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Tariff Protection ~~Comparative~~ Costs and
Industrialization in Pakistan

By

Professor Nurul Islam



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Tariff Protection, Comparative Costs

and

Industrialisation in Pakistan

Introduction.

The purpose of the paper is to analyse the comparative costs of a number of manufacturing industries in Pakistan vis-a-vis the prices of competing imports over the period of last fifteen years or so (1950-1964). In the past the effective rates of protection have been estimated for the major groups of industries in Pakistan based on tariff rates aggregated or averaged for the various constituent industries within each group. In the absence of a direct evidence on the differentials between domestic and foreign prices of inputs and outputs this does not measure the extent of protection implied by quantitative restrictions. Similarly, there have been studies on the domestic prices of a number of imported goods in order to measure the extent of scarcity margins on the tax paid value of the imported goods.^{1/} But there has been no direct comparison of the prices of narrowly defined and clearly identifiable domestic goods with the cif prices of closely competing and comparable imports. The present paper is an attempt to close the gap in knowledge by providing direct empirical evidence on the comparative costs of domestic industries. The paper also purports to analyse the additional evidence with a view to identifying and examining the nature of cost dissimilarities of the manufacturing industries in Pakistan as well as the rationale underlying the determination of the protective tariff rates by the Tariff Commission for specific industries

It attempts to test two hypotheses regarding the comparative costs and competitive strength of manufacturing industries in Pakistan which have developed under tariff protection. Firstly, it investigates the changes, if any, in the comparative cost situation over the years. The expectation is that with the passage of time and the accumulation of experience in terms of techniques of production as well as of training of labour and management, the cost disabilities of the manufacturing industries may have declined so that prices should tend to become more competitive than they were in the past. Secondly, it is expected that the cost disabilities would differ between different industries, specially between simple consumer's goods manufacturers and intermediate and capital goods industries. The principal causes of cost disadvantages of the Pakistani manufacturing industries are examined as well as any possible changes in the criteria for the fixation of tariff rates.

The Pattern of Industrial Growth and its Principal Determinants.

The pattern of Pakistan's industrialisation in overall terms and in terms of the composition of the industrial structure is shown below:-

Table 1
Rates of Growth of Large-Scale
Manufacturing Industries in Pakistan, 1951-64^{2/}

	Gross Value of Output			Gross Value Added			
	Percentage Share in Total Industrial Output			Rates of Growth		Rates of Growth	
	1954-55	59-60	63-64	54/55-59/60	59/60-63/64	54/55-59/60	59/60-63/64
<u>Total Manufacturing</u>				19.3	14.5	19.5	15.7
Consumption Goods	72.69	64.38	59.05	16.1	12.8	15.6	12.8
Intermediate Goods	15.89	20.94	21.54	39	12.8	27	13.7
Investment & Related Goods	11.42	14.68	19.40	25	23	28	26

Industrial output expanded at the rate of 19% per annum during 1954-55/1959-60 and about 15% per annum during 1959-60/1963-64. The industrial structure has increasingly become more diversified. The preponderance of textile, food and related industries declined from 68% to 58% of the total industries output. The spurt in industrial development in Pakistan was initiated by foreign exchange crisis in the period following the Korean boom. Import restrictions provided a sheltered market for the development of particularly those industries which were based on domestic raw materials and those which were judged to be essential consumer's goods industries. The industries considered essential for defence purposes also received a fillip.

The pattern of growth of manufacturing industries in Pakistan is the result of a set of inter-related factors such as tariffs, quantitative restrictions, industrial licensing and credit policies etc. The priorities in the field of industrial investment which were not very clearly formulated in the early years but which became more articulate in course of time as a part of an integrated overall plan were sought to be implemented by credit and licensing policies and partly by direct investments on the part of the Government or Government sponsored public corporations. Admittedly these controls and policies did not operate without serious limitations and there were significant deviations from the Government determined investment schedule on the part of private investors guided as they were by profit opportunities which deviated from the priorities set by the Government.

It is important to remind ourselves that tariff rates are set and changed only in a very few cases in response to the recommendations of the Tariff Commission. The distinction between revenue duties and protective tariffs has been often a matter of form rather than of intention and of actual effects on the industries concerned. Moreover, the protection has been more often provided by quantitative restrictions on imports until 1964, when a considerable relaxation of quantitative restrictions took place and tariffs tended to assume a more important role. It may be asked why in spite of strict quantitative restrictions the manufacturing industries sought tariff protection in addition. Firstly, in a few selected cases quantitative restrictions and the price spread which result between the foreign and domestic price, may have been insufficient to provide adequate protection to the high cost domestic industry. Secondly, quantitative restrictions have multiple purposes. The extent of quantitative restrictions on imports is seldom geared to the needs of specific industries but is often geared more to the general balance of payments considerations. Accordingly, individual industries may be faced, in a period of liberal imports, with a severe competition from abroad. The existence of a second line of defence in terms of adequate protective tariffs which, while they are ineffective so long as the quantitative restrictions last and are adequate, may become effective as soon as the quantitative restrictions are relaxed. Thirdly, even though it is true that revenue duties in many cases are sufficiently high to provide protection, they are not fixed keeping in view the costs of specific industries and they are also changed in response to budgetary considerations, i.e. need to raise revenue etc. A mere conversion of a revenue duty to protective duty without any change in the level of duty may serve the purpose of preventing or forestalling sudden changes in rates

of duties without an examination by the Tariff Commission and without the industry concerned having been given an opportunity to argue its case.

The tariff structure of Pakistan, including both revenue and protective tariffs, is such that a lower rate of tariffs is imposed on intermediate and investment and related goods than on consumer goods. The unweighted and weighted tariff rates for the three groups of commodities for three widely separated years are given below:^{3/}

		<u>1954/55</u>	<u>1959/60</u>	<u>1963/64</u>
Consumption Goods	a)	65	68	88
	b)	65	68	101
	c)	68	70	114
Intermediate Goods	a)	40	40	54
	b)	46	47	61
	c)	40	39	50
Investment and Related Goods	a)	39	40	46
	b)	45	45	43
	c)	32	36	40

The structure of tariffs is given below in terms of the implicit rates of protection which is compared with nominal tariffs. The nominal and effective rates of protection for three classes of goods for the year 1963-64 are as follows:

	<u>Simple Average of Rates</u>		<u>Weighted Averages of Rates^{4/}</u>	
	<u>Nominal Rates</u>	<u>Effective Rates</u>	<u>Nominal Rates</u>	<u>Effective Rates</u>
Consumption Goods	108.30	91.78	116.33	104.00
Intermediate Goods	61.00	61.45	60.86	33.51
Investment & Related Goods	64.96	110.5	56.95	125.57

The nominal rates of tariffs on intermediate and investment goods are roughly similar, irrespective of whether one considers weighted or unweighted rates of tariffs, though they are both lower than the rates on consumption goods. The effective rates, however, both weighted and unweighted, are higher in the case of investment and related goods than that for intermediate and consumption goods. This would imply that in 1963-64 the incentive structure as implied in the tariff system tended to shift resources to the investment goods industries. However, an exercise in rank correlation between implicit and nominal rates of protection for twenty eight or more major groups of industries reveals that the rank correlation coefficient is very high indicating that the relative heights or levels of protection for different industries is the same irrespective of whichever index of protection is selected i.e. nominal and implicit rates of protection.

Comparative Costs of the Pakistani Industries.

There are two ways of estimating the comparative cost of the Pakistani industries. one way, which is an indirect way, is to estimate the domestic prices of the imported goods on the assumption that the domestic wholesale prices of imports correspond to the wholesale prices of the locally produced closely substitutes. This has been done in a number of previous studies. But then the domestic ex-factory prices may be widely different from the domestic costs depending upon the domestic market structure as well as the margins of profit. The alternative way is to estimate directly the prices of local products i.e., actual ex-factory prices of domestic products and compare them with the CIF prices of closely competing import products. The second method has the advantage that the ex-factory prices of the domestic products in many cases are based on the examination of the cost of production of the domestic industry plus some allowance for profit as reported and analysed in the reports of the Tariff Commission. In a number of cases the Tariff Commission has modified or adjusted the cost figures as well as the profit margins and has used its own estimate of "fair" prices in place of prevailing prices quoted by the producers. Therefore, the second method attempts to compare the domestic costs, with the foreign

prices rather than to compare the domestic prices with the foreign prices. The present study follows the second method, insofar as the data in the reports of the Tariff Commission permit, and compares the ex-factory costs and prices of the domestic manufactures with the prices of the closely competing substitute or identical products from abroad.

A comparison of the ex-factory price with the CIF price of the competing products is ^{thus} intended to reveal the extent of cost disabilities of domestic industries. Tariff rates may be used as an indicator of cost disabilities of particular groups of industries on the assumption that tariffs completely account for the difference between domestic and world prices.^{5/} Tariffs do not account completely for the difference between world price and domestic prices of similar articles not only because of the existence of quantitative restrictions but also due to a number of other reasons. There is usually a consumer's preference for the established brand names of foreign products, with which the consumers have been familiar for a long period. This factor, however, would not make the domestic price higher than the foreign price by more than the tariff, unless quantitative restrictions reinforce tariffs to raise prices above the landed costs. This factor, however, does account for the fact that the tariffs or quantitative restriction to be effective must create a greater price divergence than is warranted by the difference between ex-factory price and the c.i.f. price of competing imports. Again, the difference between c&f price and ex-factory price (without indirect tax) is more than what is represented by tariffs and sales tax on imports owing to the existence of additional elements of costs incurred in the course of the entry of imports into local markets. They are (a) costs of insurance, (around 1%), (b) landing charges at the port, (around 1%), (c) handling charges (2%), and (d) import license fee (around 1/2%) with the result that an additional impost of 4 1/2% is accounted for by those miscellaneous factors. If the domestic prices of products are to be compared with export prices of domestic products, then the comparison is with F.O.B. prices and not with C&F prices. The former is taken to be usually 5% less than the latter in the cost calculations of the Tariff Commission. The F.O.B. price of a domestic price is estimate by deducting 5% of the c&f price of the competing import. In this case the difference between

ex-factor, domestic price and international price (F.O.B. export price) will be more than what is accounted for by tariffs and sales tax on imports.

The above analysis suggests a number of factors which may account for the divergence between ex-factory price and c&f price (plus 4½%) by more than tariffs and sales tax. If this is true of tariff fixation in the cases which are intensively investigated by Tariff Commission, it seems much more likely for the rest of the tariffs which are fixed without such an exhaustive examination of cost and prices. The assumption is that in the absence of quantitative restrictions or in the presence of relatively free imports tariffs are more likely to be excessive for fear of hurting the domestic industry through inadequate protection. In the absence of cost analysis and examinations of relative prices, the presumption is that tariffs would tend to more than compensate the cost disability. Rather than being ineffective they tend to be redundant in many cases.

The comparative cost ratios i.e., the ratio of ex-factory price to CIF price, for a large number of industries which have been investigated by the Tariff Commission and of which data on cost and prices are available for the present analysis are given below:

Table 2
Frequency Distribution of Individual Industries
by Comparative Cost Ratios
(without indirect taxes)

Groups Comparative Cost Ratios	Mid Points	1951-66		1951-55		1956-60		1961-66	
		Frequen- cies	% distri- -bution	Frequen- cies	% distri- -bution	Frequen- cies	% distri- -bution	Frequen- cies	% distri- -bution
0.50 - 0.99	0.75	10	8.70	2	6.9	5	20.83	3	4.84
1.00 - 1.50	1.25	46	40.00	14	48.28	9	37.50	23	37.10
1.51 - 2.00	1.75	36	31.30	9	31.03	8	33.33	19	30.65
2.01 - 2.50	2.25	14	12.17	3	10.34	1	4.17	10	16.13
2.51 - 3.00	2.75	4	3.48	-	-	1	4.17	3	4.84
3.01 - 3.50	-	-	-	-	-	-	-	-	-
3.51 - 4.00	3.75	3	2.61	1	3.45	-	-	2	3.22
4.01 - 4.50	4.25	1	0.87	-	-	-	-	1	1.61
4.51 - 5.00	-	-	-	-	-	-	-	-	-
5.01 - 5.50	-	-	-	-	-	-	-	-	-
5.51 - 6.00	5.75	1	0.87	-	-	-	-	1	1.61
		115	100	29	100	24	100	62	100

The period covered in this analysis relates to the investigations of the Tariff Commission over the years 1951-66. Out of 115 industries ten industries have ex-factory prices below the CIF price whereas fortysix industries have ex-factory price upto 50% higher than the CIF price. Forty three percent of the industries have ex-factory prices from 50% to 150% higher than the corresponding CIF prices. The mode of the frequency distribution of the price differential is 25%. Over the years there does not seem to be any significant change in the pattern of comparative costs. The industries were divided into three time periods corresponding to the pre-plan, first plan and second plan periods. In all the periods, the greatest number of industries have ex-factory prices varying between 1.00 and 1.50 higher their corresponding CIF prices. In all the cases, the next highest number of industries has price differentials between 1.51 and 2.00. The price differentials for individual industries are shown in the Appendix. The average price differentials are 1.56, 1.44 and 1.83 respectively for the period 1951-56, 1956-60 and 1961-66. The price differentials, including indirect taxes on domestic output, are 1.76, 1.54 and 2.12 respectively.

The above ratios of foreign and domestic prices do not indicate any improvement over time in the comparative position of Pakistani manufacturing industries. In each case, the differential drops for the years 1956-60 and rises again for the years 1961-66. The comparison of these ratios over time, however, suffer from the serious limitation that the nature or the composition of industries which are covered in three different time periods is very different.

Once the industries are classified into three broad groups i.e., consumption goods, intermediate and investment and related goods the comparative cost ratios for the three periods appear as

follows:

	1951-55	1956-60	1961-66
Consumption Goods	1.44 (10)	1.27 (8)	1.79 (6)
Intermediate Goods	2.19 (4)	1.76 (3)	2.04 (21)
Capital Goods	1.48 (15)	1.46 (13)	1.71 (35)

The figures in brackets are the number of industries in each group.

The definition of these three groups of industries is the same as used earlier in the analysis of the rates of growth of different branches of industry. In the above definition all rubber products, pharmaceuticals and paper products are included in the intermediate in whereas specific commodities in each of these groups may be defined either as consumer's goods or as intermediate goods depending on their use. Similarly, all the metal products, non-metallic minerals, electrical products, transport equipment are classified above as capital goods but the individual items in each group may be classified as consumer goods or investment goods, depending on whether they are durable consumable goods or are capital equipment. The movements in the relative cost ratios of the three groups of industries on the basis of such redefinition reveal no different pattern than is observed above.

	1951-55	1956-60	1961-66
Consumer Goods	1.61 (16)	1.27 (13)	1.86 (14)
Intermediate Goods	1.32 (3)	1.64 (3)	1.83 (33)
Capital Goods	1.57 (10)	1.64 (8)	1.81 (15)

The number of industries covered for each category of commodities is rather small and does not allow any satisfactory intertemporal comparison overtime of the comparative cost position of each of the category of commodities. The number of industries covered is much larger for the period 1961-66 than for other periods, excepting in the case of consumers goods. In each category there has been rise in the price differential during the last period.

However, it is possible to identify a number of specific industries on which data relating to comparative cost ratios overtime are available. The comparability of products overtime is reasonably satisfactory in these cases.

Table 3
Comparative Cost Ratios of Selected Industries Overtime^{1/}
 Ratio of Ex-factory prices (excluding Indirect taxes) to CIF prices

Sr. No.	Industry	Ratio	Year	Sr. No.	Industry	Ratio	Year
1)	Vermicelli, macaroni & Spaghetti	1.29	1952	11)	Fire Bricks	1.32	1954
	-do-	1.23	1957		-do-	0.90	1960
	-do-	0.67	1963	12)	Grinding wheel	2.26	1951
2)	Slate and slate pencil	1.77	1957		-do-	1.06	1958
	-do-	1.22	1962	13)	Matches	1.80	1952
3)	Washing Soap	1.43	1952		-do-	1.55	1963
	-do-	1.07	1960	14)	Fruit preserving:		
4)	Sodium Bichromate	1.73	1960	a)	squashes (Orange & Lemon)	1.91	Type 1 1952
	-do-	1.65	1965		-do-	1.63	1.42 1959
5)	Umbrella making	3.58	1952	b)	Fruit syrup or li juice	1.55	1952
	-do-	1.42	1963		-do-	1.13	1959
6)	Iron Safe and Almirah	1.76	1953	c)	All products	1.47	1952
	-do-	1.67	High quality 1960		-do-	Type 1 1.47	1959
7)	Safety razor blades	*Average quality .96*	2.15 1958	15)	Diesel engine industry	1.57	1.81 1953
	-do-	.78*	1.30 1964		-do-	1.52	1.38 1960
8)	Hurricane Lantern	.96	1953				
	-do-	.80	1959				
	-do-	Type 1 .73	Type II 1964				
9)	Transformer	1.97	1.27 1960				
	-do-	1.74	1.13 1963				
10)	Electric Bulb	1.68	1.47 1954				
	-do-	1.51	1.34 1963				

^{1/} The years indicate not the time when the report of the Tariff Commission was either submitted to the Government (without being published) or published by the Government with an appropriate action on it. The year indicates approximately the time period for which cost comparisons are made on the basis of available data. There are few other industries, plastic products, industrial type power switch board and wire netting -- on which reviews are available but of which the product mix has changed too radically to allow any comparison.

The evidence seems to indicate that in all the cases where comparative cost ratios of specific industries with narrowly defined products can be indentified, there has been a consistent improvement in comparative cost situation over the years. Considering the short period covered, which is barely thirteen years, the improvement in the competitive strength of these specific industries with a consequent decline in cost ratios deserves recognition. It is, however, true that the industries concerned are relatively simple from the point of view of technique of production so that in terms of mastery over technique and attainment of managerial and labour efficiency costs could be reduced rather soon.

The individual industries may also be grouped into major industry groups and the price differentials for each major group appear as below:

Table 4

Comparative Cost Ratio of Major Groups of Industries^{1/}
 (without indirect tax) and weighted indices for
 each period

1961-66		1951-55		1956-60	
Industry	Price Differential without Tax	Industry	Price Differential without Tax	Industry	Price Differential without Tax
Food Manufacturing	1.25 (3)	Basic Metal	1.00 (2)	Matches	0.96 (1)
Non-Electrical Machinery	1.30 (1)	Transport Equipment	1.31 (1)	Non-metallic Minerals	0.98 (2)
Petroleum Products	1.40 (1)	Food Manufacturing	1.34 (3)	Miscellaneous	1.03 (4)
Miscellaneous	1.46 (3)	Chemicals and Pharmaceuticals	1.39 (2)	Soap & cosmetics	1.07 (1)
Matches	1.55 (1)	Soap and Cosmetics	1.43 (1)	Food Manufacturing	1.43 (2)
Non-metallic minerals	1.59 (7)	Metal Products	1.48 (5)	Electrical Machinery and equipment	1.43 (4)
Electrical Machinery & Equipment	1.62 (7)	Tobacco (bidi)	1.51 (1)	Metal products	1.57 (6)
Metal products	1.65 (17)	Electrical machinery and equipment	1.53 (3)	Chemicals and Phar.	1.50 (2)
Paper	1.69 (2)	Footwear	1.54 (2)	Non-Electrical machinery	1.88 (1)
Rubber products	1.87 (3)	Non-Electrical machinery	1.69 (1)	Paper	2.08 (1)
Chemicals & pharmaceuticals	2.20 (14)	Non-metallic minerals	1.79 (2)		
Transport equipment	2.94 (2)	Matches	1.80 (1)	Weighted Average	1.41
Sugar	3.63 (1)	Miscellaneous	1.97 (4)		
		Rubber products	2.39 (1)		
Weighted Average	2.02	Weighted Average	1.52		
Without Sugar	1.72				

^{1/} The figures in brackets indicate the number of firms in each industry group.

The weighted average cost ratios for three time periods which are computed by weighting cost ratios of each group by the value of output of the respective group for the years, 1954-55, 1959-60, and 1963-64 are 1.52, 1.41 and 2.02 respectively. The cost ratios for the last year drops to 1.72, if sugar which has a very large cost ratios is excluded. As with the unweighted cost ratios so also with the weighted cost ratios there does not seem to be any significant change in the relative cost ratios overtime. A part of the explanation of a decline in cost ratio in 1959-60 as compared with 1954-55 and a subsequent rise by the 1963-64, apart from the difference in the industrial structure between the different time periods, lies in the fact that in the second period as compared to the first the rate of exchange was depreciated as a result of devaluation at the end of 1955. This only affirms that the comparative cost ratios are the obverse of scarcity prices of foreign exchange so that they may indicate the extent of overvaluation of the Pakistani Rupee.

The cost ratios for major groups of industries, when all the time periods are considered together, appear as follows ranked in order of their magnitude.

Comparative Cost Ratios of Major Groups of Industries		

1.	Basic Metal	1.000
2.	Soaps and Cosmetics	1.125
3.	Food Manufacturing	1.340
4.	Petroleum Product	1.400
5.	Matches	1.437
6.	Non-metallic Minerals	1.453
7.	Miscellaneous	1.487
8.	Tobacco	1.510
9.	Electrical Machinery	1.527
10.	Footwear	1.540
11.	Metal Products	1.567
12.	Non-electrical machinery	1.623
13.	Chemicals & Pharmaceuticals	1.730
14.	Transport equipment	2.125
15.	Rubber Products	2.130
16.	Paper	2.385
17.	Sugar	3.630
	Weighted Average :	1.870

The two consumers goods industries, paper and sugar, appear to have the highest cost ratios with transport equipment and rubber products industries following as close second.

These are the four groups of industries for which the cost ratios are above the weighted averages for all the industries which is 1.82.

The above price comparisons i.e. between ex-factory price and CIF price are based on the estimates of ex-factory price which does not include indirect taxes, i.e., mainly sales taxes on the rates of domestic industries. The cost ratios which include indirect taxes on domestic sales are naturally higher and are seen below:

Average Comparative Cost Ratio for All Industries

<u>1951-55</u>	<u>1956-60</u>	<u>1961-66</u>
1.76 (0.64)	1.54 (0.51)	2.12 (0.98)

Again, ex-factory price which forms the basis of estimates of cost ratios is in many cases not the actual or prevailing ex-factory price but "fair price" as estimated by the Tariff Commission. To the extent that actual or prevailing ex-factory price is above the fair price, the cost ratios computed on the basis of "fair price" underestimates the existing or prevailing price ratio between domestic product and its competing import. In many cases the Tariff Commission reports do not indicate the actual price but examine the fair selling price vis-a-vis the CIF price of competing import.

The Logic of Tariff Making in Pakistan

The Tariff Commission in examining the claims of industries for tariff protection is to satisfy itself that:

- "(i) the industry is established on sound lines and conducted with reasonable efficiency, and
- (ii) (a) having regard to natural advantages the industry is likely to dispense with the necessity of protection by or assistance from Government within a reasonable period of time during which the additional cost to the consumer or charge upon the exchequer is not excessive, or,
- (b) the establishment of the industry is essential to the security or economy of Pakistan;
- (iii) the protection of the industry by means of tariffs is not inconsistent with any treaty obligations undertaken by Government.

After satisfying itself in the light of the conditions mentioned above that claim for protection is established the Commission shall recommend the rate at which a protective duty should be imposed upon any article or class or description of articles, which may compete with the products of the industry concerned. It may, in addition or alternatively, recommend any other forms of assistance which may be given to the industry by Central and/or Provincial Government, and may also specify the period for which, in the first instance, the protective duties and/or other forms of assistance should be applicable.

In making its recommendations, the Commission shall take into consideration the interests of the consumers and shall also give due weight to the interests of those industries which may use the articles in respect of which protection is to be granted"

It appears, therefore, that the criteria which the Tariff Commission is required to use in the fixation of tariff rates or in suggesting other measures of protection include: (a) reasonable efficiency, (b) establishment on sound lines, (c) avoidance of excessive cost to the consumer or to the exchequer, (d) consideration for the interests of the industries which may use the protected product, (e) essentiality with respect to the security of Pakistan, (f) essentiality with respect to the economy of Pakistan, (g) consistency with the treaty obligations of the Government.

In order to qualify for protection a firm has to exist and has to be well established enough to supply to the Tariff Commission the data on cost and prices for the investigation by the latter. The protection is seldom given in advance to the industry before being established. The absence of anticipatory protection implies that once the first firm has established its case for protection, a subsequent firm which enters the industry enjoys the protection automatically. In this sense the first firm generates external economy of tariff protection for the subsequent firms entering the industry. In addition to the above criteria the Tariff Commission in later years has also considered an important aspect, that is, the foreign exchange saving or earning capacity of the industry concerned, the objective being to promote those industries which tend to either save foreign exchange through import substitution or export expansion.

The Tariff Commission examines and suggests tariff rates for one industry at a time as and when the industry concerned applies for protection and the Government refers the case to the Commission for examination. In other words, the Tariff Commission does not undertake a comparative study of various industries i.e., does not compare a large number of industries in various fields in terms of their cost, efficiency, or prices. The industries programming or determination priorities in the field of industry belongs to different policy making organizations such as industrial-licensing authorities and Planning Commission. The Tariff Commission is not a party to the process of the formulation of industrial priorities or selection of industrial projects. However, Tariff Commission only comes into the picture at a later stage when the industry has already been sanctioned by the appropriate authorities and is functioning for some time. But it does compare the domestic cost and import price of each competing product as each case comes up for investigation. If the exercise in the examination of the relative cost structure is already done at the earlier stages of industrial programming, the Tariff Commission's task becomes very simple one i.e., to provide temporary relief to

the extent of the cost disadvantage of particular industry as estimated by them at the time that the protection is sought. Admittedly in a nascent economy like Pakistan the manufacturing industries would have a higher cost structure and higher prices compared to international prices. The relevant question to answer in deciding the optimum pattern of an industrial programme is to compare the relative inefficiency of different industries and to choose the programme which yields the least inefficient group or potentially most efficient group of industries in terms of their cost vis-a-vis international prices. This criterion naturally relates to the maximization of output on the basis of given amount of scarce investible resources and obviously does not include considerations either of distribution of income or of employment, even though an over-all programming model may incorporate these different restrictions. However, a comprehensive exercise in industrial programming was not done even nominally during the first Five Year Plan. After the 2nd Five Year Plan and the introduction of the investment schedule, it is done only very imperfectly, more so in the private industrial investment than in the field of public sector projects. The major considerations, which governed the determination of industrial priorities in the early fifties were: (a) "use of domestic raw materials such as jute, cotton, sugarcane, wool, hides and skins, cereal straws, oilseeds, limestone, gypsum etc.;" (b) reduction of imports, particularly essential items, in which the country should have certain minimum indigenous productive capacity; (c) maximum productivity in relation to capital invested and maximum employment; and (d) net social and economic advantage to the country".^{7/}

Even if capital cost does not bear very favourable proportion to the value of output, it was felt that there were certain articles such as essential medicines, pharmaceutical products, insecticides and disinfectants, refined petroleum and allied products, chemical fertilizers, certain heavy chemicals, materials on which other industries were dependent and there were industries which meet essential defence requirements, in which Pakistan as "a matter of national importance"

should become self sufficient. The development of light and medium engineering industries such as motor trucks, cycles, light and heavy electrical equipment and machine tools was considered important not only as a method of reducing the value of imported materials but also for producing the nucleus for building up in due course more complete plants.

While deciding on the need for and extent of tariff protection for a particular industry, the Tariff Commission does pay careful attention to (a) extent of domestic demand for the product of the industry and (b) installed capacity, including possible plans for expansion of the industry in question. An industry in order to qualify for protection has to have adequate productive capacity to meet domestic demand or at least a major part of the domestic requirements. This is a very important consideration in case a ban on imports is requested by the industry in question. The basis behind this criterion is that protection is intended to substitute imports by domestic production and not just simply to curtail imports. Tariffs, therefore, in order to be successful as protective tariffs must enable an expansion of domestic supply. This implies that not only demand for imports is price elastic but also that the elasticity of supply of domestic substitutes is also high. The former restricts the demand for imports and the latter ensures an expansion in supply in response to a high price and the availability of an assured market. The Tariff Commission, accordingly, pays considerable attention in its analysis as well as in its recommendations to the matter of removing bottlenecks in the way of increased production of the industry in question such as the assurance of an adequate supply of imported raw materials. The need for an expansion of productive capacity to meet domestic demand in replacement of imports has not been felt in the majority of the Pakistani manufacturing industries under investigation by the Tariff Commission. This is in view of an almost universal existence of excess capacity in the manufacturing sector. Protection has in fact facilitated the utilization of already existing excess capacity.

If demand is inadequate the Tariff Commission usually is reluctant to recommend tariff protection, unless there are good prospects of export.

If domestic demand is inadequate, it implies that it is premature to establish the industry and there is likely to be considerable excess capacity. Given excess capacity of an already established industry, one may argue that tariff protection which enables economies of scale through a greater utilization of capacity may reduce cost in the longer run. Ideally if it is only excess capacity which is the reason for high cost and if with a greater output it is able to produce at a cost lower than the prices of competing imports, then the industry in question may undergo, unaided by protection, the temporary losses which would be offset by profits later on. On the other hand, one may argue that the attainment of a higher scale of output may itself involve a learning process and, therefore, the industry qualifies for protection on the basis of an infant industry argument. This is the case for a temporary protection on a sliding scale or for subsidies on a sliding scale with the condition that they will be withdrawn as an efficient scale of output is obtained may be justified. An export bonus scheme has been justified in some instances on this ground that the present high costs and inability to compete abroad on the part of manufacturing industries are due to inadequate scale of production and that once a foothold has been obtained, which enables a larger output on a permanent basis, bonus scheme may be withdrawn since costs and prices following from a larger output will be lower and competitive.

Whenever the existence of excess capacity is due to the present state of inadequate demand and is expected to disappear with (a) the development of domestic demand consequent on temporary protection, (b) development of export market consequent on export subsidies, and (c) with the development of rest of the economy, including the growth of inter-industrial demand from the rest of the manufacturing sector, the problem of high cost is a temporary one and measures (a) and (b) will be temporary phenomenon.

The emergence of excess capacity, as has been mentioned earlier, is not merely a question of inadequate market which needs to be expanded domestically either by protection or expanded abroad by export subsidies but also a function of an inadequate supply of inputs

i.e., key imported inputs as well as lack of managerial and supervisory capacity. If the lack of supervisory and managerial capacity is a matter of inadequate experience which only is attained over a period of time, one may consider this particular factor i.e., training and development of managerial and supervisory utilities as a function of "learning by doing". In this case also it has been argued by some that the losses of the early period are really investment needed to obtain the gains of latter period. The industry in question may borrow in order to undertake this essential investment. The valid and realistic objections to this line of reasoning are two fold. Firstly, the private entrepreneurs may not perceive the long run gains and even when they perceive future gains, the private valuation of future gains, in view of uncertainty of the future developments as against the certainty of present losses and present cost of investment, may be less than the social valuation of future gains: this may discourage investment in the industry in question. Moreover, the capital market may be imperfect with the result that capital for this type of investment may not be available and if available, may only be obtained at a higher cost than for usual types of investment. Thus there may not only be underestimation of future gains on the part of the private industrial entrepreneurs but also the private capital market may value the prospects of such lending operations considerably below their social profitability.

The problem of excess capacity has other aspects. The question has often been raised as to why the expansion of existing capacity is sanctioned by the investment licensing authorities while existing capacity is underutilized owing to the shortage of imported raw materials. The answer is related to the existence of market imperfections and to the criterion and procedure which govern the allocation of foreign exchange resources derived both from aid and Pakistan's own earnings, between competing uses. In so far as investment controls are not universally effective, the existence of high profits attracts the entry of new firms. In an imperfect market with its characteristic features of product differentiation and selling costs etc, existing firms contract their scale of production and incur a rise in their average costs of production. Costs and prices go up all around and

excess profits per unit of output, goes down but they are shared by a large number of firms. In the context of Pakistan there are additional complicating factors involved in the licensing procedures for imports and industrial expansion. In fact to a certain extent the licensing authorities help generate the consequences of an imperfect market in so far as new firms are licensed while the existing firms operate with an excess capacity. This is often done on the doubtful assumption that increasing the number of firms necessarily increases the degree of competition. From the point of view of an efficient allocation of resources, an increase in the number of firms, each with excess capacity, involves a waste of resources. Behind the licensing procedure also lies the motive of a wider distribution of entrepreneurship and industrial profits - motive which is based on equity rather than on efficiency. Moreover, new capacity is sanctioned often with a view to meeting future demand rather than present demand. This is facilitated by the fact that aid is available more - substantially more - on a project basis for the creation of new capacity rather than for commodity imports for the utilization of existing capacity. If aid is not utilized for the establishment of new projects or capacity, it is lost. With all the uncertainty about the future flow of foreign aid, it is difficult to choose to forego project assistance since there is the hope that the installation of new capacity may help eventually to press the demand for an enlarged flow of commodity aid to enable the utilization of excess capacity created with the initial injection of project aid. Once the new capacity is created it becomes difficult to deny foreign exchange to all the firms in an industry. In fact licenses for raw materials and spare parts are based on the assessed capacity of each firm and is usually a certain percentage of the assessed requirements of a firm.

The prevalence of excess capacity in the manufacturing industries in Pakistan is seen from the following tables. The Tariff Commission attempts, in so far as data are available, to estimate the installed capacity for production in the industry in question, usually on a single shift basis, as well as the actual production in the year of the investigation. The percentage of capacity utilization described

below expresses the ratio of actual production to the estimated installed capacity in the year of investigation. The relevant data are available only for seventy industries for the whole period (1951-1966).

Table 5

Excess Capacity in Protected Industries

Groups (Percentage of capacity utilization)	Average percentage utilization of capacity	Frequency	Percentage of total frequencies
0 - 20	11.67	18	25.71
21 - 40	29.83	27	38.57
41 - 60	48.40	11	15.72
61 - 80	65.39	7	10.00
81 - 100	90.96	7	10.00
		<u>70</u>	<u>100.00</u>

As is seen above 80% of the industries for which data on excess capacity were available operated at or below 60% of capacity and 64% operated at or below 40% of capacity. The relative rate of excess capacity does not seem to have changed significantly over the whole period. Approximately 60% of the industries in each of the period worked out at or below 60% of capacity. However, the sample of industries for each period is too small to allow any conclusive temporal comparison as seen below:

Table 6

Excess Capacity in Different Periods

Groups (Capacity Utilization)	1951-55		1956-60		Total
	Frequency	Percentage of total frequencies	Frequency	Percentage of total frequencies	
0 - 20	4	16.6	3	20.0	11
21 - 40	12	50.0	6	40.0	9
41 - 60	3	12.5	3	20.0	5
61 - 80	4	16.6	1	6.8	3
81 - 100	1	4.3	2	13.2	3
	<u>24</u>		<u>15</u>		<u>31</u>

An attempt was made to relate the extent of excess capacity to price differentials on the ground that excess capacity raises domestic costs

of production and accordingly, may raise the ratio of the ex-factory price to the CIF price of the competing import. No significant correlation, however, is noticeable. The explanation of the lack of significant correlation between the two can be traced to the fact while undoubtedly excess capacity raises the domestic cost of production, the price differential is a ratio depending equally on the CIF price of the competing product, variations in which as between products may offset the variations in ex-factory prices between products.

It is pertinent to mention here that the Commission does not accept uncritically the ex-factory prices quoted by the manufacturers. Since costs and prices often vary between different firms in the same industry, the Tariff Commission undertakes detailed cost investigations of a few selected firms and decides on a representative firm in the light of its general efficiency. There is often a scope for judgement in the identification of a representative firm so that firms with costs lower than the representative firm chosen by the Commission ends up earning excess profits. In many cases the Commission estimates ex-factory "fair price" in the sense that the costs of production and "a fair rate of return" on capital are determined by the Tariff Commission itself. In a few cases data are available to enable a comparison between the relative levels of actual and fair prices as seen below:

Table 7
Relative Levels of Actual and Fair Price

Group (Ratio of Actual to fair price)	Average of ratio of actual to fair ex-factory price without tax	Frequency	Percentage of total frequencies
Below 1.00 (0 - 1)	0.87	11	28.3
1.00 - 1.20	1.08	21	53.8
1.20 - 1.70	1.32	7	17.9
		39	100.0

It is interesting to note that in the case of eleven out of thirty nine industries actual price is below fair price implying that these industries are not earning "normal" profits in the judgement of Commission and are, therefore, selling at a loss in order to dispose of their production. These cases may thus be clearly identified as those

facing serious competition from abroad. In twenty one cases, the ex-factory price is 8% higher and in seven cases 32% higher than fair selling price, implying abnormal profits.

One may try to correlate very roughly relative levels of actual and fair price to the number of firms in the industries under examination with the following results:

Average Ratio of actual to fair price	Average Number of Firms per industry
0.67	5.00
1.08	4.00
1.32	2.10

These figures seem to be some rough indication that the smaller is the number of firms, higher is the ratio of actual to fair price i.e., higher than the rate of profit earned by the industries in that group.

The Tariff Commission in some instances has attempted to work out the cost of production and fair selling price not only on the basis of existing capacity but also on the basis of an increased utilization of capacity. The following table not only indicates the price differential on the basis of fair selling price (as against actual selling price) but also indicates the ratio between fair selling prices based respectively on existing capacity and on a greater utilization of capacity. Such comparisons are possible only for a very limited number of industries.

Economies of Scale

Rank	Name of Industry	Comparative Cost Ratio (Fair Price without Tax)	Ratio of fair ex-factory price at present level of production to fair ex-factory price on a fuller utilization of capacity (excluding indirect tax)
1.	Brass Ingots	1.15	1.00
2.	Emery cloth, paper and sand paper	1.17	1.16
3.	Umbrella Industry	1.33	1.17
4.	Grinding Wheel	1.34	1.11
5.	Electric Motor	1.40	1.00
6.	Cement	1.41	1.00
7.	Transformer Industry	1.44	1.10
8.	Textile Powerloom Mfg.	1.51	1.19
9.	Hydrogen per-oxide	1.71	1.15
10.	Steel Lining Plate	1.74	1.19
11.	Caustic Soda	1.84	1.00
12.	Sodium Hydro Sulphate	1.89	1.08
13.	Straw Board Industry	2.00	1.25
14.	Umbrella fittings	2.22	1.08
15.	Dry Cell and Batteries	2.50	1.10

This excluded exceptional case Umbrella industry with 112 firms textile powerloom with 27 firms, and washing machines with 1079 firms.

In four cases out of fifteen an increase in the utilization of capacity does not make any difference to cost and fair selling price. However, the rest of the cases the ex-factory price at the present capacity is 8% to 25% higher than the ex-factory price with a fuller utilization of capacity.

Besides comparative cost, adequacy of domestic demand, adequacy of installed and planned capacity to meet expected demand, the Tariff Commission does devote considerable attention to the problem of quality of indigenous products. It undertakes detailed technical investigation as well as makes enquiries with the users of the product. The Commission attempts either to be satisfied with quality of the product before it recommends protection or suggests measures for improvement of quality and makes adoption of such measures a condition for the grant of protection. This is particularly true in the case of intermediate and capital goods industries.

While generally attempting to fix tariff rates and other concessions or protective measures in such a manner as to offset the specific cost disabilities of the industries in question, the Tariff Commission goes into the examination of the specific causes of cost disabilities of particular industries. The cost disadvantage or disability of Pakistani industries are usually due to (a) absence of adequate infrastructure, high cost of power, and transportation and communication facilities, absence of ancillary services and industries, (b) This can also be due to a lack of experience of management and of labour in acquiring skill and mastery over technique. The cause (b) constitute the familiar infant industry argument. (c) The cost disadvantage can also be due to the limited size of the market and inability to realise economies of scale which has been discussed above at length. (d) Moreover, there may be the particular cost disabilities of the industry in question such as the high cost of the specific labour required for the industry, high cost of materials, high overhead costs or high selling and distribution costs. (e) A particular industry may also suffer from a relative inefficiency of its particular management. The Tariff Commission seeks to compensate for the cost disadvantage arising

out for all the factors except (e) and does not fully compensate for high overhead costs, selling and distribution costs and market size but only to the extent that the Tariff Commission thinks that these disabilities can be overcome only after a time lag. The principle of offsetting the specific cost disadvantages mentioned in (c) and (d) may lead to a situation in which the higher the costs of an industry due to specific disabilities, the higher are the tariff rates recommended for the industry. This militates against the principle that industries which do not suffer from these specific disabilities should receive a preferential treatment since they enjoy a comparative advantage vis-a-vis the industries suffering from specific disabilities. The basic logic behind infant industry protection is derived really from infant economy argument which in turn is based on disabilities mentioned in (a) and (b). This has led many to suggest a uniform tariff rate except when differential external economies as between different industries and differential learning process i.e. "learning by doing" can be located in the industrial structure. The case of internal economies has been examined earlier and under certain circumstances as a second best solution tariff may be justified in this case as well.

Among specific disabilities may also be mentioned one component which is very closely related to the size of the market and the possibilities of economies of scale. In the chemical industry, for example, efficiency and economic production depends on the diversity of products which a firm produces. Often the level of output of the main product is to be lower than what is warranted by the size of the market for it because there is no demand for the by-products which are associated in fixed proportion with the production of the main product. There is a lack of integration between different branches of production which are closely interdependent because of the adhoc nature of development over a long period of each specific branch of an industry. Often a particular branch was established because the moving force behind its development was the availability of foreign technical know-how. The examples of specific disabilities of particular industries investigated by the Commission are the shortage of skilled labour which affects particularly adversely equipment industry in Pakistan including

mechanical, electrical and transport equipment. The inadequate development of ancillary and interdependent industries which supply semi-finished inputs like castings, forgings and standard hardware to the electrical equipment industry raise the price of inputs and affect the quality of the final product in the latter industry. Moreover, the lack of competition in the electrical equipment industry is stated to be an important factor in keeping up a high domestic price. There is an agreement among domestic producers to share market among themselves. This is particularly true in the switchgear, transformer and electric motor industry. A general disability affecting industries which rely heavily on imports for critical inputs is the need to hold large inventories in view of uncertainty of foreign exchange availability and administrative delays in obtaining permits etc. This raises current costs. In the electrical equipment industry ratio of inventories to total sales is 100 to 120% compared to 10% in West Germany.^{8/} In some industries the excess employment of labour has been a problem owing to (a) employment of superfluous indirect labour, clerical and administrative staff etc. and (b) overmanning of machines owing to unskilled labour and poor management. Labour productivity in electrical equipment industry is stated to be 50% of that in Germany while wages are only 15% lower.^{9/}

A mention has been made above of the effects of monopolistic market showing arrangements in the equipment industry. Limited competition in the manufacturing industries may thus contribute to the opportunities for higher price and exploitation of market imperfections. The number of firms in most of the manufacturing industries is very limited and this combined with excess demand provides opportunities for manipulation of prices and excessive profits. The following tables indicate the frequency distribution of the manufacturing industries in terms of the number of firms in each industry.

Table 8
Frequency Distribution of Number of Firms
by Industry

Group (Number of Firms)	Frequency	Percentage of Total Frequencies
1 - 2	47	40.87
3 - 5	18	15.65
6 - 10	7	6.09
11 - 20	9	7.83
21 - 50	11	9.56
51 and above	16	13.91
Number of firms Not known	7	6.09

In about forty one percent of the industries there are only one or two firms per industry whereas in the case of another sixteen percent there are only three to five firms per industry.

The Tariff Commission usually attempts to equalise landed cost (including tariffs) and the ex-factory price as accepted by the Commission.

It is not only that costs conditions vary as between individual firms but also that there are more than one quotation of CIF prices depending upon the source of import. As far as the differences in the CIF prices of imports are concerned, the attempt is to identify the source from where a large volume of competing imports comes in and, therefore, which provides the maximum competition to the indigenous industry. Usually the attempt is to formulate tariff rates which will protect the industry against the cheaper sources of imports.

The differential tariff rates which the Commission has suggested for various industries, however, do not completely offset the cost disabilities in so far as the high price of the domestic product is due to monopoly profits or due to high profits in the sense that it is higher than normal "profit" as conceived by the Commission or in so far as it is due to the inefficiency of management so that possible economies can be affected. The Commission in a number of cases i.e., in the case of twenty industries has recommended conditional protection i.e., conditional on the industry not charging prices higher than those fixed or considered fair by the Commission on the basis of its investigations. These are cases where the industries are either making excessive

profits owing to absence of competition or where there are opportunities which can be readily exploited in the judgement of the Commission for the reduction of cost. In eleven of these industries, there is only one firm in each and in four there are only two firms in industry.

There are instances where even with high costs the Commission recommended protection because of other considerations such as employment, utilization of domestic raw materials (wide range of consumers goods industries falls in this category, matches, leather products etc.) and saving of foreign exchange. The Commission, on the whole, is averse to raising the price of an intermediate product or a capital equipment since it raises the cost structure of the rest of the industries. Similarly, in the case of essential commodities like drugs or medicines or educational equipments such as slate and slate pencils, it is wary of price raising measures. Often in such cases the measures of assistance suggested are in the direction of reduction of cost mainly via a reduction in duties and taxes which are imposed on raw materials and components and which raise the cost of the finished product.

In recent years, saving or earning of foreign exchange has appeared as an important criterion to decide the eligibility of protection. What is expected of an industry in order to deserve protection is that there should be a net foreign exchange saving. It is not clear, however, from a perusal of the Tariff Commission reports what level of foreign exchange saving was necessary in order to qualify for protection. Nor is there any indication that a comparison is made between different industries seeking protection so that an industry saving more foreign exchange than another industry was preferred. As in the case of price differential so also in the case of this exercise there was no inter-industry comparison to decide on the optimum group of industries deserving protection. The Commission has dealt with each case separately.

The calculation of foreign exchange saving is based on the direct foreign exchange requirements and excludes indirect requirements arising out of inter-industrial demand. Even the estimation of direct - foreign exchange requirements does not include in many cases, remittances of dividends and interest where foreign loans and investments are involved

nor do they include royalties, salaries and fees for foreign patent rights and foreign personnel. Neither does it include, except in a very few cases, the foreign exchange cost of imported capital equipments or at least their annual depreciation. Accordingly the direct foreign exchange requirements are underestimated. In the case of only thirty eight industries data available to estimate foreign exchange saving and this yields the following picture:

Table 9
Foreign Exchange Saving by Individual Industries

Groups (Foreign exchange saving ratio)	Average Price Differential	Average foreign exchange saving ratio	Frequen- cies	Percentage of total frequency
1 - 25	1.99	11.2	5	13.7
25 - 50	1.94	40.3	8	22.2
50 - 75	1.38	62.5	10	28.0
75 - 100	1.42	91.9	13	36.1
			36	100.00

Eighty six percent of the industries yield foreign exchange saving to the extent of 25% or more and sixty four percent of them yield foreign exchange saving to the extent of 50% and more. Foreign exchange saving i.e., difference between the foreign exchange cost of the direct requirements of imported raw materials and the C&F cost of finished product expressed as a percentage of the C&F cost, is positively correlated with the magnitude of price differential. In other words, the greater the extent of foreign exchange saving, the less expensive is the domestic product in relation to its competing import. In a few cases such as Galvanised Iron pipes, steel re-rolling, and pencillin, foreign exchange is negative i.e., the foreign exchange cost of a unit of domestic output is more than the C&F cost of a unit of imported output. In the case of iron pipes and steel re-rolling the C&F cost with which comparison is made is the cheapest available source in the world market whereas the foreign exchange cost of the imported raw material is not based on cheapest quotation in the world

market. This is because raw materials for most of these industries are obtained under the "tied aid", mainly from the U.S. sources, the prices of which are the highest in the world. That is why foreign exchange saving is positive if the C&F price of the import of iron pipe from the USA is compared with the foreign exchange cost whereas it is very low but still positive in comparison with imports from Belgium and negative in comparison with other sources of imports to a varying extent depending on the sources of imports. Similarly, in the case of steel re-rolling whereas in 1951 it yielded a positive foreign exchange saving, the situation changed by 1965 partly because the individual products are different and of a larger variety and are not strictly comparable with the earlier ones and partly because in 1965, the imported raw materials are mainly obtained from the most expensive source i.e., the US under the tied aid. The tariff rates do not have any correlation with the extent of foreign exchange saving since a multiplicity of other considerations affected the fixation of tariff rates i.e., the extent of price differential, the nature of the commodity, depending whether it is an essential intermediate good used in production of a large number of other commodities, and the extent of concessions in terms of a liberal supply of raw material inputs and a reduction and rebate on or an exemption from customs duties on imported raw materials etc.

The Commission held the following in detail all the considerations weighing with it in a particular case, which govern the degree of protection. A glimpse into the methods of operation of the Commission as well as into the complex considerations, beyond the ones mentioned in broad outline in the foregoing, which enter into the decision-making process of the Commission can be illustrated with reference to a few cases in which the Commission happened to take out the reasons for its action. The Commission considered the synthetic stuff manufacturing industry eligible for protection in 1961. The Commission recommended a CIF price of competing import was 1.98. The Commission bases its recommendation for protection on the following considerations: (1) substantial saving of foreign exchange, (2) establishment of an important intermediate goods industry i.e., initiation of an organized chemical industry in the country, (3) attainment of a high quality of the product, training of technicians and access to and transmission of advanced know-how, specially a result of collaboration with the former continental manufacturers of the synthetic dyes and (4) scope for the expansion of both variety and quantity of product. The price of local product was on the decline and protection was expected to accelerate the process of reduction of costs and prices by enabling production at full capacity.

The case of the transformer manufacturing industry is even more illuminating in terms of the range of considerations which tend to constitute the logic of tariff making in Pakistan. The ratio of the ex-factory price to CIF price was 1.62. The Commission considered the transformer manufacturing industry eligible for protection in 1960 on the following considerations:

(a) adequate domestic demand which was expected to increase with an increase in the use of electricity, (b) saving of 40-50% of foreign exchange involved in the importation of an equivalent amount of finished products, (c) good quality and satisfactory standard of performance which was comparable to the imported product, (d) the initiation or introduction of an advanced technology in the Pakistan manufacturing sectors, (e) an integral part of the electrical equipment complex which is being established in Pakistan.

(f) scope for external economies because of the external interdependence with the rest of the electrical equipment industry (g) temporary dumping by foreign suppliers in order to capture the Pakistani market. (h) duties and taxes on raw materials - a cost disadvantage which foreign suppliers do not suffer from and (i) dependence mainly on purchases by Government agencies and public sector enterprises.

It is not clear from the reports and decisions of the Tariff Commission how it weights the multiplicity of considerations. No proper weights are attached to these various grounds for eligibility of protection. There is a room for judgement and initiative.

The Tariff Commission does not rank the industries by their relative cost disadvantages (as reflected in the ratios of ex-factory to CIF prices) and then decides to cut off those industries in the case of which the extent of cost disadvantage exceeds a certain level. It does not have a predetermined level of cost disadvantage which it feels should be offset and beyond which the cost to the society or to the consumer is considered excessive.

This does not, however, preclude, the Commission in judging in individual cases, on an adhoc basis that the level of required protection is excessive.

In the case of transformer industry, the Commission felt that the following cost disabilities need to be offset adequately: (a) high freight and clearance charges as well as taxes and local duties on raw materials components and (b) the need to keep large inventories and consequent high packing charges, warehousing charges and interest charges etc. (c) high cost of fuel and (d) possibility that foreign producer may manipulate prices by quoting specially low prices for exports.

The Commission's concept of and attitude to excessive protection may be illustrated by the case of the industry producing vitamins (Vitamin A). To quote: (1) "The Commission has given considerable thought to this industry set up by Messrs Glaxo Laboratories (Pakistan) Ltd. When this unit was sanctioned it was provided in the sanction letter that the price of the item to be produced "will be reasonable and competitive". An examination of the cost structure has indicated that Vitamin A in oil which is the bulk of the production of the unit and is used mostly in Vegetable ghee industry, is 115% more expensive than that imported from the U. K.

requiring a protective (preferential) rate of duty of 332%. The Water Miscible solution is 413% more expensive than the imported solution requiring a protective duty of 487%.^{1/} The foreign exchange component in Vitamin A is oil on account of the raw materials and royalty alone works out to Rs. 0.15 per mega unit. The repatriable profit at the net rate of 10% on the foreign investment, and depreciation on the foreign exchange component of the plant and machinery is taken into account, the total foreign exchange component works out to Rs. 0.18 per mega unit as against the C&P quotation of Rs. 0.172 per mega unit from Germany. In addition there would be other invisible remittances of foreign exchange in the form of salaries to foreigners employed by this company. The Commission has also observed that out of four stages required in the processing of this item, the local unit is doing only the fourth stage of the processing after importing the intermediate from its principals. No other source of import is possible as the process and the intermediate are reported to be the patent of the parent company. Taking into account all the circumstances and in particular the high foreign exchange cost involved in the local production vis-a-vis imports, the Commission is not in a position to recommend anti-right protection to this industry at the present stage, unless its cost structure is revised and the foreign exchange component reduced appreciably.

(2) As a measure of immediate assistance, however, the Commission recommends that the unit may be given full rebate of customs duty on all the imported raw materials in excess of 6½% a.v. when imported from U.K. and 12½% a.v. when imported from other sources, that is, the same rate of duty should in the end be chargeable on the raw materials as would be chargeable on the finished product. Along with this no sales tax should be charged on any of the component raw materials since the finished imported product does not pay any sales tax.

The Commission in its analysis and recommendations like many other Commissions concerned with tariff-making in various parts of the world does show an awareness of the fact that import duties on the inputs of

^{1/} The relative expensiveness of domestic product is calculated in comparison with landed cost including present rates of duty. The required rate of protection is with reference to CIF price.

intermediate products and raw materials and components constitute a tax on the finished product whereas a duty on the imports of finished products is a subsidy so that the net protective effect on a particular industry is compounded of these two elements. It is also true that the Tariff Commission does not formulate its ideas in a conceptual form which would have enabled it to calculate the net protection to value coded in each industry in view of its various recommendations. The concept of net effective protection does not appear either in its analysis or recommendations. In many cases, it recommends import duties on finished products and exemption from or rebates on customs duties with respect to raw materials and components with a view to reducing the cost of domestic production, on the one hand, and raising the price of the imported product in the domestic market, on the other.

The Commission's recommendations relate not only to the level of protective duty but also to the restriction of imports, including a complete ban on imports. Among the range of measures designed to increase the price of imported product, the Commission often considers restriction on imports as an effective method of dealing with the problems of foreign competition. In fact the level of protective duty suggested is a function of the extent of restrictions on imports, in cases where it recommends restrictions on imports, and of the concessions in duties on raw materials. While the cost-reducing effect of the latter measure is often calculated, the price increasing effect of import restrictions recommended by it is seldom quantified since the latter is by its very nature difficult to undertake.

A qualitative analysis of the Commission's recommendations on import restrictions and concessions in cases on raw materials is given below:

Year	Total number of cases	Number of cases		
		Ban on imports	Increased import restrictions	Exemptions on duties on raw materials & components
1951-55	59	1	6	13
1956-60	24	4	4	9
1961-66	62	13	8	9

Throughout the whole period quantitative restrictions have been in force in varying degrees on all imports so that even in the cases where the Commission does not recommend import restrictions, there are in fact import restrictions nonetheless. The Commission's recommendations are designed to strengthen and reinforce these restrictions by increasing their severity. The outright ban on imports as a recommended measure has become more important only in the latter period whereas concessions to raw materials has become relatively less important in the latter years.

Conclusion

The preceding pages purport to throw light on the comparative costs of the Pakistani manufacturing industries on the basis of a direct investigation and analysis of ex-factory prices of industrial products vis-a-vis the prices of the competing imports. In cases where CIF prices are many and various, the ex-factory price is usually compared with all of them and an average of these ratios have been used in the study to represent the price differential. Even though only 115 industries over a period of thirteen years have been investigated it is necessary to point out that each of the industries, inspite of the fact that they have been narrowly defined, represent frequently not one but a number of products. A summary table is reproduced below to indicate the number of products covered in the present analysis.

<u>Total Number of Products</u>	
<u>Year</u>	<u>Number of Industries</u>
1951-55	29
1956-60	24
1961-66	62
	<u>115</u>
<u>Year</u>	<u>Total Number of Products</u>
1951-55	99
1956-60	73
1961-66	179
	<u>351</u>

Thus in fact over 351 products have been investigated. The hundred fifteen observations on price differentials are in fact averages of commodities.

Under conditions of equilibrium in the balance of payments, and free trade, the ratios of domestic to foreign prices should be equal to one converted at the prevailing rate of exchange, if the rate of exchange is the equilibrium rate. The divergence between cost ratios from unity may be said to reflect the disequilibrium in the rate of exchange. Price differentials reflect the relative overvaluation of the official rate of exchange. The rates of exchange, implicit in the price differentials, given the official rates of exchange which is since 1955 equal to Rs. 4.75 per dollar are as follows:

Average Implicit Rates of Exchange

	Average Comparative Cost Ratios		Implicit Rates of Exchange	
	Without Indirect Tax	With Indirect Tax	Without Indirect Tax	With Indirect Tax
1959-60	1.44	1.54	6.86	7.33
1961-66	1.87	2.12	8.51	10.09

This set of implicit rates of exchange may be compared with those which are implied in the export bonus scheme under which exporters receive 20 to 30% of their export earnings which fetch 150% premium in the free market where these entitlements to foreign exchange are treated

Implicit Rates of Exchange for Exports Under the Bonus Scheme

Bonus Percent	Rate of Exchange (150% premium)
20%	6.19
30%	6.91

The structure of multiple exchange rates which emerges from above indicates that the import substitution receives a greater incentive than the export expansion. It is pertinent to remember not only that the present sample is small but also that the implicit rates for imports in the present study have been estimated on the basis of a direct comparison between ex-factory prices and the cif prices.

Throughout the whole period quantitative restrictions have been in force in varying degrees on all imports so that even in the cases where the Commission does not recommend import restrictions, there are in fact import restrictions nonetheless. The Commission's recommendations are designed to strengthen and reinforce these restrictions by increasing their severity. The outright ban on imports as a recommended measure has become more important only in the latter period whereas concessions to raw materials has become relatively less important in the latter years.

Conclusion

The preceding pages purport to throw light on the comparative costs of the Pakistani manufacturing industries on the basis of a direct investigation and analysis of ex-factory prices of industrial products vis-a-vis the prices of the competing imports. In cases where CIF prices are many and various, the ex-factory price is usually compared with all of them and an average of these ratios have been used in the study to represent the price differential. Even though only 115 industries over a period of thirteen years have been investigated it is necessary to point out that each of the industries, inspite of the fact that they have been narrowly defined, represent frequently not one but a number of products. A summary table is reproduced below to indicate the number of products covered in the present analysis.

<u>Year</u>	<u>Number of Industries</u>	<u>Total Number of Products</u>
1951-55	29	99
1956-60	24	73
1961-66	62	179
	<u>115</u>	<u>351</u>

Thus in fact over 351 products have been investigated. The hundred fifteen observations on price differentials are in fact averages of commodities.

However, if the implicit rates for imports are derived on the basis of a wide range of the existing tariff rates, they range from Rs. 5.7 per U.S. dollar to Rs. 14.25 U.S. dollar. The rates for imports which are allowed under the export bonus scheme would be much higher but then they constitute only about 5% of total imports. The gap between the rates for imports and exports would be narrower if one considers that the implicit rates for exports would go up once an account is taken of the various other incentives for exports given in the form of (a) exemptions on sales and excise taxes on the industrial output which is destined for export, (b) exemption from income tax on earnings from exports, (c) special import licensing for export industries (the premium on these import licensing varying between 75% and 100%) and (d) concessional freight rates for movement to ports etc. Moreover, there still exists a greater diversity in the implicit rates of exchange for imports as evidenced in the tariff structure and differential import licensing. Since most of the industrial exports receive 30% bonus, there is a greater uniformity in the extent of export subsidy received by the manufacturing industries.

One may ask whether the multiple import rates existing at present tend to promote an efficient group of industries from the point of view of demand and comparative

costs in Pakistan. A uniform tariff implying a uniform effective rate of protection has the advantage that under such a scheme those industries benefit the most which produce the import substitutes at the least cost in Pakistan and which also produce the closest substitutes for imports, so that demand for the latter can most easily be met from domestic source. The most efficient industry will thus develop and expand the fastest. It may be argued that only a general level of protection is necessary to overcome the general inefficiency of the young economies like Pakistan which are due to such factors as inadequate infrastructure, low purchasing power and limited market, absence of organised capital market and high cost of credit and inefficient marketing facilities, low capitalisation and low level of managerial and supervisory skill.

In view of all these factors, the general level of desirable protection which constitutes the primary expression of the protectionist policy of the Government must be determined on the basis of general economic and industrial policy. However, deviations from a uniform protection can be justified in economic, social and strategic factors. Tariffs can not be drawn up in a vacuum and the existence of vested interests and distortions cannot be ignored. In addition, the existence of differential external economies and differential divergence between private and social costs etc. justify departures from uniform protection, though these difference are admittedly difficult to quantify. At least what one can hope for is to ensure that deviations from a tariff structure which are dictated by non economic reasons are kept to the minimum.

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One may legitimately enquire whether such high costs as evidenced in the majority of the industries provide any basis for judgement as to the selection of industries i.e., for an optimum pattern or strategy of industrialisation. It is conceivable to postulate a limit to the excess of domestic costs over the prices of competing imports which it is appropriate to bear as a necessary cost of industrialisation in a developing economy. The limit of the permissible cost differential may, for example, be set at 50% or 70% above the cif price of the competing imports. The extent of cost disability which a country is willing to subsidise is partly a matter of judgement regarding a progressive reflection overtime in the extent of cost disability. Once an appropriate and socially desirable rate of subsidy for the promotion of industries is determined, it may be conceivably suggested that industries which suffer from a cost disadvantage high than the permissible limit may not be suitable for development in Pakistan.

One may argue that the permissible limit of cost disability is also affected by a number of other factors such as distortions in domestic factor markets and divergence between social and private costs some of which may arise from external effects of industrialisation etc. There may be non-economic arguments such as the provision of security and defence potential. While a policy of domestic taxes and subsidies may be the best way of dealing with these factors, such a policy may not appear feasible in a given situation of an underdeveloped economy like Pakistan with the deficiencies in its fiscal system. The second best method under a given set of circumstances may still be a resort to tariffs.

It is also necessary to consider the existing life of an infant industry at the time when its cost ratios are examined, since

the infant industries in the early stages are likely to suffer from higher cost ratios than those at the later stages of development

For a number of industries for which the data on the cost ratios over a number of years are available, the evidence indicates that the cost ratios are on the decline a la infant industry argument. However, the sample is very small. A more detailed study, industry by industry, overtime is necessary to throw more light on the ability of the Pakistani industries to overcome their initial cost disadvantages.

Moreover, while analysing the cost disadvantages of the Pakistani industries it is also necessary to examine extent to which the high costs are due to high wages, high profits, and high costs of purely domestic i.e., non-traded inputs such as power and transportation facilities. Some of these factors have been identified in the case of a number of industries. The high cost of infrastructure such as power etc. is more or less common to all Pakistani industries. It may be argued that the best way of dealing with the high cost of domestic inputs as distinguished from traded inputs is to subsidize the cost of such inputs rather than to compensate by tariffs on industries using more intensively these inputs. To the extent that the high costs in the specific industries are due to high wages or high profits in these industries, this indicates not so much an inefficiency in the use of inputs in these industries but a transfer from the rest of the community to the entrepreneurs or to the workers engaged in these industries. The present study does not throw light on the differences in wage costs as between different industries due either to the trade union activities or to the government's wage policy. In a number of cases the ex-factory prices estimated by the Tariff Commission are fair prices in the sense that high profits are not included in the prices and, therefore, in the comparative cost ratios.

However, the Tariff Commission has allowed in the cost estimates accepted by it the rates of profits which varied from 12 per cent on invested capital in the earlier years to about 20 per cent of the invested capital in the later years. The comparative cost ratios in the later years insofar as they are based on fair prices estimated by the Tariff Commission are partially affected by the upgrading of the permissible profit margins.

The selection of an appropriate industrial program and its implementation needs the use of a number of instruments only one of which is tariffs. Rational tariff policy has to be framed within context of general economic programming. While it is true that tariffs have been swamped in their protective effects by import restrictions, yet there have been occasions when they have been important. An increasing reliance on market mechanism for the regulation of imports, which Pakistan professes as a goal of policy, necessitates more important role for tariffs than has been true hitherto. The differential tariff structure of Pakistan is only partly a result of the recommendations of the Tariff Commission since a large majority of tariffs which have serious protective effects have been determined and changed by administrative, revenue and balance of payments considerations. So long as quantitative restrictions remain, it is important to have a proper integration between the two. Indeed, if and when the variability of exchange rate is considered, there need be a coordination between all the three instruments i.e. tariffs, import restrictions to the extent that they

persist, and exchange rate policy. They at least have one aim in common, i.e. to promote an optimum and efficient pattern of import substitution in Pakistan. Indeed each one of these instruments of policy have other objectives as well but they need to be reconciled with each other by means of a socially determined consistent set of objectives and priorities.

One way of evaluating the relative efficiency of the Pakistani manufacturing industries is to analyse their performance in the competitive export markets. The manufactured exports of Pakistan have been receiving various kinds of incentives for the past many years such as exemptions from excise and sales tax, rebate on income tax on profits earned from exports, special and additional import licensing to industries on the basis of their export performance and above all, since 1959 the export bonus scheme. The combined quantitative significance of all the diverse forms of export incentives for different categories of exports is not known. However, the most important form of incentive is the export bonus scheme. The scheme itself has undergone changes over the years since its inception in 1959 in terms of the rates of bonus as well as in terms of commodities covered by the bonus.

By 1963-64 the bonus system has been considerably simplified by the establishment of only two rates. The vast majority of the manufactured goods receive bonus at the rate of 30%. The industries which receive very widely different tariff protection, implying wide differences in the comparative cost positions of the different industries vis-a-vis the cost of competing imports, receive the same rate of export bonus. This seems paradoxical. The different rates of tariff rates, both nominal and effective rates, corresponding to each of the three rates of bonus are show below:-

Table 10

Bonus and Tariff Rates^{19/}

<u>Bonus (Percentage)</u>	<u>Range of Nominal Rates</u>
0	0, 14.57 and 100
20	62, 70 and 130
30	14.40, 43.80, 79.47, 109.57, 199.67 (5) (5) (15) (7) (6)
<u>Bonus (Percentage)</u>	<u>Range of Effective Rates</u>
0	-60, -55, 28, 40
20	20, 92, 109
30	-13, -10, 15.17, 39.00, 78.55, 123.00, 240.43 (1) (1) (6) (5) (11) (6) (8)

To each bonus rate there corresponds a wide range of tariff rates both, nominal and effective. Only a very few industries, three among all the industries analysed here, receive 20% bonus. The industries which receive 30% bonus rate operate under a very wide variety of tariff rates. The nominal rates for these items vary from 14% to 200% and the effective rates vary from 13% to 240%.

The logic behind the argument for uniform tariff to overcome the general cost disability of the young industrialising economies seems to have been accepted by the framers of the export bonus scheme. It may be mentioned that in the recent revisions of the import tariff schedule of Pakistan, a considerable simplification has also been attempted. The multiplicity of tariff rates has been reduced but they are still considerably more than the simple system of two rates of the export bonus.

The relative export performance of the different manufacturing industries in Pakistan in the last decade can be seen as follows:

To each bonus rate there corresponds a wide range of tariff rates both, nominal and effective. Only a very few industries, three

Table 11

Export Performance of Manufacturing Industries^{1/}

Industry	Export f.o.b. 1954-55	Percentage increase during 1955-60	Export f.o.b. 1959-60	Percentage increase during 1960-64	Export f.o.b. 1963-64	Percentage of exports distribution subsidy by Bonus Scheme 1963-64	Effective Rate of protection 1963-64
	Thousand Rupees						
Sugar Manufacturing	-	-	4,496	137	10,636	0.96	45
Edible oils	-	-	-	-	17,321	1.56	45
Tea Manufacturing	40,547	- 13	35,490	-	22	0.00	0
Food manufacturing n.e.c.	809	1,321	11,493	291	14,781	1.33	45
Beverages	3	-	3	4,733	145	0.01	45
Tobacco manufacturing	11	1,390	175	1,914	3,524	0.32	45
Cotton and other textile	6,126	4,966	310,341	20	249,609	22.52	45
Jute Textile	49,020	513	300,311	54	461,480	41.62	30
Silk and art silk textiles	-	-	7	900	245	0.02	45
Footwear	n.a.	-	n.a.	-	19,445	1.75	45
Wood and furniture	273	2	277	69	468	0.04	45
Paper manufacturing	30	3,113	964	920	9,838	0.89	45
Printing and publishing	208	420	1,081	46	583	0.05	45
Leather manufacturing	32,366	398	161,045	8	147,442	13.30	45
Rubber and Rubber goods	9	3,955	365	1,225	4,835	0.44	45
Soap and Perfumes etc.	23	3,713	877	1,594	14,852	1.34	45
Matches	-	-	-	-	-	-	45
Chemicals and pharmaceuticals	3,974	250	13,909	93	26,800	2.42	45
Petroleum and coal manufacturing	10,326	69	1,023	57	7,503	0.55	0
Non-metallic minerals manufacturing	427	119	745	484	5,462	0.44	45
Basic metal industries)	45)	2,642)	1,000)	60)	13,275)	1.20	45)
Metal products)	1,808)	292)	7,094)	-)	-)	-)	45)
Machinery except electrical	1,201	- 7	1,114	664	8,514	0.77	45
Electrical machinery and equipment	161	- 62	61	11,788	7,252	0.65	45
Transport equipment	1,187	1,008	11,963	52	18,133	1.64	45
Miscellaneous manufacturing industries	5,802	430	30,791	116	66,578	6.00	
					11,08,743	100.00	

^{1/} Data on exports industry-wise are from: Lewis, S. R. and Ronald Soligo: Growth and Structural Changes in Pakistan's Manufacturing Industry, 1954-64, Pakistan Development Review, Vol. V, No.1, Spring 1965, pp. 122-126.

The most important manufactured exports of Pakistan still are jute textiles, cotton textiles and leather manufacturers in that order of importance. The effective rates of protection received by them are 92%, 147% and 80% respectively whereas the export subsidy received by them is to the extent of 30%, 45% and 45% of the F.O.B. value of their exports. The effective rate of protection is higher than the export subsidy. The jute textiles are in a separate category since Pakistan does not face any competition in the home market from imports of jute textiles from abroad. The tariff rate has no protective significance. It might have reflected the comparative cost position of the jute industry if it was related to the differences in the cost of production of the jute textile between India and Pakistan. But this does not appear to be the case. What is more important is to analyse the performance of a wide variety of the minor manufactured exports, which represent the growing complexity and diversity of the industrial structure in Pakistan. The export items which are of growing importance are chemicals and pharmaceuticals (2.42%), footwear (1.75%), edible oils (1.56%), transport equipment (1.64%), soap and cosmetics (1.24%), miscellaneous food preparations (1.33%) and metal products (1.20%) etc.^{1/} While in the case of chemicals and pharmaceuticals and soap and cosmetics the effective rates of protection are negative and unity respectively, in the case of other items the effective rate varies from 20% to 192%.

The cases where the tariff rates are much higher than the export subsidy, one may conclude that the industries are over protected implying that the tariff rates overestimate the price differential between the foreign and domestic products or that the exporters practise price discrimination between the home and export markets. It may also imply a factor which is of considerable importance but is of unknown magnitude i.e. that the rest of the complex system of export incentives constitutes a subsidy additional to the subsidy implied in the bonus. Even apart from export performance licensing (one estimate)

^{1/} The percentage in brackets indicate the proportion which these items constitute of the total manufactured exports reported in Table 11.

puts the premium on export performance license at 50%) there are other gains received by the manufacturers who are successful in export markets in terms of a favourable treatment in the matter of expansion of capacity, modernization and balancing of equipment and all the other benefits which can be obtained from a favourable and speedy action in respect of a host of government controls and patronage which operate in the field of industrial investment and operation in Pakistan.

However, a more satisfactory analysis of export performance of the protected industries and a judgement as to whether in the light of export performance and a reasonable quantification of multifarious export subsidies, including the export bonus scheme, the protective rates are redundant or inadequate, as the case may be, is possible only after a much more detailed and disaggregative analysis of exports and tariff rates. The aggregative nature of the above data based on the earlier studies precludes at the present moment a definite answer. But they certainly raise questions which a subsequent study of an interrelation between commercial policy and industrialization can usefully explore.

Footnotes

- 1/ Pal, Mati Lal, "The Determinants of Domestic Prices of Imports", Pakistan Development Review, Vol. IV, Winter 1964, Number 4, pp. 597-622.
- Soligo, Ronald and Stern, J.J., "Tariff Protection, Import Substitution and Investment Efficiency", Pakistan Development Review, Vol. V, Summer 1965, No. 2 pp. 249-270.
- Pal, Mati Lal, "Domestic Prices of Imports in Pakistan: Extension of Empirical Findings", Pakistan Development Review, Vol. V, Winter 1965, No. 4, pp. 457-585.
- Soligo, Ronald and Stern, J.J., "Some Comments on the Export Bonus, Export Promotion and Investment Criteria", Pakistan Development Review, Vol. VI, Spring 1966, No. 1, pp. 38-56.
- Papanek, Gustav F., Soligo, Ronald and Stern, J.J., "Tariff Protection, Import Substitution, and Investment Efficiency: A Comment", Pakistan Development Review, Vol. VI, Spring 1966, No. 1, pp. 105-119.
- Ellsworth, P.T., "Import Substitution in Pakistan, Some Comments", Pakistan Development Review, Vol. VI, Autumn 1966, No. 3, pp. 395-407.
- 2/ Stephen R. Lewis, Economic Policy and Pakistan's Industrial Growth, Unpublished Manuscript, 1966. Table 1, Chapter IV, page 5.
- S.R. Lewis and R. Soligo, "Growth and Structural Change in Pakistan's Manufacturing Industry 1954-64", Pakistan Development Review, Vol. V, No. 1, Spring 1965, Appendix 'A'.
- Consumption Goods include Sugar Manufacturing, Edible Oils, Tea Manufacturing, Food Manufacturing (MEC) Beverages, Tobacco Manufacturing, Cotton and other Textiles, Silk and Art Silk Textiles, Footwear, Wood & Furniture Manufacturing, Printing and Publishing, Soaps, Cosmetics, Matches, and Miscellaneous Manufacturing.

Intermediate Goods include Jute Textiles, Paper Manufacturing, Leather Manufacturing, Rubber & Rubber Products, Fertilizer, Chemicals & Pharmaceuticals, and Petroleum and Coal Products.

Investment & Related Goods include Nonmetallic Mineral Products, Basic Metals, Metal Products, Machines Except Electric, Electric Machinery and Equipment, and Transport Equipment.

3/ a) Unweighted (b) Gross domestic output as weights and (c) total domestic absorption as weights. The rates for individual industries taken from S. Lewis Op.Cit, Chapter II, p. 16. Weights are taken from S.R. Lewis and R. Soligo "Growth and Structural Change in Pakistan's Manufacturing Industry", Pakistan Development Review, Spring 1965.

4/ Weights are the total domestic availability in value terms of each of the commodities. The data on nominal and effective protection rates are obtained from S.R. Lewis, Op Cit, Unpublished manuscript, 1966. The data on availability are obtained from "The Methodology of Estimating Import Requirements" Government of Pakistan, Planning Commission, March 1965.

5/ An example of such an analysis is the measurement of implicit protection by Stern and Soligo, in which a simple average of the tariff rates by groups of industries are used to derive both nominal and effective rates of protection. Such an analysis by groups of industries has the disadvantage of aggregation which hides significant differences within the sub-groups, specially since the tariff rates for the groups are unweighted averages of the tariff rates on the sub-groups or individual industries in each group. A disaggregative analysis at a particular industry level, therefore, is expected to yield a more accurate picture. Soligo, R. and Stern, J.J., "Tariff Protection, Import Substitution, Import Substitution and Investment Efficiency", Pakistan Development Review, Vol. V, Summer 1965.

- 6/ The standard deviations of these three averages are (0.64), (0.51) and (0.98) respectively.
- 7/ Ministry of Economic Affairs, Government of Pakistan, Report of the Economic Appraisal Committee 1957, p. 104-105.
- 8/ IBRD. The Industrial Development of Pakistan, June 1966, p. 98-116.
- 9/ Ibid.
- 10/ The tariff rates, both nominal and effective, corresponding to 30% bonus rate, are the averages of individual tariff rates which are divided into five groups of tariff rates as follows: (0-30), (30-50), (50-100), and (150 and above). This has been done to reduce the number of tariff rates. The figures within the brackets indicate the number of rates to which the average relates. R. Soligo and J.J. Stern "Some Comments on the Export Bonus, Export Promotion and Investment Criteria" Pakistan Development Review, Spring 1966, pp. 38-56.
- 11/ The percentage in brackets indicates the proportion which these items constitute of the total manufactured exports reported in Table 11.

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