This report is restricted to those members of the staff to whose work it directly relates.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

ECONOMIC REPORT ON PAKISTAN

August 15, 1950

Economic Department
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H. E. Tolley
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PAKISTAN

Basic Statistics

Area

360,780 square miles

Population (1948 est.)

80 million

Currency

Unit

Pakistan rupee

Parity

US $1 = Rupees 3.318

Balance of Payments (Excluding India) (Provisional Figures)

(Rupees Million)

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Receipts, Current Account</td>
<td>812</td>
<td>979</td>
</tr>
<tr>
<td>Payments, Current Account</td>
<td>1323</td>
<td>1278</td>
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<tr>
<td>Deficit</td>
<td>511</td>
<td>299</td>
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Trade Statistics (Est.)

<table>
<thead>
<tr>
<th></th>
<th>1949</th>
<th>1950</th>
</tr>
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<tbody>
<tr>
<td>Exports</td>
<td>1923</td>
<td>1552</td>
</tr>
<tr>
<td>Commercial Imports</td>
<td>1,708</td>
<td>1278</td>
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<tr>
<td>Government Imports</td>
<td>1,16</td>
<td>337</td>
</tr>
<tr>
<td>Total Imports</td>
<td>2,124</td>
<td>1,615</td>
</tr>
<tr>
<td>Balance</td>
<td>-131</td>
<td>-63</td>
</tr>
</tbody>
</table>

Budget

1949/50 (Rev.) 1950/51 (Est.)

<table>
<thead>
<tr>
<th></th>
<th>1949/50 (Rev.)</th>
<th>1950/51 (Est.)</th>
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</thead>
<tbody>
<tr>
<td>Ordinary Receipts</td>
<td>754</td>
<td>753</td>
</tr>
<tr>
<td>Ordinary Expenditure</td>
<td>752</td>
<td>772</td>
</tr>
<tr>
<td>Capital Expenditure</td>
<td>542</td>
<td>385</td>
</tr>
<tr>
<td>(of which defense Capital Outlay)</td>
<td>(247)</td>
<td>(250)</td>
</tr>
<tr>
<td>Deficit (over-all)</td>
<td>540</td>
<td>402</td>
</tr>
</tbody>
</table>
Basic Statistics (cont.)

<table>
<thead>
<tr>
<th>Public Debt</th>
<th>(Rupees Million)</th>
</tr>
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<tbody>
<tr>
<td>Government Bonded Debt (March 31, 1950)</td>
<td>859</td>
</tr>
<tr>
<td>Treasury Bills Outstanding (Jan. 31, 1950)</td>
<td>125</td>
</tr>
<tr>
<td>External Debt to India (Est.)</td>
<td>Indian 2000</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Reserves</th>
</tr>
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<tbody>
<tr>
<td>Gold (June 23, 1950, in US$ at $35 per ounce)</td>
</tr>
<tr>
<td>Foreign Assets (June 23, 1950)</td>
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</table>
1. Pakistan was established as an independent Dominion by the partition of the Indian Sub-Continent on August 15, 1947. Of its estimated population of 80 million, around 47 million live in the very densely populated East Pakistan and around 33 million in West Pakistan. More than 80% of the working population is engaged in agriculture. Pakistan normally has an overall surplus in breadgrains but some deficit in sugar and a few other food items. Its agriculture supplies a large export surplus of two important cash crops—raw jute and raw cotton—and also a surplus of raw wool, hides and skins, and tea. Pakistan has a relatively small industry. It has to import most of the industrial products, textiles being the largest item.

2. Pakistan's economy is underdeveloped by Western standards but various possibilities for economic development exist. Agricultural production can be increased substantially, by more modern methods and by irrigation. Various agricultural industries can be expanded, for instance production of sugar and vegetable oil. Moreover, the country has possibilities for developing or expanding a number of light industries such as cotton, jute, and paper industries and of increasing its production of electrical power in connection with some of the planned multi-purpose schemes. Since partition some progress has been made in developing industry especially cotton textiles, sugar, and vegetable oil production. The jute baling capacity has been substantially expanded. Work on various irrigation projects has continued.
3. Real and financial resources which might have gone into economic development have been absorbed by defense expenditures resulting from strained relations with India which have been a heavy burden on the country. They have dominated the Government budgets in 1948/49 and 1949/50 to the extent of 52% of the overall expenditure of Rs. 1,185 million and of 60% of Rs. 1,294 million, respectively. Funds available for economic development have been necessarily limited by this factor. The budget estimate for 1950/51, which shows a deficit of Rs. 402 million, envisages a defense expenditure of Rs. 750 million which again represents 64% of the overall budgetary expenditure of Rs. 1,157 million. Development expenditure has been further reduced to Rs. 207 million (against Rs. 295 million in the previous year).

The Government had no great difficulty in financing the deficit which totalled Rs. 812 million in the last two fiscal years because, in contrast to India, it was able to raise substantial amounts by public borrowing. As a result, the Government balances with the Central Bank of about Rs. 560 million were left practically unchanged during this period.

4. The current balance of payments shows a sizable deficit. During the period July 1948 to June 1949 the balance of payments with countries other than India showed a deficit of Rs. 511 million (= $153 million) and a surplus with India estimated at Rs. 247 million (= $74

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Based on a statement prepared by the Reserve Bank of India.
Balance of trade with countries other than India has substantially improved during the year July 1949-June 1950. The deficit was reduced by nearly 50 per cent. However, although exports to countries other than India have increased, trade with India has declined so much that the overall foreign trade decreased probably by one fourth as compared with a year before.

5. The balance of payments deficit was financed by drawing on the country's sterling balances. From October 1948 to the end of 1949 Pakistan's sterling balances were reduced by about £ 36 million. They have further declined in the first half of 1950 and stood at about £ 85 million at the end of June 1950. Pakistan claims additional sterling balances of around £ 35 million from India. The total net deficit with the hard currency countries during 1948/49 equivalent to £ 6 million, was met by releases from the central reserve of the sterling area.

6. In September 1949 Pakistan decided not to devalue its currency. Consequently, it has been necessary to adjust to the world market by bringing down export prices in local currency terms. This is not an insuperable difficulty in a country with a simple economic structure such as Pakistan, and where prices are relatively flexible. The prices of jute, cotton, and tea have declined until March 1950 by 20%, 16%, and 15% respectively as compared with the pre-devaluation
level. In addition, as a result of a good harvest, prices of the staple foods, rice and wheat, are substantially lower than last year's. Pakistan's position was, however, made more difficult by India's refusal to recognize the new premium of 4½% on the Pakistan rupee, which resulted in a complete trade deadlock between India and Pakistan. Pakistan was faced at once with the task of re-orienting nearly 60% of its commercial trade in order to find alternative markets for cotton, wheat, raw jute, hides and skins, and to purchase elsewhere many commodities regularly supplied by India. It may be estimated that as a result of the unsettled trade relations Pakistan's exports to India dropped from Rs. 1,170 million in 1948/49 to Rs. 500 million in 1949/50 and imports from India from Rs. 830 million to less than Rs. 400 million. This decline could not be offset by increased trade outside India. Trade with the U.S. also declined during the first five months of 1950.

7. As far as cotton is concerned, Pakistan has been able to export outside India nearly its whole export surplus; its cotton finds a good market even at a premium price because it can be purchased for sterling. However, of the 1,000,000 tons of wheat purchased for export by the Government of Pakistan, not more than 100,000 tons have been exported because of the high price.

In the case of raw jute a really acute problem has arisen. In 1948/49 raw jute represented nearly 60 per cent of Pakistan's total exports. India has refused to pay the minimum price determined by the Government of Pakistan which, calculated at the mills at Calcutta,
would be about 20% higher than the maximum price fixed by the Government of India.

Pakistan hoped to increase substantially its jute sales outside India. However, there are severe physical limitations upon the quantity which can be baled and moved through the Port of Chittagong. In spite of various emergency measures, an immediate increase of the Port's capacity above $2\frac{1}{2}$-3 million bales is doubtful.

Because on both sides a strong need for an arrangement on jute was felt, a stopgap trade agreement was reached in April providing for the sale to India of 800,000 additional bales of raw jute, mostly of low quality, at prices near the Indian maximum price.

This will bring raw jute exports to India to around 2.4-2.5 million bales until the end of July, while exports outside India will not exceed the 1948/49 figure of 1.9 million bales. According to the latest unconfirmed estimates of Pakistan sources, this should leave the country with no undue carryover at the end of the season. But without exports to India, Pakistan would have been left with a very large undisposable surplus in jute with inadequate storage facilities.

8. The trade agreement signed in April is an important step in solving one aspect of the mutual difficulties. It dealt, however, with only a fraction of the trade problem confronting the two countries. In exchange for raw jute India was to export to Pakistan jute manufactures, cotton textiles, vegetable oils and other manufactures. But no mention was made of exports of raw cotton from
Pakistan or coal from India. Furthermore, it is not possible to
know at this stage how this agreement has in fact worked out.

9. If trade with India could be fully re-established and the
relations between Pakistan and India became more normal, Pakistan
would be able to concentrate on economic development. A Develop-
ment Board which was established in 1948 to coordinate the planning
of economic development has so far approved 105 schemes related
primarily to irrigation, reclamation of land, production of electrical
power, building up the Chittagong Port, and to establishing of some
industries. The Government intends to spend on development about
Rs. 300 million yearly during the next five years. The Government's
assumption that it will be able to find the necessary local financing
will be justified if the heavy military expenditures decline. About
half of the planned investment cost would be in foreign exchange. The
Government hopes to meet a substantial portion of it from foreign
loans.

10. Assuming a comprehensive trade arrangement and an improve-
ment of political relations with India, Pakistan, relieved from the
pressure of heavy external and internal defense expenditures, should
be able to achieve an overall trade and balance of payments surplus,
although this would probably not suffice to finance imports for
various development projects planned for the next few years. Assum-
ing competitive prices, the prospects for the main Pakistan exports
appear favorable. A substantial trade surplus is probable with the sterling area. Pakistan's trade position with India is very strong and an export surplus is very likely if India again purchases the needed raw materials and food from Pakistan. Pakistan, whose only foreign debt is that to the Government of India estimated at Indian Rs. 2 to 3 billion, should be able to provide $3 million to $5 million annually for a debt service.

Pakistan's balance of trade position with the United States, which showed a deficit of $17.6 million in 1949 (it had a surplus of $0 million in 1948), is not so favorable. The most important export item is raw jute followed by wool, hides and skins, and cotton. Of the 1949 exports raw jute accounted for $16.5 million as compared to U.S. total imports of raw jute of $23.5 million. Assuming that Pakistan supplies the major part of the U.S. jute requirements which are estimated at 350,000 to 400,000 bales yearly, partly replacing the supply from India, and that it increases exports of some other products, Pakistan's exports to the U.S. may easily reach $30 million yearly in the near future. When Pakistan has built its jute mills, it can be expected that some jute manufactures will be shipped to the U.S. either in cooperation or in competition with the Indian jute industry. If exports of around $30 million are maintained and if Pakistan keeps control of imports from the U.S., it may achieve a balance of payments surplus of $3 million to $5 million yearly in
the near future which would be available for servicing of a dollar loan on the assumption that imports of capital goods are financed by foreign loans.

11. Pakistan's position would be much less favorable should trade relations with India not be carried out at least to the extent of the temporary trade agreement. If a trade deadlock should develop, which is unlikely, Pakistan's foreign trade would be reduced in the near future and this would probably bring about a decline in the standard of living in East Pakistan. The country would therefore have to intensify its efforts to increase trade with countries outside India. It is doubtful that it would be possible to export outside India more than 3 million bales of raw jute in the near future and to find markets for various other products usually purchased by India. The decline of exports might amount to as much as Rs. 1,000 million (about $130 million) compared to the year 1948/49. At the same time Pakistan would have to purchase from distant sources commodities usually supplied by India. It is likely that under these circumstances heavy defense expenditure would continue, straining Pakistan's foreign assets and reducing its ability to provide local financing for development. Even with strict import controls, a further reduction of sterling balances would probably be necessary. This situation would require not only a re-orientation of foreign trade but also changes in Pakistan's production. Jute would be partially replaced by rice. Such a change in structure would require
several years and put a heavy strain on the country's economic resources. Under those conditions the achievement of a surplus in the overall balance of payments and in the dollar balance of payments would require not only a shift in agricultural production but also a very severe import restriction system which would tend to substitute other sources of supplies for Indian sources and to reduce imports from the U.S., thus involving a considerable slowing down of development.

12. The sacrifices imposed upon Pakistan by the trade deadlock with India are thus hardly less than the sacrifices imposed upon India. This is why a protracted period of the deadlock seems very unlikely.
I. ECONOMIC STRUCTURE OF PAKISTAN

Introduction

1. Pakistan was established as an independent Dominion by the partition of the Indian Sub-Continent on August 15, 1947. It consists of two geographical units, separated by more than 1,000 miles of Indian territory. Of the total area of 360,780 square miles, West Pakistan comprises 306,860 square miles, or approximately 85% of the total, and East Pakistan 53,920 square miles. The population in 1948 was estimated at 80.2 million, of which 33.5 million were in West Pakistan and 46.7 million were in East Pakistan. The average density of population was 870 per square mile in East Pakistan and 109 per square mile in West Pakistan. Although the majority of the population is Moslem, Pakistan has a minority of nearly 15 million Hindus.

2. Sovereignty over the Dominion of Pakistan was transferred to the Pakistan Constituent Assembly, which established a provisional government headed by a Prime Minister (Liaquat Ali Khan) and ten Cabinet Ministers. The Assembly has not yet completed a draft of a new constitution for the Dominion.

3. The economy of Pakistan is underdeveloped by Western standards, and by far the greater part of economic activity is devoted to agriculture. At present more than 80% of the population is engaged in agriculture. Pakistan's economy has been essentially complementary to the economy of India. Before partition Pakistan's agriculture furnished raw materials for two of India's most important industries (jute manufacturing and cotton textiles) as well as a surplus of wheat
for food deficit areas of India. In return Pakistan received jute manufactures and cotton textiles as well as other essential commodities such as coal, iron and steel, tobacco, sugar, vegetable oil and a large number of manufactured goods. Until the Indo-Pakistan trade deadlock, which occurred after Pakistan's decision not to devalue its currency in step with the pound, this basic pattern remained substantially unchanged. However, Pakistan has made some efforts, which have been intensified since the beginning of the deadlock, to become less dependent on India by diverting a growing proportion of its trade to overseas countries and by promoting various industries, particularly consumer goods.

**Agriculture**

4. Pakistan is, on balance, a food surplus country, although East Bengal has to import some rice from West Pakistan and abroad. In West Pakistan a substantial part of the area under cultivation is irrigated. The 1949/50 wheat harvest ended with a surplus of 1/2 million tons. Substantial quantities of raw sugar, cottonseed, rape seed, mustard, and cinnamon are produced, but only limited quantities of white sugar and edible oils. About 75,000 acres are under tea cultivation. Tea production was 16,000 tons in 1948/49. Pakistan's annual export quota under the International Tea Agreement is nearly 17,000 tons.

5. The two major cash crops are cotton and jute. The 1949/50 production of cotton is estimated at 1.2 million bales which is substantially below prewar. Local consumption is estimated at 200,000 bales,
which leaves an export surplus of about 1 million bales this year. The major part of Pakistan's cotton is of the American type quality which is finding a ready market even at a premium as "sterling" cotton compared to "dollar" cotton.

6. The jute acreage is controlled by the Government. In 1948/49 only 1.87 million acres of an allotment of 2.6 million acres were actually planted. According to the latest estimate the production from this acreage was 4.5 million bales, which is 0.5 to 1.0 million bales less than the previous estimate. The 1949/50 acreage allotment has been reduced to about 1.7 million acres.

7. The country produces around 25 million pounds of wool a year (mainly carpet wool) and imports another 8 million pounds by land from nearby countries. Production of hides and skins is substantial, but since Pakistan has only small tanneries with limited production capacity, most of the hides and skins are exported in their raw state.

Mining

8. Pakistan's mining industry is small. The production of coal was 324,000 tons in 1949 (210,000 tons in 1939). Production of mineral oil was 823,000 barrels in 1949 (757,000 barrels in 1939), which represents about 1/5 of the total consumption. The country has substantial deposits of gypsum, which it intends to use for the production of ammonium sulphate, and some deposits of chromite.

Industries

9. Pakistan has 1,386 manufacturing and processing establishments employing 20 or more workers; the total number of workers employed therein is approximately 172,000. The total value of articles processed
or manufactured is estimated at Rs. 900-1,000 million yearly.

Agricultural industries including rice milling, vegetable oil production, cotton ginning, jute pressing, etc., account for around one half of the total value. Among other industries, cement, soap, cotton textiles, small engineering, and the leather industry are the most important. Two small oil refineries are located in the vicinity of Rawalpindi in northern Punjab.

**The Government's Industrial Policy**

10. In its statement of policy issued in December 1947 the Government made clear that it will rely mainly on private enterprise for industrial development and operation. The Government reserved for itself (a) the production of arms and munitions of war, (b) generation of hydro-electric power, and (c) manufacture of railway cars, telephones, telegraphs and wireless apparatus. In the past most of the leading elements in industry, as well as banking and trade, have been Parsees and Hindus. As a result, the Government has adopted the policy of (a) encouraging private investment by Pakistan Nationals and (b) establishing a limited number of enterprises under Government auspices when private capital is not forthcoming in adequate amounts for the development of any particular industry of national importance. As an encouragement to industrial development the Government grants tax exemptions and special depreciation allowances to new enterprises during their early years of operation. In addition the import duty on

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1/ The volume and value of output of the principal industries are given in Appendix 2.
machinery has been reduced from 10% to 5% ad valorem.

Policy Toward Private Foreign Investment

11. The Government's statement says that "Pakistan would welcome foreign capital seeking investment from a purely industrial and economic objective, and not claiming any special privileges." Participation of Pakistan Nationals must, however, be insured and the Government considers that nationals of Pakistan should ordinarily be given the option to subscribe at least 51% of all classes of share capital and debentures in fourteen specified industries, including cement, cotton spinning and weaving mills, heavy chemicals and dyestuffs, power alcohol, sugar, tanning, and leather. With regard to other industries, an opportunity should normally be given to Pakistan Nationals to subscribe at least 30% of share capital and debentures. But, in either case, if the Government is satisfied that the requisite amount of indigenous capital is not forthcoming within a period of about six months, the balance might, with its prior approval, be subscribed by foreign investors. The Government stated in a supplementary statement of industrial policy "that the intention is to give such decisions quickly and liberally where it is clear that Pakistan capital has had every opportunity to subscribe and has failed to do so." No estimate is available of the total value of foreign investment, most of which is British and Indian.
II. DEVELOPMENT PROGRAM

12. Pakistan has substantial possibilities for increasing its agricultural production and developing various light industries. Agricultural production can be increased by additional irrigation and by soil conservation projects which are expected to bring some 5 million acres of new land under cultivation. It can be further augmented, of course, by improving the efficiency of the methods of production, marketing, and distribution.

13. With regard to industrial development, Pakistan is very anxious to become less dependent on imports, to process various of its raw materials, and to achieve a better balanced economy. Because of the lack of coal, the country intends to develop a substantial hydro-generating capacity of about 150,000 kw. of permanent power. Since the partition, some progress has been made in developing industry. The capacity of the cotton piece goods industry has been nearly doubled; a large new sugar mill is nearing completion. Production of soap and vegetable oil is expanding and production of cigarettes has increased. The Government plans to build a paper mill in East Bengal, and machinery for three jute mills has been ordered recently. Fertilizer production is also planned. The Government is enlarging the facilities of the Port of Chittagong and is carrying out the rehabilitation and modernization of the railways. The trade deadlock with India has accelerated various projects such as the development of the Port of Chittagong and the substantial increase of the jute baling facilities in East Pakistan. To coordinate the various projects and to assign priorities
to them, a Development Board was set up, as well as a Planning Advisory Board, in 1948. Later a separate Ministry of Economic Affairs was established to plan and coordinate the day-to-day activities of the other ministries, especially in the economic field; both the Development Board and the Planning Advisory Board became a part of this new Ministry. The Development Board has so far approved 105 schemes requiring an outlay of Rs. 1,120 million. The Government proposes to spend on the development schemes about Rs. 300 million yearly during the next five years. Roughly one half of the amount would be incurred in local currency, one fourth in the sterling area, and one fourth in the dollar area. The Government is confident that it will be able to find the necessary local currency, either from its present cash balances or from additional loans which can be raised within the country. The Government is also of the opinion that it will be able to secure the necessary amount of sterling either from existing sterling balances or from the expected favorable balance of payments with the sterling area. It will be difficult, however, to finance the dollar counterpart amounting to about $25 million per annum.

14. The projects which have been approved by the Development Board relate primarily to the production of electrical power, irrigation projects, reclamation of land, improvement of railways, building of the Chittagong Port, establishment of a paper mill, jute mills, and a fertilizer factory. It is expected that increased production of food grain resulting from the agricultural projects will amount to 1,050,000 tons yearly and that of other crops to 250,000 tons yearly.

1/ Exclusive of proposed capital outlays on projects of the Railway Dept. and such projects as may be financed by Provinces from their own resources.
15. If the proposed projects are carried out, it may be assumed that some of them will increase foreign exchange earnings while others will reduce foreign exchange expenditure. However, as the country's economy develops, new import needs will arise which will partially offset the foreign exchange earnings or savings resulting from the proposed projects.

III. GOVERNMENT FINANCES

Public Finance

16. Budget for 1948/49 and 1949/50. For the last two fiscal years (April 1 – March 31) the Central Government budget shows a deficit amounting to Rs. 812 million (Rs. 272 million in 1948/49 and Rs. 540 million in 1949/50). (See table below.)

<table>
<thead>
<tr>
<th>Revised Budget Estimate</th>
<th>Revised Budget Estimate</th>
</tr>
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<tbody>
<tr>
<td>1948/49</td>
<td>1949/50</td>
</tr>
<tr>
<td>Revenue</td>
<td>589</td>
</tr>
<tr>
<td>Expenditure</td>
<td>583</td>
</tr>
<tr>
<td>Surplus</td>
<td>6</td>
</tr>
<tr>
<td>Expenditure not met from revenue, covered by special transactions</td>
<td>602</td>
</tr>
<tr>
<td>Treasury bills to cover the sterling annuity purchase</td>
<td>220</td>
</tr>
<tr>
<td>Remaining deficit</td>
<td>272</td>
</tr>
</tbody>
</table>

1/ Rs. 119.3 million was received from the U. K. as a payment of Pakistan's share of recoverable expenditure and Rs. 90 million from India as payment for various purposes.
17. Of the overall (ordinary plus capital) expenditure in 1948/49 of Rs. 1,081 million (not including the purchase of annuities for the payment of sterling pensions), expenditures on defense services represented Rs. 614 million, civil administration Rs. 104 million, capital expenditure on development (other than defense capital outlay) Rs. 230 million, and debt service Rs. 25 million. In the 1949/50 budget, defense expenditures amounted to Rs. 756 million which is 60% of the total expenditure of Rs. 1,294 million. Capital expenditures, the major part of which were loans and advances to provincial governments for development, were Rs. 295 million, civil administration Rs. 136 million, and the debt service Rs. 43 million.

18. Income and corporation tax represented only around 11% to 12% of the total revenue, and customs and central excise duties more than 50% in both years. (See Appendix 3.)

19. The Government encountered little difficulty in covering the sizeable deficit of these two fiscal years without borrowing from the Central Bank and without reducing its current balances with the State Bank, which stood at Rs. 559 million on March 31, 1950, compared with Rs. 557 million at the beginning of the fiscal year 1948/49. While in 1948/49 the balances increased from the proceeds of loans floated in 1948, they were reduced by Rs. 359 million in 1949/50.

20. The Government was able during 1948 to raise Rs. 760 million in five-to ten-year loans (called permanent debt according to Pakistan nomenclature). All these loans were issued in the calendar year 1948. The requirement that banks and insurance companies
operating in Pakistan invest a part of their assets in Pakistan's  
1/ government securities may explain to some extent the success achieved 
in floating this substantial amount. Indian government bonds were  
accepted by the Government in payment for Pakistan government securities.  
A further issue of Rs. 100 million, which was subscribed by financial  
institutions, was floated in February 1950.

21. The 1950/51 Budget. As the table below shows, revenue in  
the 1950/51 budget is estimated at substantially the same level as in  
the revised 1949/50 budget estimate. Ordinary expenditures, however,  
are expected to increase by Rs. 19.5 million over the last year, leaving  
a deficit of about Rs. 19 million in the Ordinary Budget.

1950/51 Budget Estimate

<table>
<thead>
<tr>
<th>Ordinary Budget</th>
<th>(In Rs. Million)</th>
</tr>
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<tbody>
<tr>
<td>Revenue</td>
<td>753</td>
</tr>
<tr>
<td>Expenditure</td>
<td>772</td>
</tr>
<tr>
<td>Deficit</td>
<td>19</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Capital Budget</th>
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</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1.5</td>
</tr>
<tr>
<td>Expenditure</td>
<td>385.0</td>
</tr>
<tr>
<td>Deficit</td>
<td>383.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Overall deficit</th>
<th>1.02</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance (on April 1, 1950)</td>
<td>559</td>
</tr>
<tr>
<td>Closing balance (on March 31, 1951)</td>
<td>300</td>
</tr>
</tbody>
</table>

1/ Insurance companies registered in Pakistan are required to invest 
the equivalent of 25% of their adjusted liabilities in Pakistan  
government securities. Companies not registered in Pakistan must  
invest the equivalent of 33-1/3% of their liabilities in govern­
ment securities. Scheduled banks are required to keep the equiva­
ent of 75% of their liabilities invested in Pakistan.
22. Defense remains the largest expenditure item in both the Ordinary and Capital budgets. The defense outlay of Rs. 750 million represents 64% of overall government expenditure. The Government in consequence has not been able to provide any substantial amount for development purposes or to grant large loans and advances to the provinces. In the 1950/51 Capital Budget, aside from the Rs. 250 million defense outlay, the major expenditure items are: Railways—Rs. 70 million (an increase of Rs. 46 million compared to 1949/50); industrial development—Rs. 40 million (an increase of Rs. 28.8 million); and civil works—Rs. 32.8 million (an increase of Rs. 3.2 million). Grants to provincial governments for development, however, were reduced from Rs. 11.5 million to Rs. 5 million and loans and advances by the Central Government, from Rs. 190 million to Rs. 20 million. The reduction of the grants and loans to the provincial governments will be seriously felt by the provinces because of the current strain on their finances. Large outlays for the relief and rehabilitation of refugees have been a particularly heavy burden on the provinces, even though some financial aid for this purpose has been received from the Central Government.

23. Expenditures on civil administration are estimated at Rs. 148 million and on debt service at Rs. 43 million. It is expected that the budgetary deficit will be covered by substantial drawing on the Government's cash balances with the State Bank which will be reduced from Rs. 559 million to Rs. 300 million. An issue of a new loan of Rs. 100 million plus proceeds from other items are expected
to cover the rest. The current capital market for government bonds in Pakistan is favorable. It is probable that the Government will be in a position to borrow more heavily than the budget estimate indicated and that the Government will not, therefore, have to draw down its cash balances to the extent noted. Although the Government's fiscal policy has succeeded until now to cover the deficits without resorting to borrowing from the State Bank, it must be kept in mind that various desirable investments had to be postponed because of the defense expenditure pressure on the budget.

**Government Debt**

24. Central Government Internal Debt. At the end of March 1950, the total permanent (medium-term) debt was Rs. 859 million. The market for government securities has been firm with only slight fluctuations; for instance, the 3% loan 1960 was quoted as 101 1/2 (yield 2.84%) on April 1, 1949, 102 1/8 (yield 2.74%) at the end of December 1949, and 102 3/8 (yield 2.72%) at the end of March 1950. The Government is not amortizing any of the permanent debt. Its present plans are to pay off outstanding issues by refunding operations as they fall due. Treasury bills outstanding were Rs. 125 million at the end of January 1950, of which Rs. 104 million were given to the State Bank for sterling used for the purchase of annuity for the payment of sterling pensions.

25. External Debt. Pakistan has no external debt other than that to the Government of India. The final amount of this debt remains to be determined. An estimate given by the Government of
Pakistan puts this debt at about Indian Rs. 2,000 million. (Last year the Government of India estimated that Pakistan's debt would be around Rs. 3,000 million). The debt is to be repaid in 50 annual equated instalments of principal and interest combined, commencing August 15, 1952. No basis for an agreement has been reached until now on the compensation for the property left by the Indian refugees in Pakistan and Pakistan refugees in India. The amounts involved are large.

IV. MONEY AND BANKING

The State Bank of Pakistan

26. The State Bank of Pakistan began operations on July 1, 1948, but Indian notes remained legal tender for several months. It was agreed that the Reserve Bank of India would transfer to the State Bank of Pakistan the assets of its Issue Department consisting of gold, sterling securities, Indian rupee securities, and rupee coin in the ratio in which they were held on June 30, 1948—in an amount equal to the value of Pakistan notes put into circulation from April 1, 1948, to June 30, 1948, plus the amount of Indian notes of two rupees or more encashed by the Bank of Pakistan from July 1, 1948, to June 30, 1949, and returned to the Reserve Bank of India. At the beginning of July 1948, Pakistan notes in circulation amounted

\[ \text{\textsuperscript{1}} \]

\[ \text{This debt would be made up of the value of the assets, fiscal and financial, which have been taken over by the Pakistan Government plus 17\% of the uncovered debt represented by the excess of liabilities over assets of the undivided Central Government, less the liabilities directly assumed by the Government of Pakistan.} \]
to Rs. 515.7 million. The total amount of India's notes encashed by the State Bank of Pakistan from July 1, 1948, to June 30, 1949, was Rs. 1,251.8 million. Pakistan's claims on the Issue Department of the Reserve Bank of India thus totalled Rs. 1,767.5 million. The Reserve Bank began the release of assets on September 30, 1948, and continued to do so up to March 1, 1949. The total amount of these releases was Rs. 1,276.7 million, consisting of sterling securities equivalent to Rs. 857 million; Indian rupee securities Rs. 340 million, gold equivalent to Rs. 42 million, and Indian and Pakistani coin Rs. 38 million.

27. After March 1, 1949, the Reserve Bank of India withheld the release of further assets. The balance of Indian notes returned from Pakistan and awaiting adjustment is around Rs. 490 million.

28. The table below shows the returns of the State Bank of Pakistan from March 4, 1949, to June 23, 1950. During this period no transfer of assets from India took place, and no more Indian notes were returned or replaced by Pakistani notes.
### Issue Department
(million rupees)

<table>
<thead>
<tr>
<th>Date</th>
<th>March 4 1949</th>
<th>Sept. 16 1949</th>
<th>Sept. 23 1949</th>
<th>March 31 1950</th>
<th>June 23 1950</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes in circulation</td>
<td>1787.8</td>
<td>1699.3</td>
<td>1699.5</td>
<td>1773.5</td>
<td>1722.1</td>
</tr>
</tbody>
</table>

#### Assets held in State Bank of Pakistan:

1/  
- **Gold**: 36.6, 42.07, 42.07, 42.07, 42.07
- **Sterling securities**: 986.9, 842.4, 585.3, 675.3, 679.9
- **Government of India Securities**: 286.2, 316.3, 316.3, 219.7, 144.2
- **Indian notes representing assets receivable from the Reserve Bank of India**: 420.9, 431.8, 431.8, 431.7, 431.7
- **Government of Pakistan securities**: 50.0, 7.6, 264.7, 361.3, 416.1

#### Assets held with Reserve Bank of India pending transfer to Pakistan:

- **Gold**: 1.9, 1.9, 1.9, 1.9, 1.9
- **Sterling securities**: 38.7, 38.7, 38.7, 38.7, 44.1
- **Government of India securities**: 15.3, 15.3, 15.3, 15.3, 10.0

### Banking Department
(million rupees)

<table>
<thead>
<tr>
<th>Date</th>
<th>March 4 1949</th>
<th>Sept. 16 1949</th>
<th>Sept. 23 1949</th>
<th>March 31 1950</th>
<th>June 23 1950</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
- Central Government | 760.8 | 630.0 | 614.3 | 616.1 | 493.4 |
- Banks | 139.8 | 244.5 | 223.8 | 111.9 | 153.9 |
- Government Treasury Bills | 108.7 | 104.8 | 104.8 | 104.8 | 101.5 |
- Balance held outside of Pakistan | 814.2 | 767.6 | 604.08 | 327.09 | 322.8 |
- Investments 2/ | 90.3 | 115.8 | 273.05 | 348.2 | 330.7 |

1/ The State Bank of Pakistan values its gold reserves substantially below the IMF rate (0.268601 grams per rupee). The gold reserve on June 23, 1950, valued at the IMF rate was approximately $26 million (Rs. 86 million).

2/ The breakdown of this item, which also contains Government of Pakistan securities, is not available.
29. Notes in circulation remained, on the whole, unchanged during this period. The total money volume (currency in circulation plus deposits) did not change substantially. The latter increased from Rs. 2,819 million in February 1948 to Rs. 2,871 million in February 1950. In the period before devaluation sterling securities and balances held abroad were reduced by Rs. 191 million (857 million) and government deposits by Rs. 131 million. The bookkeeping loss resulting from devaluation of the pound and the Indian rupee was covered by government securities given to the Bank. The rupee value of foreign assets declined accordingly.

30. The figures showing the movements after the sterling devaluation indicate a further decline in sterling securities and balances held abroad amounting to Rs. 186 million (855 million) by the end of March 1950. They were reduced by only Rs. 8 million (2.4 million) from the end of March to June 23. In addition to sterling, balances held abroad include about 138 million Indian rupees.

31. Pakistan obtained £140 million from India following partition. On June 30, 1950, Pakistan's sterling balances were £34.9 million. Excluding around £114 million, used for the purchase of British stores in Pakistan, and an annuity for the payment of pensions, £41 million were required to meet the balance of payments deficit on current account until the end of June 1950. Most of the decline in sterling balances occurred during 1949. The ratio of gold and sterling securities to notes in circulation was £1.3% on June 23, as compared with the legal requirement of 30%.

1/ Demand deposits of the State Bank and the Scheduled Banks, less deposits of the Central Government and the Scheduled Banks with the State Bank.
2/ Pakistan's foreign exchange reserves on June 30, 1950, are shown in Appendix 7.
3/ The ratio would be 14.3% if the gold reserve were valued at the IMF rate.
32. Pakistan has a pending claim on India for additional sterling balances of around £35 million. Of this amount, about £27 million is for the redemption of Indian notes in circulation in Pakistan at the time of partition, while £8 million represents the sterling equivalent of Indian rupees held by the State Bank in September 1949 in excess of the amount provided for in Indo-Pakistan trade agreements. If Pakistan obtains the whole sum, its sterling reserves will amount to about £120 million.

Sterling Balances Arrangements

33. For the period July 1948 to June 1949, Pakistan had an agreement with Great Britain according to which £5 million would be released from the No. 2 Account to the No. 1 Account for current transactions, plus a further release of £5 million to meet expenditures for the rehabilitation and resettlement of refugees. The U. K. agreed to make the equivalent of £5 million available in hard currency during this period. For the year 1949/50 a new agreement was reached whereby £12 million would be released for current transactions and another £5 million for special requirements including the purchases of goods for the execution of capital projects and rehabilitation of refugees. With regard to dollar releases from the central reserve of the sterling area, Pakistan agreed to restrict its expenditure to $65 million, which is 75% of the 1948/49 expenditure. Since Pakistan's dollar earnings during the year ending June 1950
are expected to be of the order of $30 million, Pakistan will be able to convert sterling in the amount of around $35 million. At present, negotiations are being conducted in London in regard to sterling releases in 1950/51.

Commercial Banks

34. Commercial banks are the most important credit institutions in Pakistan. There has been an upward trend in both deposits and advances. Demand deposits, which were Rs. 912 million at the end of July 1948, stood at Rs. 981 million on June 2, 1950. Time deposits increased from Rs. 161 million at the end of July 1948 to Rs. 198 million on June 2, 1950. The Scheduled Banks are required to maintain with the State Bank 5% of their demand deposits and 2% of their time deposits.

35. The banks have maintained deposits with the State Bank substantially above the required minimum. The advances granted by the Scheduled Banks increased from Rs. 247 million at the end of July 1948 to Rs. 477 million on June 2, 1950, or by Rs. 230 million (they were Rs. 415 million at the end of March 1949). The main part of this increase occurred from July 1948 to January 1949.

Other Financial Institutions

36. Post Office Savings Bank. According to the budget estimates a net increase of Post Office Savings Bank deposits of Rs. 12 million was expected for 1949/50, and of Rs. 12.5 million in 1950/51. The total amount of balances of the various types of small savings deposited with the Post Office Savings Bank was Rs. 485 million on November 30, 1949.
37. **National Bank of Pakistan.** On November 8, 1949, the "National Bank of Pakistan" was established; its authorized capital is Rs. 60 million. Not less than 25% of the capital is to be subscribed by the Central Government.

The scope of business of the Bank as defined in the Ordinance is very large, containing practically all transactions which commercial banks might be called upon to perform. It is intended that the Bank also lend its support to other banks with a view to the building up of a strong and balanced banking organization in the country. At the beginning the business of the Bank, which has opened six branches in East Pakistan, was confined to the financing of jute, but in May 1950 the Bank expanded its operations to all normal banking functions.

38. **Industrial Finance Corporation.** This Corporation started functioning in July 1949. It has an authorized capital of Rs. 30 million, of which 51% is owned by the Central Government. The purpose of this institution is to provide medium and long-term credits to industrial concerns. Up to the end of February 1950, the Corporation sanctioned loans to the extent of Rs. 5.8 million to industrial enterprises.
V. BALANCE OF TRADE AND BALANCE OF PAYMENTS

The Period July 1, 1948 - June 30, 1949

39. The balance of trade for this period, not including trade with India, shows the following data: (in Rs. million)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports</td>
<td>822</td>
</tr>
<tr>
<td>Commercial Imports</td>
<td>877</td>
</tr>
<tr>
<td>Government Imports</td>
<td>416</td>
</tr>
<tr>
<td><strong>Deficit</strong></td>
<td><strong>471</strong></td>
</tr>
</tbody>
</table>

A trade deficit was incurred with the hard as well as the soft currency area.

40. The balance of payments deficit on current account with countries other than India amounted to Rs. 511 million ($153 million). According to Indian statistics, Pakistan had a trade surplus with India of Rs. 340 million (exports Rs. 1,171 million, imports Rs. 831 million), and balance of payments surplus on current account of Rs. 247 million. On the basis of this data Pakistan's overall trade deficit would be reduced to Rs. 130 million and the balance of payments deficit to Rs. 264 million. If government imports were excluded, balance of payments would show a surplus on current account. The surplus with India was paid in sterling to the extent of Rs. 119.5 million while the rest was retained by Pakistan in the form of Indian rupee balances. The deficit covered by Pakistan's drawing on its sterling balances was Rs. 391.5 million ($ 29 million). The total net deficit with the hard currency countries, equivalent
to about 6 million, was met by releases from the central reserve of the sterling area.

41. The trade deficit in the year 1948/49 with countries other than India can be explained by the following factors:

(a) The import policy was liberalized in August 1948 in order to replenish consumer goods stocks which were exhausted during the war and in the period immediately preceding and following partition.

(b) Heavy purchases were made by the Government, particularly for defense purposes. Government imports of machinery and stores amounted to Rs. 263 million.

(c) A bad harvest, because of unprecedented floods in certain grain surplus areas, necessitated imports of food grains.

42. Exports of raw jute, raw cotton, hides and skins, tea, and raw wool represented about 94% of total exports during this period, as shown in the table below.

<table>
<thead>
<tr>
<th>Item</th>
<th>Rs. Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw jute (to India Rs. 800 million)</td>
<td>1,192.5</td>
</tr>
<tr>
<td>Raw cotton (to India Rs. 158.6 million)</td>
<td>364.7</td>
</tr>
<tr>
<td>Hides and skins (to India Rs. 14.2 million)</td>
<td>48.5</td>
</tr>
<tr>
<td>Tea</td>
<td>42.4</td>
</tr>
<tr>
<td>Raw wool</td>
<td>30.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,679.0</strong></td>
</tr>
</tbody>
</table>

On the import side the most important items were textiles. The share of capital goods in the total imports of Pakistan during this period was small.
The Period July 1949–June 1950

43. The foreign exchange budget excluding India for this period indicated a deficit of Rs. 283 million, which is smaller than estimated government imports. In September 1949 the Open General License was cancelled and a stricter control imposed, in particular on imports from the dollar area, in order to safeguard the foreign exchange position. Recently, import controls from the soft currency area have been relaxed because of an improved balance of trade. The provisional data for July 1949–June 1950, not including India, show that the trade deficit has been reduced to Rs. 269 million (= $80 million) or to little more than half of the deficit of the previous year. Exports are estimated at Rs. 947 million, commercial imports Rs. 879 million, and government imports Rs. 337 million. The balance of payments deficit (excluding India) has decreased to Rs. 299 million (= $90 million). (See Appendix 5).

44. Exports have increased chiefly because of substantially greater exports of cotton to countries other than India, Rs. 411 million (1.01 million bales) against Rs. 206 million (458,000 bales) in the previous period. Raw jute exports amounting to Rs. 311 million (1.7 million bales) have remained below the total of the previous year (Rs. 393 million or 1.88 million bales). No great changes have taken place in the export of other commodities. In trade with India, Pakistan had an export surplus of Rs. 105 million in the second half of 1949 (exports totalled Rs. 354 million, imports Rs. 249 million). In the first part of 1950
exports to and imports from India were most probably not greater than Rs. 150 million each way.

45. The following table compares Pakistan's total trade for the two years. Figures for trade with India in 1949-50 are based on the assumptions mentioned above.

<table>
<thead>
<tr>
<th></th>
<th>1948-49 (Rs. Million)</th>
<th>1949-50 (Rs. Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports outside India</td>
<td>822</td>
<td>548</td>
</tr>
<tr>
<td>Exports to India</td>
<td>1,171</td>
<td>504</td>
</tr>
<tr>
<td>Total Exports</td>
<td>1,993</td>
<td>1,552</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-441</td>
</tr>
<tr>
<td>Commercial Imports from outside India</td>
<td>877</td>
<td>879</td>
</tr>
<tr>
<td>Commercial Imports from India</td>
<td>831</td>
<td>399</td>
</tr>
<tr>
<td>Government Imports</td>
<td>416</td>
<td>337</td>
</tr>
<tr>
<td>Total Imports</td>
<td>2,124</td>
<td>1,615</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-519</td>
</tr>
</tbody>
</table>

This tentative table highlights particularly the effect of the trade deadlock with India which developed in September 1949.

46. Although Pakistan succeeded in selling all its cotton outside India, its total exports have declined by nearly one fourth. And

1/ Figures for trade with India in 1948-49 and the second half of 1949, taken from a statement of the Reserve Bank of India.
in spite of the high level of imports needed to substitute for Indian goods, total imports have declined by more than one fourth. Thus the total value of Pakistan's trade has been reduced by about 25% during this period although trade with India continued undiminished during July-September 1949.

VI. THE CONSEQUENCES OF PAKISTAN'S DECISION NOT TO DEVALUE ITS CURRENCY

47. Pakistan decided not to follow the pound and has maintained its pre-devaluation exchange rate of the rupee (Rs. 2.318 = U.S. $1). Explaining this decision, the Finance Minister of Pakistan stated in his budget speech on March 13, 1950:

"In the case of Pakistan the balance of payments position was not such as to necessitate devaluation, nor do our exports which consist almost entirely of raw materials admit of any appreciable expansion. On the other hand, the country is on the threshold of industrial development necessitating the import of a large volume of machinery and capital goods for years to come. Our decision, therefore, would enable us not only to obtain capital goods from the dollar area at the same prices as before but also at relatively cheaper prices from other countries."

In consequence of this decision Pakistan has had to adjust the prices
of its export commodities to the world market level. The price of raw jute, which had already declined before devaluation, dropped 20.7% from devaluation until March 26, 1950. The price of raw cotton declined about 16% during this period and the price of tea about 15%. However, the price of raw wool rose 16% and hides and skins 13% in accordance with the price movements in the world markets. Very important was the price decline of rice from Rs. 33 per maund (82 pounds) in August 1949 to Rs. 18 1/2 in March 1950. However, following the trade deadlock with India, there was a substantial price increase in commodities regularly supplied by India; the price of gray cotton cloth had increased 30% by the middle of February, the price of jute manufactures 50%, of mustard oil 50%, and of tobacco about 19%. The wholesale price index in Karachi (1939 = 100) dropped from 372.5 in December 1948 to 314.3 in June 1949, and stood at 314 in December 1949. The working class cost of living index (1944 = 100) in Karachi declined from 153 in December 1948 to 111 3/4 in December 1949. The information on the price development is not comprehensive enough to determine to what extent the needed price adjustment has been carried out. The increase of Pakistan's exports outside of India in the first half of 1950 indicates that prices have not formed an obstacle to the export of most commodities, with the exception of wheat. (See Appendix 6).

48. The process of adjustment has become more difficult because India has decided not to recognize the exchange rate of the Pakistan rupee at a 44% premium over the Indian rupee, and what amounts to a
trade deadlock did develop between the two nations, which has been
mitigated only to a small extent by a temporary trade agreement signed
in April 1950. The Indo-Pakistan trade agreement signed in July 1949
provided for the exchange of the following goods during July 1949-June
1950: from Pakistan 4 million bales of raw jute, 450,000 bales of raw
cotton, and a very substantial quantity of hides and skins, oilseeds,
and wheat in case Pakistan had an export surplus. Pakistan was to im-
port from India around 2 million tons of coal, 150,000 bales of cotton
textiles, 100,000 bales of cotton yarn, 70,000 tons of edible oils,
50,000 tons of jute manufactures, 64,000 tons of steel, and various
chemicals. Trade with India accounted for nearly 60% of Pakistan's
commercial trade. With India stopping its purchases, Pakistan had to
find alternative markets for its chief export commodities. The 1949-50
harvest brought a crop of about 1.2 million bales of cotton, 4\frac{1}{2}
 million bales of jute, and an export surplus of 500,000 tons of wheat. With
regard to wheat, the Government purchased 400,000 tons, thus easing
the situation on the market. However, only 100,000 tons of wheat were
exported and the rest remained in Pakistan because the Government did
not want to sell below the price which it had paid (Rs. 9-4-0 per maund).
Cotton has been in the most favorable position because Pakistan cotton,
being sold for sterling, has been able to sell even at a premium. By
the end of May Pakistan had exported 862,000 bales of cotton of the
total export surplus of 1 million bales to countries other than India.
India took only 22,000 bales. There is no doubt that Pakistan will sell all the remaining cotton from last year's harvest.

49. The jute position is much more difficult. In 1948/49 Pakistan exported 1,900,000 bales to countries other than India, while India exported around 500,000 bales of raw jute. Pakistan authorities estimated optimistically the raw jute consumption outside of India as high as 4 million bales and expected to sell substantially more raw jute outside India than in 1948/49. On October 25, 1949, "The Jute Board" was established to supervise all dealings in jute. The Government has fixed a minimum price per maund of jute ranging from Rs. 21 to Rs. 28. In addition, the Government was ready to buy jute through the newly established National Bank of Pakistan, but only small quantities of jute were purchased shortly after the establishment of The Jute Board. To enable the direct exports of raw jute which previously had moved via Calcutta, the Port of Chittagong had to be expanded rapidly and the jute baling facilities substantially increased. The capacity of the Port has been greatly enlarged so that it was possible to ship around 200,000 bales of jute beginning December 1949 compared with only 60,000 bales in the previous months. It is estimated that with the various emergency installations the Port of Chittagong can now handle at least 2½ million bales yearly. It is expected that by the end of July 1.9 million bales will be shipped outside India, which is not more than was shipped in the year 1948/49. A temporary trade agreement with India arranged in April 1950, provides for a total value of trade of Rs. 130 million on each side until the end of July 1950 which is only a small part of the normal
The quantity of raw jute to be sent to India was fixed at 800,000 bales. This would bring the total export of raw jute to India to about 2.4 million bales, or more than jute exports to other countries. The carry-over for the next year is reported to be not higher than around 300,000 bales. The mutual interdependence of the two countries can be seen from the fact that Pakistan has been able to export its jute harvest of 1949/50, only because India has taken more than half of the total. On the other hand, the Indian jute industry had to work at a reduced capacity throughout the whole year; and had it not been for imports of Pakistan's jute in 1950, India would probably have been obliged to close some of the mills in April or May.

50. Pakistan's trade has declined by about one fourth as a result of the unsettled trade relations with India. Pakistan cannot sell all of its raw jute outside India and would find it difficult to find markets for various items regularly sent to India. It will take time before Pakistan's economy can be adjusted to the curtailment of trade with India. During this transition, the volume of trade will decline and, unless a very strict import control is maintained, a substantial trade deficit is very likely.

51. Although the execution of the April 1950 trade agreement has been disappointing and the delivery terms for the raw jute have had to be extended beyond July 1950, it may be assumed that when the present short-term stopgap arrangement between the two countries expires, both countries will be anxious to conclude a new trade agreement. It is
doubtful, however, whether the scope of the new agreement, even after the dispute between India and Pakistan is settled, will be equal to that of 1949/50. India has declared repeatedly that it does not intend to have a deficit in its trade with Pakistan. Pakistan's position appears to be stronger since it supplies to India very important raw materials and also foodstuffs. India, on the other hand, exports to Pakistan certain commodities in which it has a definite advantage such as coal, mustard oil, cheap cotton cloth, and some manufactured products in which it meets competition with other countries. Since partition, India's products have been losing their market in Pakistan because of a higher price or inferior quality. This has been the case in cotton textiles, sugar, matches, chemicals, and others. It is probable that Pakistan will maintain an export surplus with India if India continues to purchase substantial quantities of Pakistan's raw materials. The Government of Pakistan is not willing to continue the existing payment agreement according to which Pakistan and India agree to hold Rs. 150 million of each other's currency and to settle up to 15 million of any remaining balance in free sterling (No. 1 Account) and the rest in blocked sterling. Pakistan desires to have a settlement of the whole balance in free sterling.
## Appendix 1

### Acreage and Production of Principal Agricultural Crops

<table>
<thead>
<tr>
<th></th>
<th>Acreage</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in thousand acres)</td>
<td>(in thousand tons)</td>
</tr>
<tr>
<td>Food Crops:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rice</td>
<td>20,211</td>
<td>21,036</td>
</tr>
<tr>
<td>Wheat</td>
<td>10,061</td>
<td>9,983</td>
</tr>
<tr>
<td>Gram</td>
<td>2,315</td>
<td>2,581</td>
</tr>
<tr>
<td>Sugar cane</td>
<td>535</td>
<td>681</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Food Crops:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cotton</td>
<td>3,659</td>
<td>3,092</td>
</tr>
<tr>
<td>Jute</td>
<td>1,366</td>
<td>2,052</td>
</tr>
</tbody>
</table>

**Source:** Government of Pakistan Ministry of Food, Agriculture and Health (Directorate of Statistics)
### Appendix 2

**Volume and Value of Output of Industries**

#### Agricultural Industries

<table>
<thead>
<tr>
<th>Industry</th>
<th>Annual Volume</th>
<th>Value (million rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice Milling</td>
<td>10 million tons</td>
<td>147.1</td>
</tr>
<tr>
<td>Vegetable Oil</td>
<td>69,000 tons</td>
<td>110.0</td>
</tr>
<tr>
<td>Tea</td>
<td>47.5 million lbs.</td>
<td>59.3</td>
</tr>
<tr>
<td>Flour Milling</td>
<td>2.7 million tons</td>
<td>46.0</td>
</tr>
<tr>
<td>Sugar</td>
<td>1,000 tons</td>
<td>33.0</td>
</tr>
<tr>
<td>Cotton Ginning</td>
<td>1 million bales</td>
<td>22.7</td>
</tr>
<tr>
<td>Tobacco</td>
<td>183 million cigarettes</td>
<td>20.4</td>
</tr>
<tr>
<td>Alcohol &amp; Alcoholic beverages</td>
<td>---</td>
<td>11.2</td>
</tr>
<tr>
<td>Jute Pressing</td>
<td>2 million bales</td>
<td>12.0</td>
</tr>
<tr>
<td>Fruit canning and bottling</td>
<td>---</td>
<td>6.5</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td><strong>481.2</strong></td>
</tr>
</tbody>
</table>

#### Other Industries

<table>
<thead>
<tr>
<th>Industry</th>
<th>Annual Volume</th>
<th>Value (million rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leather Shoes</td>
<td>12.5 million pairs</td>
<td>125.0</td>
</tr>
<tr>
<td>Other leather goods</td>
<td>---</td>
<td>31.5</td>
</tr>
<tr>
<td>Cotton textiles</td>
<td>92 million yards and 8.6 million pounds of yarn</td>
<td>89.0</td>
</tr>
</tbody>
</table>

---

a/ A new sugar mill with 50,000 tons capacity is expected to go into production in the current year.

b/ Jute baling capacity is being expanded to around 4 million bales.
### Appendix 2 (cont.)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Annual Volume</th>
<th>Value (million rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soap</td>
<td>50,300 tons</td>
<td>71.6</td>
</tr>
<tr>
<td>Cement</td>
<td>400,000 tons</td>
<td>30.0</td>
</tr>
<tr>
<td>Rubber manufactures</td>
<td>---</td>
<td>14.0</td>
</tr>
<tr>
<td>Glass</td>
<td>7,200 tons</td>
<td>8.6</td>
</tr>
<tr>
<td>Chemicals</td>
<td>including 20,000 tons of soda ash</td>
<td>8.1</td>
</tr>
<tr>
<td>Paints and Varnishes</td>
<td>2,000 tons</td>
<td>3.2</td>
</tr>
<tr>
<td>Matches c/</td>
<td>52,000 gross boxes</td>
<td>2.4</td>
</tr>
<tr>
<td>Others</td>
<td>---</td>
<td>42.0</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td><strong>925.4</strong></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td></td>
<td><strong>906.6</strong></td>
</tr>
</tbody>
</table>

---

c/ Includes iron and steel foundries, machine tools, scientific instruments, electrical equipment and sports goods.

## Appendix 3

### Major Budget Revenues (In Million Rupees)

<table>
<thead>
<tr>
<th></th>
<th>Revised Estimate 1948-49</th>
<th>Revised Estimate 1949-50</th>
<th>Revised Estimate 1950-51</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs</td>
<td>277.0</td>
<td>347.5</td>
<td>315.0</td>
</tr>
<tr>
<td>Central excise duties</td>
<td>52.0</td>
<td>57.5</td>
<td>62.0</td>
</tr>
<tr>
<td>Income and corporation tax</td>
<td>65.0</td>
<td>90.0</td>
<td>95.0</td>
</tr>
<tr>
<td>Sales tax</td>
<td>35.0</td>
<td>60.0</td>
<td>60.0</td>
</tr>
<tr>
<td>Salt tax</td>
<td>33.0</td>
<td>25.0</td>
<td>26.0</td>
</tr>
<tr>
<td>Debt Service (mainly from railways)</td>
<td>44.5</td>
<td>55.1</td>
<td>54.5</td>
</tr>
</tbody>
</table>

Appendix I

Commercial Trade Balance

July 1, 1948—June 30, 1949

(In Rs. million)

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>1773</td>
<td>1286</td>
</tr>
<tr>
<td>India (by sea only)</td>
<td>1019</td>
<td>409</td>
</tr>
<tr>
<td>American Account Countries</td>
<td>116</td>
<td>115</td>
</tr>
<tr>
<td>Other hard currency countries</td>
<td>173</td>
<td>40</td>
</tr>
<tr>
<td>Soft currency countries</td>
<td>144</td>
<td>721</td>
</tr>
<tr>
<td>(United Kingdom)</td>
<td>(199)</td>
<td>(362)</td>
</tr>
</tbody>
</table>

Commercial Trade Balance

July 1—December 31, 1949

(In Rs. million)

<table>
<thead>
<tr>
<th></th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>524</td>
<td>563</td>
</tr>
<tr>
<td>India (by sea only)</td>
<td>211</td>
<td>92</td>
</tr>
<tr>
<td>American Account countries</td>
<td>18</td>
<td>71</td>
</tr>
<tr>
<td>Other Hard currency countries</td>
<td>35</td>
<td>58</td>
</tr>
<tr>
<td>Soft currency countries</td>
<td>230</td>
<td>342</td>
</tr>
<tr>
<td>(United Kingdom)</td>
<td>(68)</td>
<td>(160)</td>
</tr>
</tbody>
</table>

Source: Estimates prepared by the Pakistan Authorities.
Appendix 5

Pakistan's Balance of Payments
(With countries other than India)
(Rs. Million)

<table>
<thead>
<tr>
<th>Period</th>
<th>Receipt</th>
<th>Summary Payments</th>
<th>Balance</th>
<th>Errors &amp; Omissions</th>
<th>Net Investment Disinvestment</th>
</tr>
</thead>
<tbody>
<tr>
<td>July-September 1948</td>
<td>161.1</td>
<td>145.3</td>
<td>-15.8</td>
<td>0.7</td>
<td>21.5</td>
</tr>
<tr>
<td>October-December 1948</td>
<td>140.4</td>
<td>323.9</td>
<td>-183.5</td>
<td>41.7</td>
<td>-141.8</td>
</tr>
<tr>
<td>January-March 1949</td>
<td>221.5</td>
<td>384.9</td>
<td>-167.9</td>
<td>-31.7</td>
<td>-199.6</td>
</tr>
<tr>
<td>April-June 1949</td>
<td>254.1</td>
<td>469.4</td>
<td>-210.8</td>
<td>19.9</td>
<td>-190.9</td>
</tr>
<tr>
<td>July-June 1949</td>
<td>777.1</td>
<td>1,323.5</td>
<td>-546.4</td>
<td>35.6</td>
<td>-510.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Period</th>
<th>Receipt</th>
<th>Summary Payments</th>
<th>Balance</th>
<th>Errors &amp; Omissions</th>
<th>Net Investment Disinvestment</th>
</tr>
</thead>
<tbody>
<tr>
<td>July-September 1949</td>
<td>190.0</td>
<td>354.9</td>
<td>-164.9</td>
<td>0.4</td>
<td>-160.8</td>
</tr>
<tr>
<td>October-December 1949</td>
<td>176.7</td>
<td>258.0</td>
<td>-81.3</td>
<td>15.3</td>
<td>-66.0</td>
</tr>
<tr>
<td>January-March 1950</td>
<td>263.4</td>
<td>323.7</td>
<td>-60.3</td>
<td>39.2</td>
<td>-21.1</td>
</tr>
<tr>
<td>April-June 1950 (Est.)</td>
<td>290.0</td>
<td>341.1</td>
<td>-51.1</td>
<td>-</td>
<td>-51.1</td>
</tr>
<tr>
<td>July 1949-June 1950</td>
<td>920.1</td>
<td>1,277.7</td>
<td>-357.6</td>
<td>58.6</td>
<td>-299.0</td>
</tr>
</tbody>
</table>

Source: Estimates prepared by the Pakistan Authorities.
Appendix 6

Analysis of Pakistan's Export Trade With Countries Other Than India 1948-49 and 1949-50
(In millions of rupees)

<table>
<thead>
<tr>
<th></th>
<th>Quantity</th>
<th>Value</th>
<th>Quantity</th>
<th>Value</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948-49</td>
<td></td>
<td></td>
<td>1949-50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jute Raw</td>
<td>1.88 million bales</td>
<td>393.0</td>
<td>1.7 million bales</td>
<td>310.8</td>
<td>- 82.2</td>
</tr>
<tr>
<td>Cotton</td>
<td>458,000 bales</td>
<td>206.1</td>
<td>1,012,000 bales</td>
<td>414.0</td>
<td>+ 208.0</td>
</tr>
<tr>
<td>Hides &amp; Skins</td>
<td></td>
<td>35.1</td>
<td></td>
<td>27.0</td>
<td>- 8.1</td>
</tr>
<tr>
<td>Tea</td>
<td></td>
<td>42.4</td>
<td></td>
<td>46.0</td>
<td>+ 3.6</td>
</tr>
<tr>
<td>Wool Raw</td>
<td></td>
<td>30.6</td>
<td></td>
<td>30.0</td>
<td>- 0.6</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
<td>44.8</td>
<td></td>
<td>30.0</td>
<td>- 14.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>752.0</td>
<td></td>
<td>857.8</td>
<td></td>
</tr>
<tr>
<td><strong>Add export duties</strong></td>
<td></td>
<td>70.0</td>
<td></td>
<td>90.0</td>
<td></td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td></td>
<td>822.0</td>
<td></td>
<td>947.8</td>
<td>+ 125.8</td>
</tr>
</tbody>
</table>

*A further 200,000 bales are expected to be exported during July 1950 from 1949-50 crop, thus bringing total exports to countries other than India to a figure slightly higher than that of the previous year.

Source: Estimates prepared by the Pakistan Authorities.
Appendix 7

PAKISTAN'S FOREIGN EXCHANGE RESERVES ON JUNE 30, 1950

(All figures in millions of pounds sterling)

A. Sterling

<table>
<thead>
<tr>
<th>Description</th>
<th>Sterling</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) With State Bank and Authorized Dealers</td>
<td></td>
</tr>
<tr>
<td>(a) With State Bank</td>
<td>84.9</td>
</tr>
<tr>
<td>(b) With Authorized Dealers</td>
<td>6.1</td>
</tr>
<tr>
<td>(c) Balances with Pakistan Missions and Embassies</td>
<td>3.0 (approx.)</td>
</tr>
<tr>
<td>Total</td>
<td>94.3</td>
</tr>
<tr>
<td>(ii) Sterling Due from India against return of Indian notes from Pakistan</td>
<td>27.7</td>
</tr>
<tr>
<td>Total (i) and (ii)</td>
<td>122.0</td>
</tr>
</tbody>
</table>

B. Gold

<table>
<thead>
<tr>
<th>Description</th>
<th>Gold</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Held by State Bank at official I.M.F. rate</td>
<td>9.3</td>
</tr>
<tr>
<td>(ii) Due from India against Indian notes returned from Pakistan</td>
<td>3.5</td>
</tr>
<tr>
<td>Total</td>
<td>12.8</td>
</tr>
</tbody>
</table>

C. Indian Re holdings (in millions of pounds sterling)

<table>
<thead>
<tr>
<th>Description</th>
<th>Indian Re</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indian Government Rupee Securities</td>
<td></td>
</tr>
<tr>
<td>(i) Received from India by State Bank</td>
<td>19.2</td>
</tr>
<tr>
<td>(ii) Due from India to State Bank</td>
<td>6.8</td>
</tr>
<tr>
<td>(iii) Held by Government</td>
<td>1.6</td>
</tr>
<tr>
<td>Total</td>
<td>27.6</td>
</tr>
</tbody>
</table>

(continued on next page)
Appendix 7 (cont.)

Rupee Account with Reserve Bank

(i) Ordinary Account

(ii) Special Account

Total

14.8

.5

15.3

Grand total A, B & C

177.4 million pounds sterling

Note: Above figures exclude Indian Rupee holdings with banks in Pakistan and holdings of Indian Rupee securities in hands of public.

Source: Data submitted by Pakistan Authorities.