not forthcoming were decided upon the merits of each case by the licensing authority concerned. Utilization in this case meant opening of confirmed irrevocable letters of credit for 100 per cent of the value of the previous

As in the preceeding period, a list of twelve industries (different from the list during January-June 1961) was drawn up for special treatment. These units within the industries with export performance or export potential".....were surveyed by a team of officers headed by the Secretary, Ministry of Commerce, and licenses were issued to eligible units within these industries to meet their requirements of balancing and modernization machinery." [4, July 1961, pp. 7-8]. The industries selected this time were:

1. Beer
2. Biscuits
3. Dry battery cells
4. Fountain pens
5. Fruit canning and preservation
6. Gas mantles
7. Gramaphone records
8. Hosiery
9. Plywood industry
10. Spectacle frames
11. Sanitary fittings and water fittings
12. Tanning and leather footwear.

Eligible units within these industries, besides receiving the import privileges under the Request Basis (Annexure II), were given licenses for the import of machinery or capital equipment for replacement, balancing, and modernization. No statement was made in this Import Policy about possible reductions in the import licenses of those non-exporting units which did not improve in export performance.

JANUARY - JUNE 1962

The Chief Controller of Imports and Exports announced the Import Policy for January-June 1962 in a speech on December 26, 1961. He first of all reviewed the liberalizations which had taken place in the previous shipping periods. He said that there had been a general increase in output as a result of theimportation of industrial raw materials and spare parts under the Automatic Basis and the Request Basis. Although some industrialists over-estimated their requirements under the Request Basis, he indicated that the legitimate needs were properly met so that industry was able to operate economically on more than a single-shift basis. The previous policies had also provided a number of industries with equipment for balancing and modernization, thereby helping them lower costs and improve the quality of their manufactures, which in turn would permit them to compete successfully in the world market. But the large increase in imports was not followed by an equally large increase in exports. Therefore, the Government decided to link the licensing of industries over a broad range with their export performance. This was the only way to ensure that export earnings would keep a close relationship to the rise in imports [4, January 1962, pp. 19-21].

While maintaining the liberal pattern of imports, the new policy was intended to provide maximum facilities for the import of essential goods and industrial raw materials. The objectives of the policy were the free availability of goods in the market and increased exports. During the previous two shipping periods most export potential industries had been provided with liberal imports, and balancing and modernization equipment, but too few had gone on and expanded exports. The changes made in the import policy in January-June 1962 were designed to correct this problem.

The list of imports under the Automatic Basis of licensing contained fourteen items, the same as in the preceding period. Both commercial and industrial importers of these items were allowed to import under the same rules as in the July-December 1961 shipping period (i.e. initial at 100 percent of category or quota, repeat upon utilization of 75 per cent, repeat licenses issued at 100 percent of initial).

The list of items importable under OGL contained forty-eight items as against forty-nine in the preceding period. In order to prevent further concentration of impor ters in the principal t towns, which already had a high concentration, fresh licensing under OGL was not permitted for applicants in these towns (Karachi, Lahore, Dacca, Narayanganj, Chittagong) in order to give greater opportunity to importers in the interior of the country. The success of the OGL policy was indicated by the large number of new importers admitted to the trade. Most of the increase, approximately 77 per cent representing 13,300 new importers, took place in East Pakistan where the new OGL licenses represented more than half of the total value licensed in the commercial sector. At the same time this policy led to a price reduction and a supply increase in the commercial sector for essential items. Also, a number of relatively inessential items were able to be placed exclusively on Bonus Import. A survey was made of new importe ers and applicants to eliminate fictious firms and unsuitable parties. [4, January 1962, pp. 19-21].

For the Request Basis industries additional incenti ves were provided to turn their attention towards export markets. Industries were divided into three sub-groups within the Request Basis according to their export performance andpotential. One sub-group, A-i was licensed according to their requests, as in the previous period, because of their high export performance. The next sub-group A-ii, was initially licensed at 80 per cent of the value licensed during July-December 1961. The third sub-group A-iii received licenses on the same basis as during the previous shipping period, if a " reasonable and responsible" request had been made.

There were seven industries placed in sub-group A-i, the "Request Basis proper" group. They all had substantial export performance to their credit in previous periods. As before, these industries were allowed to plan their requirements on a twelve month basis, with licenses issued for the first six months' requirements and a promise made to relaease the remainder well before the beginning of the next shipping period. These industries had to file with their applications for licenses a schedule showing the dates upon which confirmed irrevocable letters of credit would be established.

The sub-group A-ii consisted of thirty-one industries which received initial licenses at 80 per cent of their allotment in July-December 1961. However, since the July-December 1961 limit had been 125 per cent of quotas for industries under Automatic Licensing and in many cases 125 per cent of previous quotas for industries on the Request Basis, this was tantamount to setting allotments at 100 per cent of the original quotas. Incentive to export was provided by the stipulation that additional licensing would be issued to units in this group at 100 percent of the FOB values of exports covered by letters of credit opened by foreign importers or bank guarantees certifying firm export orders. In this way there would be no shortage of foreign exchange to fulfill legitimate export orders. Defaulting units, those who obtained extra foreign exchange under the scheme but whose subsequent export performance fell short of the required amount, were required to surrender the equivalent amount of foreign exchange in the form of Bonus Vouchers.

Upon first glance it might appear that industries in A-ii were more adequately provided for than industries in A-i, whereas the industries in A-i were better exporters. However, industries which received only initial licenses at 100 per cent of their quota, instead of the amounts requested, were required to obtain export orders before being permitted to import the needed raw materials and spare parts for further production (beyond what could be produced with initial licenses). On the other hand, the seven industries in A-i were able to import amounts requested at the beginning of the period, and thus achieve a smooth flow of production. Also, they were not required to surrender Bonus Vouchers if their export performance fell below a certain minimum.

The third sub-group, A-iii, contained 122 industries which were licensed in a manner similar to the previous period. Thus if they had been under the Request Basis, they received the same amount as they had requested or had been permitted in the previous period. If they were under Automatic licensing, they receivec 125 per cent of their quotas. These industries did not receive either repeat licenses or additional licenses based upon export performance.

One policy applied to all the inudstries in A-i, A-ii, and A-iii (totalling 160 industries) . A side affect of the previous liberal policy was a large accumulation of stocks of raw materials, spare parts, and finished goods. Although some of this went into inventories, a large part was held for speculative seasons. Therefore, it was required of all industrial consumers to submit a declaration of stocks held by them or by the banks on their behalf so that excess stocks could be liquidated before additional licenses were issued.

The list of industries under Automatic licensing (Annexure III) was increased from eighteen to thirty-six during this shipping period. In the preceding period industries under this method of licensing were given initial licenses at 125 per cent of single-shift capacity. The Government considered the stock position adequate for these industries, and reduced initial licenses to 100 per cent of single-shift assessed capacity. Repeat licenses were issued at the same level upon production of bills of entry showing 75 per cent utilization of earlier licenses.

Licensing for industries in neither Annecure 11 nor III was announced separately by the regional licensing authorities concerned. A commitment was made by the Government to license these industries at rates no lower than they obtained in the July-December 1961 shipping period (except for the bidi and woollen industries). These industries received no additional licensing or export performance incentives since almost without exception, they had no export capability.

The Import Policy allowed all importers to indicate the amounts up to which they would like toimport various items of their approved requirements within their entitlements. Licenses for raw materials were not convertable into spare-parts licenses, and vice versa. Licenses for spare parts which required special facrication and which took longer than six months to obtain could be extended beyond the normal six month validity upon request. Finally, importers, whether commercial or industrial, could apply for lower values of licenses than they might have been entitled to without prejudice to their further licensing [2, December 27, 1961] and [4, January 1962, pp. 19-21].

In March, 1962 the Government announced an expanded program of advance licensing for raw materials for the manufacture of goods intended for export. This was granted to the following types of manufacturers :

1. Established industrial importers
2. Other manufacturers who had no established import categories, but who could satisfy the Government of their ability to export their products if raw materials needed for manufacturing them were made available.

Advance licenses were granted only for those raw materials importable under the regular import policy, and usually confined to the raw materials for which the applicant units were categorized. This advance licensing was subject to the condition that the entire quantity of the goods imported under the scheme had to be used for export, and that no part could go into consumption within the country. The value of the licenses was not to exceed 40 per cent of the FOB value of the manufactured goods exported. These advance licenses were in addition to the normal licenses admissible under the regular import policy.

Recipients of the advance licenses had to complete their export performance and bring in the foreign exchange earned from that export within nine months of the date of issue of the advance license. The items exported were eligible fr the usual bonus earnings under the Export Bonus Scheme [4, March 1962, pp.33-34].

JULY - DECEMBER 1962

The Import Policy for July-December 1962 was announced more than a month before the beginning of the shipping period, instead of a few days before which was the usual practice. This was done because of a change in the Commerce Minister's position and a desire to avoid any speculation about the policies under a new man. Mr. Mohammad Hafiz-ur-Rahman, the outgoing Commerce Minister, listed the objectives behind the past and future import policies while announcing the Policy for July-December 1962. He listed various examples of substantial improvement in the restricted nature of licensing for industries and essential commercial items over the previous three years under the new regine. He then stated that "On a tenative calculation,... more than 80 per cent of the industries in the country which used to be working around 30 per cent of capacity are now able to operate at a minimum of 100 per cent of single-shift capacity." This import liberalization also had the effect of reducing internal prices through increased supply. At the same time, licensing procedures were streamlined and minimized.

The Import Policy itself was almost identical to the previous one, with a few changes in the number of industries or items in the various categories. The list of items importable under the Automatic Basis of licensing remained at fourteen items, as did the procedure for initial and repeat licenses. The OGL import system also continued to operate as during the previous period, Mr. Hafiz-ur-Rahman reported that this system had been quite successful in adjusting imports of the various items to the true demand for the Wings separately and for the country as a whole [4, June 1962, pp. 13-15].

The list of industries in Annexure II, the Request Basis industries, decreased to 145 industries from the previous number of 160. The A-i, or "Request Basis proper", list increased from 7 to 9 industries. These industries were licensed according to their requests on a twelve month basis, as in the previous period. The method of linking additional import licensing to export performance for the A-ii industries proved successful and was expanded during July-December 1962. The CCI&E reported that, based upon the performance of the 31 industries in this group during the first five months of 1962, the scheme could be judged a success. Foreign sales of the products of these industries rose substantially over what the industries had found possible to export before the introduction of the new incentive. Many of the participating industries had doubled their exports in the first part of 1962 over the last six months of 1961. In order to exploit even more export potential, 4 more industries were added to the list, making a total of 35 industries on the A-ii list for the July-December 1962 period. All of the industries received initial licenses at 100 per cent of the amounts issued in the preceding period. Additional licenses were also issued at 100 per cent of the FOB value of export orders under the prescribed procedure. In order to make the incentive even more powerful, the additional licenses for this period were" . . . issued from our (Pakistan's) own cash resources because aid licenses may effect the prompt utilisation and fulfilment of export orders may be delayed." Also these incentive licenses could be used at the earner's choice for either raw materials or for balancing and modernization equipment [2, May 26, 1962] and [4, June 1962, pp. 11-12]. The A-iii list contained 101 industries during this shipping period as against 122 in the preceding period. They were licensed for the same amounts as in the preceding period.

Annexure III, the industries on Automatic licensing, increased from thirty-six in January-June 1962 to fifty-two industries in July-December 1962. They continued to receive initial and repeat licenses at 100 per cent of assessed single-shift capacity for raw materials and spare parts. Proof of utilization of previous licenses necessitiated production of Bills of Entry for 75 per cent or more of the value of earlier licenses.

JANUARY - JUNE 1963

The January-June 1963 import policy, announced by the Chief Controller on December 31, 1962, continued the previous period's policies almost unchanged. The most significant change was the imposition, for the first time, of a penalty against those industries on the Request Basis which did not export but accepted the benefits of the incentives given.

The list of items importable under the Automatic Basis of licensing was decreased by one item and stood at thirteen during this period. The reason for the decrease was that domestic capacity could supply demand for the item. The conditions for initial and repeat licenses were the same as during the previous two shipping periods. The list of OGL imports remained primarily the same, with increased minimum units for certain raw materials and consumer items. A total of forty-nine items were on the OGL list and domestic supply and price conditions of these items remained satisfactory.

A total of 144 industries were covered by Annexure II and were divided among the various sub-groups as follows. The industries in A-i increased from 9 to 10, but otherwise the policy of granting licenses according to requests made continued unaltered(except for the penalty against non-exporters described below). Two industries were removed from the A-ii list, leaving 33 industries which were licensed according to export performance after initial licensing had taken place. The conditions for initial and repeat licenses remained the same, but additional licenses could be used in the period for the import of packing materials also. The increase in exports brought about by this incentive was shown by the fact that twice as many additional import licenses were issued in July-December 1962 as in January-June 1962 against specific export orders, or firm commitments to export (i.e. the value of additional import licenses based on FOB value of exports was twice as large).

In spite of this incentive, which had been in force for a year, the Government felt that certain units of some industries in sub-groups A-i and A-ii were not accepting the challange and improving their export performance. A warning to these units had been given in May, 1962 and time was given to allow the non-exporting units to investigate markets abroad and to prepare for export trade. However, the Government could no longer tolerate" . . . such units undue and excessive concentration on local sales without regard to the vital necessity of earning foreign exchange. Their attention must now be diverted to markets abroad." [4, January 1963, pp. 7-10]. In order to do this, a token cut of 10 per cent was made in the import licenses issued to the non-exporting units in A-i and A-ii. But any exports made by these units during the shipping period were eligible for the additional licensing at 100 per cent of FOB value of exports (if they were in the A-ii list). As a further safeguard, small units with import licenses for less than Rs. 25,000 in 1962 were exempted from this rule.

The number of industries in A-iii remained the same, at 101. They received licenses at the same rate as in the previous period. There were 51 industries in Annexure III, under Automatic licensing, as against 52 in the preceding period. They received initial and repeat licenses at 100 per cent of assessed single-shift capacity. It was necessary to produce evidence of utilization of licenses for January-June 1963.

Licensing for four industries was discontinued in this period because they were able to meet their import requirements out of Export Bonus Voucher earnings. The industries were:

1. Biscuits and confectionary
2. Beverages
3. Bricks and tiles
4. Clocks and watches

Units of these industries with export performance to their credit, however, were entitled to earn additional import licenses against export performance or bank guarantees in the prescribed form ( the same privilege as for A-ii).

As in other shipping periods, industries not listed in Annexures II or III had their import privileges announced by the regional licensing authorities concerned. In no case, however was a quota or category cut from what it had been in the preceding period. Also, licenses were issued to industrial consumers on the basis of the amounts indicated by them for different items of their approved entitlements subject to any restrictions which may have been prescribed in respect of particular items. Licenses for raw materials were not convertible into spare parts, and vice versa. Licenses for special spare parts which required more than the normal period of validity were issued upon request [2, January 1, 1963] and [4, January 1963, pp. 7-10].

JULY - DECEMBER 1963

This shipping period witnessed an import policy similar to the one in the preceding period, and an extension of the policy for the previous three periods (going back to January-June 1962). The list of importable items under the Automatic Basis of licensing for commercial and industrial importers contained twelve items, a decline of one item from the previous period. Otherwise, the procedure for importing these items remained the same. The OGL list of imports increased by one item to fifty during this period, and not only continued to supply the domestic economy adequately, but introduced new traders into the particular items in competition with the established license holders for these items.

The industries in Annexure II remained at 144, and the distribution between the various sub-groups remained the same, as did the policies for each sub-group. A very encouraging improvement in export performance was reported by those industries in list A-ii during January-June 1963. An alteration was made, however, in the method of penalization non-exporting units in lists A-i and A-ii. Only those units without export performance and with import licenses to their credit during the period July, 1962 to June, 1963 of Rs. 30,000 or more were faced with a cut in their import entitlement of 10 per cent. Also this policy did not apply to new units of any size in the first six months of their production.

Annexure III. Automatic licensing for industries, contained fifty-one industries this period, a decrease of one from the preceding period. Otherwise, the policy for initial and repeat licenses was the same. In the preceding period four industries received no initial import licenses (necessitating their importing with Bonus Vouchers) but were given licenses to the value of 100 per cent of export performance. This policy continued, with one of the industries, the clock and watch industry, receiving part of its requirements in this manner and the other requirements from domestic sources entirely. These were the only industries,,other than the ones in the A-ii list, which received additional import licenses based upon export performance. The industries listed in neither Annexure II nor III were treated separately as announced by the regional licensing authorities concerned.

JANUARY - JUNE 1964

The broad policy guidelines which determined the content of the Import Policy for this period were announed by the CCI&E on December 31, 1964 as a preface to the contents of the policy They were:

1. Fuller utilization of industrial capacity in the country so as to provide for increased availability of goods,
2. To broaden and whereever necessary strengthen the base of export industries so as to lend greater competitive ability to Pakistan's manufactured goods in the export market.
3. A progressive reduction in the import of a wide range of commodities manufactured locally.
4. Provision for improved supply through commercial channels of such other items of industrial and consumer importance as were not manufactured or were insufficiently available in Pakistan /4. Jan.1964.p.247

The new policy provided for increased allocations of a number of items in order to increase the level of supplies of these items to a level compatible with the growth rate of the economy. The list of items whose allocations were increased contained both industrial and commercial requirements, as well as some of consumer interest. The main liberalization, however, was a limited free import list, which was greatly expanded in the following period. Four items out of the iron and steel category were placed on a free import system which did not require any licensing and was open to all Pakistanis (with certain limitations detailed below). Also, allocations of licenses for other items in the iron and steel group under OGL import were considerably increased, as well as for other groups of items such as drugs and medicines, books, scientific instruments, second hand clothing, marine engines, machinery and spare parts, dyes and chemicals, and raw film.

On Free List import were placed M.S. Billets, Pig Iron, Tin Plates, and Tin Strips, the import of which did not require any licenses against U.S. Loan. Previous commercial importers and industrial consumers of iron and steel as were already registered with the Government, as well as any other resident national of Pakistan, and such firms, business houses and institutions as were wholly owned by resident Pakistani nationals were eligible to import items on the Free List without cover of any license. However, Importers were required to open letters of credit for an amount not less than Rs.50,000 for one or all of the items at a time. Also, imports had to be at the most competitive rates and importers were liable at any time to have to submit documents for scrutiny concerning prices paid. Imports of other items of iron and steel continued to be governed by the liberalized OGL import list and rules. The existence of the Free List had the effect of removing all restraints on the import of the items on the list, and therefore the previous categories and quotas for these items were of no further significance.

Only nine items remained on the Automatic Basis of licensing twelve. Initial licenses continued to be issued at 100 per cent of category or single-shift capacity and repeat licenses were issued upon proof of utilization of 75 per cent or more of the value of the previous license. The OGL list contained fifty items, an increase of one item from the preceding period. The procedure for OGL import was liberalized and modified in certain respects concerning the eligibility of importers and the amount they could import. For OGL applicants with proof of sizeable export performance during the previous three year period, initial licenses were issued at 25 per cent more than the amount permissible for other eligible applicants. This facility was not available, however, for any exports on which the applicant had once been given credit of additional licensing.

Industrial licensing was changed in several ways during this period. All industries fell under four sub-groups of Annexure II instead of under Annexures II and III as during the preceding period. Obviously, no licensing was necessary for the items on the Free List since the items were equally available to all importers. The A-i list of Annexure II continued to be those industries on the "Request Basis proper." Ten industries were able to obtain actual requirements under this policy. They were required to submit, along with requests, certified figures of export in 1963 and reasons for requested amounts. The A-ii list continued to provide additional incentives for export to forty-two industries, an increase of nine over the previous period. A reduction was made in the initial licensing to 80 per cent of previous entitlement, instead of 100 per cent as before. Cash licenses equal to 100 per cent of the FOB value of their exports for the import of specific items of their requirements of raw materials and spare parts, balancing/ modernization equipment, and certain packing materials were allowed. The value of licenses for packing materials was deducted from FOB value of exports and Bonus Vouchers were issued for the balance.

Automatic licensing for industries, sub-group A-iii, was extended to 83 industries, an increase from the 51 industries covered previously. Both initial and repeat licenses were issued for 100 per cent of assessed single shift capacity. The A-iv list covered all other industries whose import policies were announced by the regional licensing authorities concerned. A total of 122 industries were on this list.

Advance licenses were available to industrial consumers, whether recognized or unrecognized, for the import of specified items of their production requirements, including packing material, up to 40 per cent of the FOB value of exports. They had to submit a bank guarantee that they would surrender, within a period specified by the licensing authority concerned, an amount equal to the value of the license, in the form of Bonus Vouchers, if they failed to export.

Four industries were required to meet their requirements of raw materials and spare parts from their own recources. They were:

1. Biscuits and confectionery
2. Beverages
3. Bricks and tiles
4. Cotton textiles (weaving and spinning)

Units of industries one and three above were, however, entitled to obtain licenses against actual export performance similar to the procedure for A-ii industries [2, January 1, 1964] and [4, January 1964, pp. 24-59].

JULY - DECEMBER 1964

The successful working of the limited Free List during the preceding period encouraged the Government to greatly expand its scope in the shipping period July-December 1964. The items included covered " . . . practically the bulk of the requirements of the industries for imported raw materials and spares." [4, July 1964, p. 21]. Also a large variety of essential consumer items were freely importable without cover of any license. The Government also took steps to ensure that supplies of raw materials not covered by the Free List were made readily available to industries so that production was not held back by possible shortages. The means of achieving this was the removal of the previous classification of industries for purposes of licensing (Annexures II and III which had been used since January-June 1961 to denote various treatments of industries) and the institution of a more simplified procedure to place all industries on a uniform basis for purposes of licensing. In most cases industries received licenses at 100 per cent of their entitlement for items not covered by the Free List (or exclusively on Bonus import) with a facility for repeat licensing.

The Free list was expanded from the four types of iron and steel imports in January-June 1964 to a list of fifty-one itmes covering large segments of industrial and consumer needs. Various restrictions governed the import of Free List items both in size and source because many of the items were being supplied by aid giving countries under tied procurement agreements. Generally, the minimum unit for which a letter credit could be opened was Rs. 50,000 for iron and steel items, and Rs. 20,000 for other items importable under aid or loan. Imports had to be at the most competitive rates, which importers had to prove upon request. Industrial consumers importing items on the Free List were required to use such materials for industrial production and were prevented from selling, transferring or using such materials for purposes other than for manufacture (as required of imported materials in the past). In addition, machinery maintenance spares for all industries and components and other items of electric meters, motors, transformers, and switchgears were placed on Free List for recognized industrial consumers only. They were entitled to open letters of credit up to 100 per cent of entitlement detailed in their pass books without obtaining any import license. For this purpose pass books were issued to all registered industrial consumers[16/].

The OGL list continued to introduce newcomers into the import trade and to provide competition for the established importers. The list of items under OGL stood at thirty four this period, a decrease from the fifty-one items in the previous pariod (many of which had been placed on Free List). The various rules governing import under OGL were similar to those in the preceding period. However, a new policy was added to encourage the growth of a class of exporters as distinguished from manufacturers and importers. For this purpose a policy was established under which any person other than an industrial consumer, irrespective of his place of business, could apply for an import license in respect of any item on the OGL list by first producing evidence of export of double the amount of the minimum unit for the OGL item applied for. The usual conditions for OGL import did not apply in these cases. A list of fifty items, export of which would qualify for this scheme, was given, with the possibility of additions later. This system was available to traders in the four major cities which had been deprived of the advantages ofthe OGL system under previous policy.

A new licensing procedure was established for those items not under Free List or exclusively on Bonus import. The old system of annexures and sub-groups was replaced by two lists, A and B. List A contained 202 industries which received licenses at 100 per cent of entitlement for those goods not on Free List or exclusively on Bonus import. Repeat licenses were also available upon production of a Bill of Entry for 50 per cent or more of the value of the earlier licenses (a reduction from the 75 per cent in the preceding period). The B list covered 43 industries whose import policies were announced by the regional licensing authorities (other than for Free List items). All industries in Lists A and B, whether recognized or not (other than cotton textiles, jute manufactures, and bidi), were able to obtain additional licenses based upon export performance. These licenses were available for the import of specified items of their production requirements, excluding those on the Free List, at a level not exceeding 50 per cent of the FOB value of exports (many industries received allotments at a fraction of the maximum figure of 50 per cent). These licences were also valid for the import of machinery and equipment for balancing and modernization (not for additions) subject to approval of regional licencing boards. Import of packing material also was permissible up to 10 per cent of the value of the additional licences. For five industries, however, licencing was withdrawn altogether, and they were required to meet their requirements of raw materials and spares from their own resources (except items on the Free List including maintenance spares). These industries were:

1. Biscuit and confectionery
2. Beverages
3. Bricks and tiles
4. Cotton textiles (spinning and weaving)
5. Woollen mills

Various arguments were considered as to whether the incentive in the form of additional import licences should be continued in light of the liberal import availability under the Free List. Misuse of the facility by some exporters and the fact that there would not be a need for extra licences since the bulk of industrial requirements were available in the market were used as arguments against the scheme's continuance. However, in the Government's opinion the incentive had played a significant role in the past in bringing about a growing awareness of the export market and an increase in the value of exports. The incentive was continued, although its value to the exporters as an incentive was reduced.

A conflict between prices of imports under regular licencing and Bonus imports had been noticed in the past. Regular licence holders received a windfall profit at the expense of the consumer on items imported under both Bonus and cash licensing. This was caused by the free market premium on Bonus Vouchers, which made the rupee cost of Bonus imports higher than the rupee cost of an equivalent amount of imports under regular licensing. This period witnessed a reduction of the items common to both the licensable and Bonus lists to a bare minimum. Only a couple of items such as machinery and spares, automotive vehicles, and automotive parts remained on both lists /_4, July 1964, pp. 21-64_7 and /_2, October 17, 1964_7.

JANUARY - JUNE 1965

The Import Policy during this period followed the same liberal pattern as during July-December 1964 when the Free List was first used for the bulk of import requirements of many industries and for the import of many consumer items. It was hoped when the Free List was adopted that this step would ensure increased production, a reasonable price level, greater availability of quality goods, and a faster build-up of export surplus. In announcing the continuation of the Free List, the CCI&E stated that these conditions had in large measure been fulfilled. Therefore, the Government decided to continue to maintain a sizeable portion of imports under the Free List during January-June 1965. Certain changes were made in the procedure for import and the minimum amounts allowed in order to prevent any speculative importation, some of which had taken place in the preceding period. Various restrictions on amounts importable as well as source of supply had to be retained in order to conform to the various aid programs which were supplying some of the Free List items under loan or aid agreements. The minimum unit of import for iron and steel items was reduced from Rs. 50,000 to Rs. 25,000 and for other items it continued at Rs. 20,000 against US Aid loan.

The list of OGL items received one addition during this period making a total of thirty-four items. Repeat licenses for these items were also available subject to certain conditions. The CCI&E stated that "The continuance of this system, in spite of the fact that a large variety of items are on the Free List reflects only Government's anxiety to see that more and more of our new and small people should get into the import trade so that the benefit of import business is diffused over a progressively larger number of people . . ." [4, January 1965, p. 4]. A preference was again expressed in the policy for those applicants with export performance to their credit. Initial licenses were issued at 25 per cent more than normal limits for units with sizeable export performance (not less than double the amount of minimum unit fixed for the item applied for). Also exporters anywhere in Pakistan could apply for a license for any one of the commercial items covered by the OGL list if they had proof of export of a value not less than double the amount of minimum unit of the OGL item applied for, providing that the applicant was not already receiving an import license either as a commercial importer or as an industrial consumer. The restrictions on newcomer applications from the major cities in both Wings was relaxed in January-June 1965. Applicants from Lahore and Dacca (including Narayanganj) were allowed, thus excluding only people in Karachi and Chittagong.

The third type of imports, those importable under neither Free List nor OGL, numbered 98. For these items normal licenses were issued. The procedure for this was the same as in the previous period, i.e. the treatment of industries in Lists A and B remained the same. List A contained 236 industries vs. 202 in the preceding period. Thes industries were granted licenses for permissible items of their requirements other than those on the Free List (and excluding items which were exclusively importable under Bonus) at 100 per cent of their entitlement for such items. Also they were entitled to repeat licenses on production of Bills of Entry for 50 per cent or more of the value of the earlier license. List B contained 56 industries (vs. 43 previously) which were licensed to the decisions of the regional Licensing Boards.

For export performance by industries in both lists (except for cotton textiles, jute manufactures, and bidi) additional licenses were granted at a level not exceeding 50 per cent of the FOB value of exports. These licenses were valid for the import of machinery and equipment for balancing and modernization (not for additions), subject to the approval of the regional Licensing Boards. Import of packing material also was permissible against these additional licenses up to 10 per cent of the FOB value of exports. The same list of five industries as in the preceding period had to meet their requirements of raw materials and spare parts from their own resources (other than items on the Free List). Another concession to industry during this period was the right of recognized industrial units to meet their requirements of raw materials under Bonus import in addition to regular licenses. Originally an item was importable from only one source (either under Bonus or under regular licensing), but certain industrial raw materials were put on both lists so that industries using them could increase production by supplementing their supplies under regular licensing with imports under Bonus. The list of items was limited, but it was hoped that those industries receiving the additional supplies would be able to increase industrial production [4, January 1965, pp. 3-33] and [2, January 11, 1965]

## REFERENCES




1. Hasan Parvez, "Balance of Payments Problems of Pakistan." Pakistan Development Review, Vol. I, Autumn, 1961.

2. Pakistan, Ministry of Commerce, Chief Controller of Imports and Exports, Import Policy Announcement, as published in Gazette of Pakistan Extraordinary, for various shipping periods as indicated.

3. ________, Foreign Trade Development Council, Report of the Export Promotion Committee. (Karachi: Manager of Publications, 1954).

4. Pakistan Trade, 1949-1959 as indicated.

5. Sarfraz, Mrs. N., Commercial Policy of Pakistan. (mimeographed Research Report No.1, Pakistan Institute of Development Economics, Karachi) 1961.

Assessment - amounts of raw materials and spares necessary for single shift production by industries, as determined by the Government.

Automatic Basis of licencing - a system of import licencing allowing initial imports of listed items (both raw materials and consumer goods) at a percentage of assessment, and additional imports after proper utilization of initial licences.

Automatic licencing for industries - a system of import licencing allowing listed industries to import a specified percentage of their requirements of raw materials and spares; as well as the allowance of repeat privileges.

Basis of Licencing - means the percentage, rate, or formula adopted for determining the amount of licences issued to an importer or exporter.

Bonus Vouchers - import privileges (applicable to listed imports only) issued under the Export Bonus Scheme; freely exchangeable on the open market.

Category - means a half yearly import entitlement of a registered commercial importer, originally established as an average of the imports brought into Pakistan by each commercial importer during the original OGL period (five shipping periods from July, 1950 to November, 1952).

Certificate of Registration - given to importers admitted for registration, indicating whether importer is

a. Established importer
b. OGL importer
c. Newcomer
d. Free list importer
e. Government Account importer
f. Indentor
g. Industrial consumer

Chief Controller of Imports and Exports (CCI&E)- heads the import and export control organization with offices in different parts of the country. He is responsible for issuance of licences and implementation of the various policies of the Government relating to imports and exports.

Commercial Importer - means an importer who imports goods for sale in the same form.

Entitlement - means half yearly requirements of raw materials or spares of an industrial unit as established by assessment or recommended by the sponsoring authority.

Export Bonus Scheme - an incentive for exporters (of items other than raw jute, raw cotton, hides and skins, wool, rice, and tea) based upon a percentage of the amount exported, given in the form of import licences (Bonus Vouchers) either freely exchangeable or applicable to the import of specified items.

Export Incentive Scheme - effective from June 28, 1954 to September 30, 1955 (and revised periodically).

Export Industries Special Licencing Scheme - effective from June I, 1957 to May 31, 1958.

Export Promotion Committee - a Government appointed body which met in 1952 to study the future of Pakistan's export potential and to make recommendations. For the report, see [3].

Export Promotion Scheme - effective from October 25, 1955 to January 15, 1959 (and revised periodically).

Export Promotion Scheme for Mill-made Cotton Textiles - effective from June 12, 1958 to June 11, 1959.

Free List - a collection of those imports in each shipping period (starting in January-June 1964) which are freely importable by any Pakistani national resident without cover of any licence (subject to certain restrictions).

Import Policy - an announcement by the CCI&E at the beginning of each six month shi pping period specifying the exact details governing imports for that period, including the items eligible for import, the quantities, and other pertinent information.

Industrial importer - means a firm or unit requiring imported material for the manufacture of its products.

Licence - means authorization of import or export involving foreign exchange.

Licencing Authorities - means the authority appointed for each region to issue licences, permits, and registration certificates: includes the Chief Controller, Joint Chief Controller, Controller, Deputy Controller, and Assistant Controller of Imports and Exports.

Licencing Boards - one each in Karachi, Lahore, and Chittagong. In accordance with allocation made and principles laid down by the Government, they decide the basis of licencing for their respective regions for only such items and industries which are not announced in the Import Policy.

Open General Licence (OGL) - a policy under which all items listed are freely importable (or exportable, as the case may be) without cover of a licence. For imports this was first introduced during the Korean War when foreign exchange was plentiful. Later it was removed as the boom ended. For exports, this was first instituted in November, 1955 in an attempt to encourage exports by removing as many bureaucratic controls as possible.

Pass Books - for commercial importers show items, ITC classification, and value of categories held by them. For industrial consumers they show items of maintenance spares, ITC classification, and value of entitlement (and may also show entitlements for raw materials).

Permit - means authorization without involving foreign exchange, and includes import permits, cleanance permits, and export permits.

Request Basis of Licencing - a method of import licencing for industries which allows the units to specify the types and amounts of imported materials req-uired on a twelve month basis.

Scheduled Banks - those banks authorized by the Government to deal in foreign exchange.

Shipping period - calander year divided up into two six month periods from January-June and July-December for purposes of policy decisions and announcements.

Source: Definitions from the body of the paper, and as defined in Pakistan, Ministry of Commerce, Office of the Chief Controller, Manual of Imports and Exports Control. (Karachi: Manager of Publications, October 30, 1964).

FOOTNOTES 

1/ The export Bonus Scheme provides exporters (of items other than raw jute, raw cotton, hides and skins, wool, rice, and tea) with a percentage of their total foreign exchange earnings in the form of Bonus Vouchers. These Vouchers can either be sold freely on the open market, or used to import any of the items allowed under the Scheme.

2/ For a discussion of the Export Bonus Scheme see Bruton, Henry J. and Swadesh R. Bose, The Pakistan Export Bonus Scheme (Karachi: Pakistan Institute of Development Economics, 1961).

3/ Readers are referred to the Glossary for a definition of the various terms used throughout this paper.

4/ For the report, see [3].

5/ The suggestions of the Committee in regard to a freely exchangeable export subsidy were similar in many ways to the system of Subsidy which emerged in 1959 as the Export Bonus Scheme.

6/ Estimates are from Pakistan, Ministry of Commerce, White Paper on the Budget for 1956-57. (Karachi: Manager of Publications) P. 24, as cited in [5, pp. 53-54].

7/ In other words, items in schedule I were treated in the same manner as under schedule I of the first Export Promotion Scheme which ran from October 25, 1955 to September 30, 1956.

8/ Although the Export Promotion Scheme was extended until June 30, 1960, it was eliminated by the new Government on January 15, 1959 and replaced by the Export Bonus Scheme.

9/ For purposes of policy decisions the calendar year is divided up into two shipping periods running from January to June and from July to December. The Government issues for each shipping period an "Import Policy" specifying the procedures governing the import sector of the economy for that period.

10/ Licences issued from "cash" resources are financed out of Pakistan's foreign exchange reserves, while licences issued from "aid" resources are sub-authorizations from the various aid loans given to Pakistan by foreign countries. There may be restrictions on source, quality, and quantity for aid sub-authorizations (tied aid), but cash licences can be used in any area desired (unless the licences specify a certain currency area).

11/ The term " category" refers to a half yearly import entitlement of a registered commercial importer.

12/ The price of items imported exclusively under normal licencing procedure would be less than previous Bonus cost only if aggregate supply and competition were present to a degree large enough to force the price downward ( assuming demand unchanged).

13/ Whenever Automatic licencing is discussed in connection with industries it refers to the policy of Automatic Licencing for industries. On the other had, when specific items of import are mentioned, for either commercial or industrial importers, it refers to the Automatic Basis of licencing.

14/ Refer to Appendix A for a chart summary of licencing procedure affecting industries in each shipping period.

15/ The first OGL was established during the Korean War boom, but was rescinded when the boom collapsed. It ran from July, 1950 to November, 1952 (five shipping periods).

16/ Pass books for industrial consumers show the items of maintenance spares and raw materils for which they hold entitlement, the values, and the Import Trade Control classification.

Appendix A - Summary Table of Import Regulations Affecting Industries

| Shipping period | Policy | | | | |
|---|---|---|---|---|---|
| Jan-June 1961 | Annexure II (118) - Automatic Basis<br>100% single shift + 100% repeat<br><br>Special Basis - in 12 selected industries of Annexure II exporting units received balancing & modernizing equipment licences. | | Annexure III (51)<br>100% single shift entitlement no repeat | | other industries not listed announced separately by regional licensing authorities |
| July-Dec 1961 | Annexure II (173) - Request Basis<br>1/2 of requirements for 12 months based upon requests made<br><br>Special Basis - in 12 selected industries of Annexure II exporting units received balancing & modernizing equipment licenses. | | Annexure III (18) Automatic Basis<br>initial at 125% of single shift assessment + repeat at 100% of single shift assessment | | Other industries not listed announced separately by regional licensing authorities |
| Jan-June 1962 | Annexure II (160) Request Basis<br>A-i (7) "request basis proper"<br>1/2 of requirements for 12 months based on requests made | A-ii (31)<br>80% of previous + 100% FOB value of exports | A-iii (122)<br>Same as previous-if reasonable request made but no repeat, no additional based on FOB export | Annexure III(36)<br>Automatic Licensing initial at 100% single shift assessment + 100% repeat | Other industries not listed announced by regional licensing authorities. |
| July-Dec 1962 | Annexure II (145) Request Basis<br>A-i(9) "request basis proper"<br>1/2 of requirements for 12 months based on requests made | A-ii (35)<br>100% of previous entitlement + 100% FOB value of exports | A-iii (101)<br>Same as previous-if reasonable request made but no repeat, no additional based on FOB export | Annexure III(52)<br>Automatic licensing initial at 100% single shift assessment + 100% repeat | Other industries not listed announced by regional licensing authorities |
| Jan-June 1963 | Annexure II (144) Request Basis<br>A-i (10) "request basis proper"<br>1/2 of requirements for 12 months based on requests made. | A-ii (33)<br>100% of previous-if entitlement + 100% FOB value of exports | A-iii(101)<br>Same as previous-if reas-onable request made but no repeat, no additional based on FOB export | Annexure III(51)<br>Automatic licensing initial at 100% shift single assessment +100% respeat | Other industries not listed announced by regional licensing authorities |

| Shipping period | Policy | | | | |
|---|---|---|---|---|---|
| | Annexure II (144) Request Basis | | | Annexure III(51) | Other industries not listed announced by regional licensing authorities. |
| July-Dec 1963 | A-i (10) "request basis proper" 1/2 of requiresments for 12 months based on requests made. | A-ii (33) 100% of previous entitlement+100% FOB value of exports | A-iii (101) Same as previous-if reasonable request made but no repeat, no additional based on FOB export | Automatic Licensing initial at 100% single shift assessment +100% repeat | |
| | Annexure II (257) Request and Automatic Basis (4 items on Free List) | | | | |
| Jan-June 1964 | A-i (10) "request basis proper" 1/2 of requirements for 12 months based on requests made. | A-ii (42) 80% of previous initial entitlement +100% of FOB value of exports. | A-iii (83) Automatic Basis initial at 100% single shift assessment +100% repeat | A-iv (122) Basis determined and announced by regional licensing authorities. | |
| July-Dec 1964 | List A (202) - industries receive Free List items (51) + 100% of entitlement + 100% repeat + up to 50% FOB value of exports | | List B (43) - industries receive Free List items (51) + basis of licensing announced by regional authorities + up to 50% FOB value of exports | | |
| Jan-June 1965 | List A (236) - industries receive Free List items (51) + 100% of entitlement + 100% repeat + up to 50% FOB value of exports | | List B (56) - industries receive Free List items (51) + basis of licensing announced by regional authorities + up to 50% FOB value of exports | | |

Note: Figures in paranthesis are number of industries affected by particular policy on Free List except those beside Free List which represent number of items.