Import Licensing and Import Liberalization in Pakistan

by

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I. INTRODUCTION

Import policy has played a particularly important role in Pakistan's economic planning. The amount and allocation of imported machinery and raw materials have directly affected the nature and pace of both industrial and agricultural development. The composition of imports has had a very significant effect on internal relative prices, which, in turn, essentially determine the allocation of investment in the private sector. Finally, imports have provided both the government (in the form of tariffs) and the private sector (in the form of profits) access to potential savings, which to a large extent have been converted into investment during the last decade. While import policy should not be viewed completely in isolation, it is sufficiently important to merit careful and intensive study.

Over the past several years, substantial research has been carried out on two aspects of Pakistan's import policy: the description and analysis of the institutional arrangements; and the development of reasonably accurate statistics. In terms of institutional arrangements, three contributions are especially worthy of mention. Naqvi [22] has presented a detailed description of the import licensing system, indicating the agencies involved and the major problems faced by them,

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The usual statement that the author alone is responsible for the presentation of the data, for the interpretation and opinions given, and for the conclusions reached is peculiarly applicable in this instance, as many who have helped have expressed disagreement with one or another aspect of the argument. Although I have tried to take account of these criticisms, in the last analysis I have, of course, had to use my own judgment.

as well as describing the mechanics of licence allocation. Hecox [16] has reviewed one important, yet neglected aspect of the licensing system: the use of import licences to stimulate exports. Perhaps the most important recent publication in this area is the *Manual of Imports and Exports Control* [8], a compendium of regulations and forms, compiled by the Office of the Chief Controller of Imports and Exports (CCIE), in the Ministry of Commerce.

On the quantitative side, recent work has shed light on the allocation of actual imports (Khan [17], the Planning Commission [11, 12, 13]), the tariff structure (Radhu [27, 28]. Soligo and Stern [29, 30]) and domestic prices of imported goods (Pal [23, 24]). The CCIE has recently made available licensing data from the period 1953 through 1964, which has been compiled (and reproduced in mimeographed form) by the International Trade Section of the Pakistan Institute of Development Economics [25]. Although much more qualitative and quantitative research needs to be done, we have gained, as a result of the aforementioned studies, an improved perspective on the nature of Pakistan's import policy, and we are in a much better position to assess its economic impact.

A reappraisal based on the new "evidence" has already begun; it has been and is being carried out by the researchers mentioned above, and it has appeared as part of the analyses of overall investment allocation and productivity increases by Lewis and Soligo [19], Soligo and Stern [29, 30], and Lewis [20]. The present study focuses on Pakistan's import licensing system, describing the feature that distinguishes it from most other underdeveloped countries: the evolution toward greater reliance on market forces conditioned by "indirect controls", and away from the rigid, bureaucratic direct controls that characterized it during much of the 1950's. For the first time, it is possible to discuss this import liberalization with supporting statistics which permit some appraisal of the quantitative significance of the changes that have been made.

This paper analyses the liberalization trend only up to July 1965. The postponement of the Consortium meetings and the war over Kashmir in 1965 prevented the import policy for 1965/66 from being carried out, and resulted in a return to more restrictive licensing. As liberalization is gradually restored, it will be important to compare these policies with the position in July 1965, when the previous level of liberalization reached its zenith. To assess these past trends and to facilitate future comparative analyses are the purposes of this paper.

II. EVOLUTION TOWARD IMPORT LIBERALIZATION

In January 1965, the Government of Pakistan made a major departure from its previous import policy based on rigid import licensing. In that month it placed four iron and steel items on the "Free List", which meant basically that any businessman could import any amount of these items without restriction (although it was later qualified by restrictions, as indicated in Appendix B). This change was followed in July 1964, by an expansion of the free list to 51 items, which included essentially all imported raw materials required by domestic industries. Free list imports in 1964 accounted for about one-fourth of all imports into Pakistan; (*see* Row 11, Table A-10, in Appendix A)[1]. This study is to explain and analyse this liberalization of Pakistan's import policy, and to describe the process by which it came about.

A. THE IMPORT CONTROL SYSTEM PRIOR TO 1964

The dominant feature of Pakistan's import policy in 1963 (as throughout the previous decade) was that virtually *all imports were subject to licensing*. Furthermore, although tariffs were steadily increased throughout this period, and were very high for certain goods (144 per cent for consumer luxuries in 1964) it is generally agreed that tariffs had essentially no impact on the volume or composition of imports. At the official rate of exchange, the excess demand for imports created such high internal prices that substantial (excess) profits could be made on imports even after covering all landed costs, including import duties and sales taxes (*see* Radhu [27; 28] and Pal [23; 24] for evidence supporting this statement.) Consequently, all licences issued were utilized and the pattern of imports was dictated by the decisions and actions of the licensing authorities.

The Three Import Licensing Systems

Foreign exchange expenditure is regulated by a high level Foreign Exchange Committee, which prepares the Foreign Exchange Budget (subject to the approval of the Cabinet), allocating available foreign exchange to the public sector or semi-public development corporations (PIDC, PICIC, IDBP), and to the private sector. Once these basic allocations are made, the actual detailed import decision are effected by three distinct licensing systems.

Government Imports

Government imports are determined as part of the budgetary process itself. The various departments and agencies submit their import requests along with other expected expenses, and, within their final budget allocation, the import allotments are explicitly stated. (The Foreign Exchange Committee determines the amount of exchange to be allocated to each ministry [22, p. 52], although the actual government account licences are issued by the CCIE.) Government imports have ranged from 12 per cent (1951/52) to 56 per cent (1956/57) of total imports, but in recent years they have been about 30 per cent (Table A-1).

[1] The sources for this and most other statistics used are given in the tables in Appendix A at the end of the paper. The amount of defence imports is not published and, therefore, is excluded from this study.

Capital Imports for Industry

Import policy for capital goods for industrial expansion, either by existing firms or new firms is determined as part of the broader industrial policy of the country. This latter policy is reflected in the Industrial Investment Schedule, which lists the industries in which investment will be permitted, and indicates the amount of investment to be licensed in each. The main agency interpreting the Investment Schedule and granting permission for investment (and capital imports) is the Central Investment Promotion and Coordination Committee (CIPCC), made up of representatives of the Central Government, both provincial governments, and the major semi-autonomous bodies[2]. Within the provisions of the Investment Schedule, however, certain sanctioning decisions are made directly by the Department of Investment Promotion and Supplies (machinery imports under the Bonus Scheme, for example) and by the two development banks, PICIC and IDBP, which channel foreign aid to the private sector. (Although the Chief Controller of Imports and Exports (CCIE) in the Ministry of Commerce actually issues the licences for these capital goods imports, he does so automatically upon the authorization of one of these other agencies [22, p. 56]). Capital imports by private industry have been about 20 per cent of total imports[3]. (Including government account, capital goods imports have been about 45 per cent of the total in recent years[4]).

Consumer Goods, Industrial Raw Materials, and Spare Parts

The above two licensing systems have not been affected by the liberalization of imports. In fact, in recent years there has been an attempt to rationalize and extend direct controls over capital goods imports, since this area of investment allocation is considered central to the whole planning process. It is in the third

[2] CIPCC, "which has the Minister of Industries as its Chairman, meets almost every month under the Chairmanship of Vice-Chairman, Investment Promotion and Supplies. It now comprises Additional Chief Secretaries (Development) and Secretaries Industries of the two provincial governments besides the Managing Directors of the two financing institutions, PICIC and IBDP; Vice-Chairman, Export Promotion Bureau; Director General, Defence Production; Chief of Industries, Planning Commission; Controller of Foreign Exchange, State Bank of Pakistan and Joint Secretaries of the Ministries of Finance and Commerce. Chairman of the two PIDC's and Managing Director, National Investment Trust also attend the meetings as observers" [10, Foreword, p. iv]. For a detailed description of this system of sanctioning capital machinery imports for the private sector, see a recent study by Tariq Durrani [4].

[3] This is based on the data given in Tables A-1 and A-2. CCIE licensing, discussed in the following paragraph, averaged 70 per cent of private imports during the four years 1960/61 through 1963/64 (Table A-2). The most important component of the 30 per cent remainder has been capital goods, imported largely under various aid agreements. Since some of the CCIE licensing has included capital goods (under the bonus voucher system, for example), and some of the remainder has not been capital goods, it can be roughly estimated that about 30 per cent of private imports have been capital goods. Since private imports have been about 70 per cent of the total (Table A-1), private capital goods imports have been about 20 per cent of total imports.

[4] Capital goods imports averaged 45 per cent of the total during the years 1960/61 through 1962/63. This is based on the data in Table A-3.

import licensing system, controlling essentially consumer goods, raw materials, and spare parts, that a significant degree of import liberalization has occurred. This system, centred on the CCIE, controls about 50 per cent of total imports[5].

Most discussion of import licensing in Pakistan has focused on this CCIE licensing system (and the present study also concentrates on this aspect of the problem), but the relative importance of this portion of the total licensing of imports has not been widely known or fully appreciated. It has often been treated as if it encompassed all imports. Although it has been the single most important component of licensing (and it certainly merits careful study), it has allocated only about 70 per cent of private imports or only about half of total imports during the past few years (Tables A-1 and A-2). If defence imports were included in the total, CCIE licensing would cover less than half of the total.

The basis of the CCIE licensing system as it existed in 1963 was set in 1952, when a crucial decision was made which largely determined the course of subsequent policy developments. In that year, a foreign exchange crisis, caused by rapidly declining prices of the two major exports (raw cotton and jute), and some speculative increase in imports under the free open general licence (OGL) system then in force, required a drastic and immediate reduction in imports. Although there were a variety of alternative methods for restricting imports, the decision was made to introduce a system of rigid and detailed import licensing, with the government determining for every six month "shipping period" the total value of licences to be issued and the allocation of licences by commodity and by importer. The advantages attributed to this system of control were that it could definitely keep imports within any desired (or required) limit, and, in the light of the extreme scarcity of foreign exchange, it gave the government the power to ensure the import of those goods deemed most essential. The effectiveness of licensing as a control over total imports can be seen in the decline of imports from 2,237.3 million rupees in 1951/52 to 1,383.6 million rupees (1952/53), 1,118.0 million rupees (1953/54), and 1,103.3 million rupees (1954/55) (Table A-1).

Many countries faced with similarly urgent problems have resorted to the same type of answer—detailed physical controls. In general, such controls are successful when the crisis is widely felt so that a cooperative spirit prevails, when they are administered with efficiency and equity, and when they are short-lived. When such controls persist for a long time, they do not keep pace with basic

[5] The Chief Controller of Imports and Exports is generally the spokesman for the various authorities and departments which make the import decisions in this sphere of consumer goods, *etc.* Therefore, we shall refer to this as the CCIE licensing system and we will let the CCIE stand for the decision-making authorities in this system, although the Ministry of Finance and Ministry of Industries, as well as others in the Ministry of Commerce are also involved. One weakness in Naqvi's description of the CCIE licensing system is that he attributes too much authority to the CCIE himself [22].

changes in the economy, black markets develop, corruption and bribery increase, and the goals of the control system are subverted. Pakistan's experience is in line with that of other countries, and to a large degree, the development of import policy during the past decade can be explained as an attempt to move away from rigid controls and to make the import policy more flexible and responsive to the needs of a developing economy.

One characteristic of this licensing "solution" to the foreign exchange crisis was that, at the official rate of exchange, there existed a large excess demand for imports, so that the internal prices were substantially above international levels. This price differential was not absorbed by government (through licence fees or import tariffs, for example), but rather it provided a source of excess monopoly profit to those who were granted import licences. In order to distribute licences quickly, efficiently, and with a minimum of corruption, it was decided that they would go to those firms importing during the two and one-half years prior to the cessation of the free OGL system. For each commodity a firm had imported, it was given a monetary "category" equal to its average imports per six-month shipping period during the base years. The amount of each item imported was controlled by changing the per cent of category for which licences were issued. These importers came to be called the "category holders" or "established importers" and the policy was referred to as the "category system"[6].

The interpretation of "essentiality" in the allocation of import licences was such as to give the lowest priority to consumer goods, particularly luxury items, and high priority to raw materials, spare parts, and machinery. This created a very protected and potentially profitable market for domestic production of consumer goods, with the highest protection given to the least essential consumer goods industries. This protection, due basically to the pattern of licensing, was supported by the pattern of tariff duties. As shown in Table A-4, tariffs in 1965/66 ranged from lows of 34 per cent on machinery and equipment and 39 per cent on unprocessed raw materials to 180 per cent on consumer luxuries. Although all rates increased about 75 per cent during the past ten years, the pattern has remained the same (Table A-4), giving relatively more encouragement to the domestic production of less essential goods (*see* Soligo and Stern [29]).

Further, as noted above, the scarcity of all imported goods created large profits for the category holders, which were available for investment. Thus there

[6] Although a record of importing during the two and a half-year period was thought to be a clearcut and definitive method for allocating the valuable import licences, in fact it turned out to be quite difficult to determine who had imported how much during that period. Apparently there were numerous cases where falsified letters of credit and customs receipts were presented as "evidence" of import performance during the base period. Given the profits to be made, such a result is not surprising. During the 1950's much effort was expended by the CCIE in ascertaining precisely who were legitimate importers.

occurred during the mid-1950's a rapid increase in industrial investment and output (in, for example, cotton textiles, tobacco, and sugar), which was primarily due to investment by importers who had funds, entrepreneurial experience and talent and who saw large potential profits in the protected consumer goods industries (*see* Khan [17] and Power [26]). Whereas initially almost all imports were handled by "commercial" importers for resale, the new industrialists were granted "industrial licences" for their raw materials and spare parts, so that they could import directly at the low world market prices, which further stimulated investment in industry.

The amount of commercial and industrial licences issued each shipping period, from 1954 to 1964, is given in Table A-2. Industrial licences increased from less than 100 million rupees per shipping period in 1954/55 to over 400 million rupees in 1962/63 and 1963/64. Prior to 1958, the value of industrial licences issued was less than that of commercial, but since January 1958, the reverse has generally been true.

This increasing import support to domestic industry is shown even more clearly in Table A-3, in which is given the composition of all imports (public and private) from 1957/58 through 1962/63. Imports of raw materials and capital goods increased 142 per cent during this period, from 1,192 million rupees to 2,886 million rupees. In 1957/58 these imports for domestic industry constituted only 58 per cent of all imports, whereas in 1961/62 and 1962/63, they accounted for over three-fourths.

Although there was a pronounced bias favouring domestic investment in consumer goods, some intermediate and capital goods industries were stimulated by "backward linkage", and were protected from world competition by partial or complete bans on imports (and partly, by the general scarcity of all imports, including capital goods). Among these were industries producing paper, fertilizer, chemicals, petroleum products, basic metals, non-metallic minerals, and machinery[7]. In addition, some intermediate industries were stimulated by the export market: jute textiles and leather. However, the dominant impact of the licensing system was to create a price-cost-profit incentive structure which encouraged consumer industries and discouraged investment in producer goods industries, since the latter goods were relatively freely imported (at vary low duties). The import

[7] *See* Lewis and Soligo [19] for a carefully constructed statistical study, which reveals a surprisingly high rate of growth in the intermediate and producers goods industries during the ten-year period under review. Although a complete explanation for this growth is not known, it has taken place in the face of a general policy hindering growth in these industries, except for the derived demand created by the expansion of the consumer goods industries. It is most probable that this growth is due to specific bans (or quotas) on the imports of competing intermediate (and capital) goods, which has "exempted" these industries from the general policy. As noted in the text above, bans and quotas have been a prominent feature of the import licensing system.

policy of the 1950's thus stimulated development in the private sector, but it contained serious weaknesses which became increasingly important in the late 1950's and early 1960's.

Economic Weaknesses

The rapid growth of many domestic consumer goods industries between 1954 and 1959 largely filled the vacuum existing in 1953 (created by the sudden, drastic reduction in imported consumer goods), so that future growth depended essentially upon the general expansion of the economy and the rise in per capital income. Further, whereas there had been initially a brake on consumption expenditure caused by the restrictions on imported consumer goods, domestic consumption of Pakistani goods rose very rapidly [17], putting pressure on the resources available for investment. There emerged an increasing need for an economic policy designed on the one hand to retard the rate of growth of domestic consumer goods industries and on the other hand to stimulate investment and production in export and producer goods industries.

A second economic problem area related to "disparity"—the higher income and growth in West Pakistan *vis-a-vis* the more populous East Pakistan. While the nature and causes of disparity are complex, there is widespread agreement that during the 1950's the West Pakistan economy received about two-thirds of public and private investment and about the same ratio of total imports (Table A-7).

Import policy contributed to disparity in several ways. Perhaps the most important factor was the "category system" which granted the very valuable import licences to those who happened to be importing in the base period from January 1950 to June 1952. West Pakistanis were the most numerous and largest importers, and among East Pakistanis, there were proportionately few Bengalis. Consequently, the profits earned tended to be invested in West Pakistan, which had the additional important attractions of having the political capital where the licensing authorities were located and the major port in Karachi.

Once the disparity of growth pattern was established, then the import authorities were confronted with different "absorptive capacities" for imports in the two provinces. The greatest demand for imports of all kinds and the greatest "need" for intermediate and capital goods was in West Pakistan, and the import authorities responded quite naturally to these pressures, as shown in Tables A-5, A-6, and A-7. The allocation of commercial and industrial licences by the three major centres, Karachi, Lahore, and Dacca, is given in Table A-5 and Table A-6 for the years 1957 through 1964. The value of commercial licences issued to Karachi firms declined from about 45 per cent in the late 1950's to less than one-third (30.2 per cent) in January-June 1964. The West Pakistan (Lahore) share rose during this period, from about 15 per cent to 28 per cent, and the East Pakistan share fluctuated from 32 per cent to 46 per cent, but remained about the same on the average. This shift within West Pakistan from Karachi to Lahore is probably the result of specific policies designed to divert commercial and industrial activity to the interior. For example under the OGL "newcomers scheme" discussed below, new importers from Karachi and other major industrial cities were excluded to facilitate the entrance of businessmen from smaller centres (who would receive their licences from the Lahore office of the CCIE)[8].

In the case of industrial licences, although there have been fluctuations from year to year, each of the three areas have received about one-third of the total, with Karachi's share usually being slightly higher.

This licensing pattern is, of course, mirrored in the actual imports as shown in Table A-7. During 1957-65, East Pakistan imported about one-third of total Pakistan imports (Table A-7, Column 5). In 1957/58 and 1958/59, 36 per cent and 35 per cent of the total went to East Pakistan, whereas in 1963/64 and 1964/65, the ratio was 33 per cent and 32 per cent, so that during this period the East Wing percentage declined somewhat. (Total imports were rising so that in absolute terms it increased in both provinces.)

Although in the past few years the rate of growth in East Pakistan has increased, and is possibly even higher than that in the West Wing [11, p. 11; 18, pp. 180, 182-183] disparity in income and in imports has continued to be a primary political and economic problem[9].

A third economic problem was that the official exchange rate overvalued the currency with the consequent disadvantages resulting from importers (and potential importers) being confronted with a price for foreign exchange which was less than its true opportunity cost. Two types of misallocation resulted. First, the licensing authorities were swamped with applications (for raw materials, intermediate goods, and capital goods imports which were not under the commercial category system), which they were inadequately staffed to process and evaluate. Since the large potential profits to the licence receiver could support substantial bribes, it is doubtful that all decisions were made on the basis of "social marginal products".

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[8] Since "Lahore" firms may have actually been importing for the Karachi market, and/or Karachi firms may have been (illegally) buying the licences from Lahore "importers", this statistical shift within West Pakistan may not be significant. At least additional, supplementary evidence should be gathered before any firm judgment is made about the success of these policies.

[9] The dynamics of the disparity issue are quite similar to Myrdal's "spread" and "backwash" effects [21]. For an analysis of disparity in investment allocation in Pakistan during the First Plan period (1956-61), *see* Edison[5].

Second, those who received foreign exchange at the low official rate were not motivated to economize as much as they would have been motivated at a higher, more realistic rate. Large firms were favoured relative to smaller ones, and since these large firms had relatively easy access to credit at low interest, there was a tendency for them to invest in capital-intensive projects with capital-intensive foreign equipment. This investment was not efficient in the light of Pakistan's factor proportions, nor was it conducive to increasing employment (which has been a continual goal of Pakistani planning). Further, the import of foreign equipment at a price less than its scarcity value acted as an increasingly undesirable disincentive to the growth of the domestic producer goods industry (which was being stimulated by the backward linkages noted above)[10].

The final economic problem to be noted here is that the monopoly position of category holders came under increasing criticism. Although there had been initially substantial reinvestment of their profits, their high incomes also were used for luxury expenditures, perhaps the most conspicuous being housing. In addition, many category holders had actually stopped importing, and were living on the income from the (illegal) sale of their licences. Further, with the growth of industry as a capitalistic-saving sector, there was less need to rely on commercial profits for industrial investment, so that a basic rationale of the category system was undermined. Finally, the growing industrial groups wanted more licences for direct import of raw materials as they found their licences, based on a one-shift output, to be inadequate, and they resented having to buy from the commercial category holders at the high internal prices. All of these factors created a climate in which some reform of the category system was essential.

Administrative Weaknesses

The basic administrative problem has been mentioned above—the licensing authorities lacked adequate staff and information to make wise priority decisions and to implement efficiently the decisions reached. The tasks involved were too numerous and too complex, with the result that many decisions were made which had adverse economic effects.

One difficulty was that import licensing was expected to accomplish too many diverse goals, some of which could be better served by other policy instruments. In addition to keeping total imports in line with total foreign exchange availabilities, the licensing authorities were attempting *i*) to maintain fair and stable internal prices of imported goods, particularly those essential (like food and medicines)

[10] *See* Despres [3] and Haq [15, pp. 39-49] for more extensive explanations of the allocative inefficiency of rigid licensing and the more general need to use factor prices which reflect scarcity values.

used by the "common man"; *ii*) to facilitate the development of new industries, and to permit the full capacity output and expansion of existing industries by partial or complete bans on imports (tailored to the specific situation in each industry); *iii*) to stimulate exports; and *iv*) to attain a better regional distribution of imported goods [22, pp. 54-55]. In general, they wanted to ensure that the most "essential" goods were imported in the "proper" quantities, but there were different interpretations of "essential" and "proper".

Not only were there conflicting goals but there was a lack of timely data and incorrect interpretation of the data available, so that the numerous, detailed licensing decisions were often hastily made and ill-advised. Consequently, policies would be announced, only to be later withdrawn or substantially qualified; certain imports were banned to protect domestic industry, only to discover domestic production to be totally inadequate in quantity or quality; initial licence decisions often permitted too much or too little importing for the maintenance of price stability; errors in judgment were often overcompensated for by a complete reversal of policy—too many imports in one shipping period resulting in a complete ban (and rapidly rising prices) in the next. Such changes in policy were not only disturbing to the commercial importers (who were naturally led to a speculative inventory policy which often accentuated price movements), but highly unpredictable changes in the list of eligible imports (as well as in the quantity of each) created serious difficulties for the industrial producer. On the one hand, he could never be certain whether competitive imports would suddenly be allowed, and on the other hand, he could not know, even within wide limits, the nature of future raw material availabilities.

All of these problems were an inevitable part of the detailed controls system operating in an economy undergoing change and growth. Gradually criticism of the system developed to such a point that the stage was set for import liberalization.

Initial Steps toward Liberalization

Starting in 1959, the Government took several steps to meet some of the weaknesses in the import licensing system. The Export Bonus Scheme of 1959 introduced, in effect, partial devaluation and (partial) multiple, flexible exchange rates (*see* Bruton and Bose [2], and Ahmed [1] for an explanation and analysis of this scheme). Exporters (of about one-third of the total exports) have received various rates, from 10 to 70 per cent above the official rate, and importers have paid approximately a 150 per cent premium above the official rate. The licensing authorities have listed (and revised) the export items covered by the scheme, the bonus on each, and the items which are permitted to be imported. However, for those items specifically placed on the import bonus list the monopoly of category holders was broken, and importers have been free to buy any amount of bonus vouchers at the prevailing market rate and to readily exchange these vouchers for import bonus licences. As shown in Table A-2 (Column 5), about 10 per cent of the total of CCIE licensed imports have been made under this scheme (about 5 per cent of all imports), so it can only be considered a very marginal liberalization, but it has served as a safety valve for domestic prices of particular goods that have been in short supply. Stimulated to a large degree by this scheme, export earnings during the Second Five Year Plan (1960/65) rose about 34 per cent, from a level of 1,799 million rupees in 1960/61 to 2,408 million rupees in 1963/64 [6][11].

In early 1961, a second step toward liberalization was taken in the form of a new OGL system. Under the new OGL, two basic changes were made in commercial licensing (*i.e.*, licensing to commercial firms who resell); *i*) newcomers were granted commercial licences, further undermining the monopoly of category holders; and *ii*) automatic repeat licensing was introduced. When an item was placed on the new OGL list, the category holders were permitted to continue importing it, but additional licences were given to new importers. The effect of this change was largely to redistribute the monopoly profits over a larger number of importers, although it was also thought that competition was stimulated. In some specific cases prices did fall, but this was probably due primarily to the increase in licences issued, rather than the increase in the number of importers. Items placed on the new OGL list were generally those for which the CCIE wanted imports to increase somewhat, and which tended to have relatively high internal prices and profits. Intermediate goods for industry dominated the list[12].

Repeat (or "automatic") licensing was a major administrative step toward making the amount licensed more responsive to market demand. Previously, all licences were issued for six months, and errors in estimating beginning inventories and market demands were generally not corrected until the following shipping period. Under repeat licensing, a limited amount of initial licences are issued at the beginning of the shipping period, but upon showing proof of utilization of this licence, the importer can *automatically* get another licence for an equal amount. (The extent to which repeat licences continue to be issued depends, of course, on

[11] Exports have also been stimulated by the little publicized schemes of "additional" import licences based on "export performance" (*See* Hecox [16] for a description of these schemes). Table A-11 presents the data on licences issued under these export performance schemes, and shows that during 1962-64, they were *equal* in amount to the import bonus licences. More study is called for to ascertain the true significance of this export performance licensing.

[12] A Karachi price survey by Pal in 1964 [23] revealed an average mark-up of 58 per cent on OGL items, which was essentially the same as the average mark-up of 59 per cent for all items covered in the survey. This evidence suggests that OGL did not have much of a downward effect on prices.

the available foreign exchange.) For those goods in which relative prices and profits are high, importers are greatly motivated to import quickly and get repeat licences. Thus the composition of licences issued during the shipping period should have more closely reflected the internal demand and supply situation.

The data on the allocation of commercial licences to OGL newcomers and under repeat licensing is given in Table A-8, for the period 1961-64. Although initially the established importers dominated OGL, the importance of newcomers increased to two-thirds (65.38 per cent) of all OGL licences issued in the January-June 1964 shipping period (Table A-8, Column 7). Newcomers accounted for over half (51.79 per cent) of all commercial licences, which, in turn, was about one-third of all CCIE imports. (In other words, commercial newcomers were issued licences for over one-sixth of all CCIE imports[13].) The big increase was in East Pakistan, where OGL newcomers received in the January-June 1964 shipping period 150 per cent more licences than in January-June 1963 [9].

Automatic repeat licensing was also applied to some items remaining under the category system and to some imported by industries. Including OGL (to which repeat facilities were extended), all automatic licensing covered about 40 percent of CCIE licences and about 20 per cent of all imports (Table A-9).

The import bonus, newcomers, and repeat licensing schemes all contain elements of import liberalization; that is, they all introduce greater reliance on market forces in the allocation of imports. The quantitative importance of all these schemes together is shown in Table A-9. In the January-June 1960 shipping period the only liberalized imports were those coming in under the Bonus Scheme, and they amounted to 12.8 per cent of CCIE licensing. Prior to the free list, the bonus and OGL schemes were considered the main components of liberalization and (as shown in Column (7), Table A-9) import licences issued under these two schemes accounted for over one-third (37.4 per cent) of CCIE licensing in July-December 1963. Including the automatic licensing extended to the category holders and to industrial licence holders (Table A-9, Columns, (8), (9), and (10), *import liberalization encompassed about half (Column (11), Table A-9) of CCIE licensing just prior to the advent of the free list.* (This amounted to about 20 per cent of total imports in this shipping period[14].)

[13] The magnitude of the newcomer scheme under OGL was not appreciated until the licensing data was made available by the CCIE. It was widely assumed that the old category holders continued to receive the bulk of commercial licences and that the impact of the newcomers was only marginal. Naqvi, for example, writing in the spring of 1964 stated: "Over 90 per cent of commercial licensing is still done within the category system" [22, p. 61].

[14] An argument can be made that oil products (Table A-2, Column 3) should be included with other liberalized imports. These were 12.2 per cent of CCIE imports in July-December 1963, which would bring the total pre-free list liberalization to 60 per cent of CCIE imports. The Oil Companies Advisory Committee (OCAC) estimates the demand for various oil products in each shipping period and, essentially, the government authorizes the issuance of licences equal to this estimate. Hence, import licensing is not restrictive in this case.

The Need for Further Liberalization

Although definite improvements had been made by 1963, as discussed above, many problems still remained. Perhaps the most critical of these was in the area of raw materials.

In determining the relative essentiality of imports, the licensing authorities apparently ranked capital goods as relatively more important than intermediate or consumer goods, since the expansion of capacity proceeded at a faster rate than the availability of imported raw materials, so that capacity utilization was declining. Although raw materials were, in principle, licensed on the basis of a single shift capacity, most firms experienced shortages, and there was some evidence that many firms were not able to operate steadily even at one shift capacity.

The essentiality ranking of the licencing authorities and the resulting shortage of raw materials set into motion a perverse "vicious circle". Firms were motivated to expand capacity to qualify for raw material licences (and also to take advantage of profitable accelerated depreciation policies). The licensing authorities were thus confronted with excessive demands for imported capital goods, which "justified" their diversion of relatively more of the (limited) available foreign exchange resources into capital goods and relatively less into raw materials. As a consequence, during the three years 1960/61 through 1962/63, imports of capital goods increased 50 per cent, while imports of raw materials were essentially constant (Table A-3).

A concomitant of this situation was a thriving black market in imported raw materials. Although there was a general shortage, some firms had excessive licences for particular items because their output pattern had shifted, changing their requirements, or because the original licences were issued on the basis of inadequate surveys of the firms' needs. (Some firms had surplus licences granted under the very generous additional licences scheme based on export performance, but separate from the Export Bonus Scheme [16].) The black market probably improved the allocation of raw materials, permitting firms to meet their most pressing requirements, but the licensing-*cum*-black market allocation mechanism was increasingly recognized as a highly inefficient one.

So strong was the bias in the licensing system toward capital goods imports, that not even rising foreign exchange reserves led the authorities to increase imports of raw materials. Starting in October 1962, reserves rose 40 per cent by June 1963 and remained relatively high well into 1964. In spite of the rise in reserves, CCIE licensing was cut back 12 per cent from July-December 1962 to January-June 1963, and, although total CCIE licensing increased somewhat

(7 per cent) in the next shipping period, industrial licences were reduced an additional 5 per cent in July-December 1963. The cost of the rising reserves, although not precisely measurable, must have been quite high in terms of the output foregone due to the lack of adequate raw materials.

Although many of the problems discussed above remained unresolved, the primary one upon which attention focussed in 1963 was that of idle capacity and the volume and allocation of imported raw materials. The liberalization in 1964 was a bold attempt to move toward a solution of this problem.

B. IMPORT LIBERALIZATION IN 1964: THE FREE LIST

By the end of 1963, as indicated above, various import liberalizing measures had been introduced which encompassed about half of CCIE licensing (Table A-9). Yet all of these measures still required the issuance of licences before import orders could be made, so that prior to 1964 virtually all imports were directly controlled by the import licensing system. Because of the idle capacity, raw material problem and other problems plaguing Pakistan's import policy, further import liberalization was widely discussed in both official and non-official circles. Although gradually there emerged from this discussion a general concensus that further import liberalization was desirable, there remained substantial disagreement on how this was to be done.

The Definition of Import Liberalization

In part, the debate at this time was the result of a fundamental disagreement over the meaning of "import liberalization". In the present study, the phrase is defined as "changes in import policy placing greater reliance on market mechanisms in allocating foreign exchange". Repeat licensing was intended, in part at least, to distribute licences in response to the pattern of internal money demands for the various goods. The import bonus system permits, in its sphere of influence, the cost of buying foreign exchange to rise to ration imports among competing uses (and users). In broader terms, import liberalization (in this study) means less direct, physical controls over imports and importers, and greater emphasis on indirect fiscal and monetary controls to influence (and regulate) business decisions on whether, what, and how much to import.

There is another, entirely different meaning of "import liberalization" which is used by a substantial number of businessmen and officials: *more* imports. A "liberal" import policy is one under which a greater quantity of imports are permitted. Since more imports could be permitted under a rigid licensing system (by enlarging the amount of licences issued), or alternatively since the same amount of imports could be allocated either by rigid licensing or by more indirect, "market mechanism" controls, the two definitions are clearly distinct and separate. While there is essentially universal agreement that more imports are desirable (so in this sense almost everyone favours "import liberalization"), there has been (and continues to be) a lengthy debate about the nature and extent of controls over the allocation of imports.

The confusion surrounding these two definitions has been enhanced by the fact that, chronologically, the introduction and spread of "market mechanism" controls in the allocation of foreign exchange has coincided with the expansion of imports. The import bonus scheme was started in 1959 and the OGL newcomers programme and repeat licensing were added in 1960; both have steadily expanded since their introduction. During this same period, private sector imports which averaged 533 million rupees during the two six-month shipping periods of 1959 rose quite steadily to 1,607.8 million rupees in July-December 1963, three times the 1959 level. Consequently, between 1959 and 1964, both types of "import liberalization" were taking place at the same time. It is certainly understandable how the definitional confusion arose and why it persists to the present time.

The simultaneous expansion of both types of "import liberalization" was no coincidence. In part, it was the result of the bonus scheme, which directly linked a "market" system of import rationing (according to willingness and ability to pay) to export bonuses. Exports have been greatly stimulated by this scheme [1; 2] and the increased foreign exchange has facilitated more imports.

More important, however, was that the increasing availability of foreign exchange between 1959 and 1964, due to rising export earnings and more foreign aid, encouraged the import authorities to experiment with less direct and rigid controls, which expanded the area within which market forces could operate. With very limited foreign exchange resources during 1953-1959, it was felt that rigid controls were essential to make certain that the most pressing import needs were met. With the greater availability of foreign exchange after 1959, this important rationale for the detailed direct control of imports was gradually undermined.

Although there has been this logical relationship between the two meanings of "import liberalization", they are conceptually distinct. In the remainder of the present study, the focus will be on import liberalization defined as greater reliance on the market mechanism (influenced indirectly by fiscal and monetary policies) in the rationing of imports.

The Free List

Of course, the debate over further import liberalization was not due solely to the definitional confusion noted above. While there was an increasing desire in both business and government circles for the removal of onerous controls, this was tempered by the fear that freer trade policies would not be consistent with the basic economic goals of keeping total foreign exchange payments within required limits; encouraging and protecting domestic industry; and allocating foreign exchange so that the most essential goods are imported in the right quantities and are directed into desired geographical regions and into the proper industrial and consumer uses. Although there was widespread agreement on these goals (at least when they were stated in general terms), there existed some disagreement over whether they could best be attained by freer trade; and, even though the freer trade forces were winning increasing support during the early 1960's, there was debate within these forces as to precisely which steps toward import liberalization should be taken and in what sequence. Some argued for relatively "free trade", with a combination of devaluation of the rupee and higher tariffs to achieve the desired rationing of foreign exchange. Others maintained that continued liberalization within the licensing system, with gradual expansion of the new OGL, automatic licensing, and the import bonus scheme, would be the safest course to follow.

Out of this debate came the free list which was first announced in the import policy for January-June 1964 :

> It has been decided to place M. S. Billets, Pig Iron, Tin Plate and Strips on import free list against U.S. Loan without cover of any license with immediate effect[15].

A basic change thus occurred in Pakistani import policy: certain goods (four iron and steel items) were allowed to be imported *without licence*. This experiment with the free list was continued and expanded in the July-December 1964 shipping period when 50 additional items were added to the free list [7, July 2, 1964 and October 17, 1964]. It was further reinforced in July 1965 when four more items were added and a very important change was made in the length of the shipping period, extending it from six months to one year [7, July 5, 1965]. Although it was a compromise among many views, and there were many exceptions and qualifications, the free list must be ranked as the greatest single step toward import liberalization taken since the imposition of detailed licensing in 1953.

Initially the free list in January-June 1964, was financed by U. S. Aid, and imports were limited to U. S. steel. Expanded aid resources were thought to be adequate to meet the anticipated increase in demand for steel, so no restrictive changes in tax or credit arrangements were introduced. In essence, U.S.

[15] All import policies, and amendments thereto, are published in the *Gazette of Pakistan* [7]. The free list was first announced in the "Import Policy for January-June 1964", published in *The Gazette* of January 2, 1964. (The above quote was on page 3.)

commodity aid in steel was financing a very limited experiment in "free trade." For imports other than steel, Pakistan continued its previous licensing policies, including expanded emphasis on the new OGL, import bonus, and automatic licensing. Imports under these three schemes increased from 432.3 million rupees in July-December 1963, to 666.5 million rupees in January-June 1964, a rise of over 50 per cent [25]. Including free list imports of 354.8 million rupees[9], import liberalization policies encompassed 1,021.3 million rupees of imports, over two-thirds of CCIE imports (including free list) for that shipping period[16]. While this is a commendable continuation of the trend toward liberalization, the growth of the "old" methods of import liberalization made it appear that the free list was considered an additional method of liberalized imports, made possible by expanded foreign exchange resources, and that it was not considered a general policy which would replace some (or all) of the schemes previously used.

With the import policy of July-December 1964 [7, July 2, 1964; (amended and modified on October 17, 1964 [7]), the nature of the government's interpretation of and commitment to the free list became much clearer. First, the list of importable items was expanded by 50 additional goods. Second, although the major part of the free list continued to be financed by foreign aid, Pakistan committed its own foreign exchange earnings to finance 22 of the items, including one of the larger ones—maintenance spares—which encompassed about 3 per cent of free list imports. (Iron and steel accounted for about 50 per cent of free list imports, with the next most important items accounting for only about 7 per cent (*see* Table A-10)

In addition to this expansion of the list and commitment of Pakistan's foreign exchange resources, a third significant change was made: fiscal and monetary policies were adjusted to help control foreign exchange usage by indirect means, replacing to some degree the licensing controls that were being removed. Between 1959 and 1963, import duties rose by about one-third, with increases ranging from 11 per cent on certain processed raw materials to 115 per cent on semi-luxury consumer good (*see* Table A-4). Then, early in July 1964, the Ministry of Finance announced a "regulatory duty" on free list imports [7, July 11, 1964], which ranged from 5 to 20 per cent *ad valorem*; (almost all increases were either 10 or 5 per cent). Since the Pakistan sales tax is charged on a base including import duties, the increase in cost to importers was

[16] Including oil imports of 117 million rupees, liberalized imports constituted 74 per cent of all CCIE imports for January-June 1964. *See* Footnote 14 above.

somewhat higher than the rise in the duties, and averaged out to about 13 per-cent.[17]

In June 1965, duties on capital machinery imports were increased 12-1/2 per cent *ad valorem*, from 12-1/2 per cent to 25 per cent in West Pakistan and from 7-1/2 per cent to 20 per cent in East Pakistan. In November 1965, a defence surcharge of 25 per cent of the existing tax rates was levied on both import duties and sales taxes. (All of these increases have been retained in the latest budget, announced in June 1966.) Thus, the effective tax rate on imports has risen approximately another one-third since the advent of the free list, and they stand about 75 per cent above the 1959 level, when liberalization began (*see* Table A-4.)

Supplementing the tax increases, credit controls were tightened somewhat by action of the State Bank of Pakistan in July 1964. Upon opening a letter of credit to initiate payment for goods, an importer was required to make a 25 per cent deposit. Further, once the goods arrived, the importer had to pay 40 per cent of their value; that is, he could borrow only up to 60 per cent of the value of free list imports[18].

Although these tax and credit changes might be considered only marginal adjustments in the light of the previous policies, they established a necessary precedent to the effect that direct controls cannot be meaningfully removed, unless they are replaced by indirect controls to accomplish the desired objectives. In this instance, the mere removal of licensing would have led to an import splurge that could not have been financed; tax increases and credit restrictions served to restrict imports within necessary limits.

Table A-10 shows the imports of items on the free list (the six major items and the total) during the period immediately preceding the introduction of the free list and up to the end of 1964. These imports grew substantially, rising by 46 per cent from the last half of calendar 1963 to the same period in 1964, while total imports increased by only 14 per cent (Row 8 and Row 9, Table A-10). The proportion of free list imports rose from about 20 per cent to over 25 per cent of total imports (Row 11) [24, pp. 556-57]. Of the 51 items on the list, steel accounted for about half, the six largest items accounted for over three-fourths, and the top 12 accounted for about 90 per cent of total free list imports in the last quarter of 1964. Eleven of these 12 are raw materials, and together they constitute the vast bulk of imported raw materials used by Pakistani industry.

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[17] Radhu's estimate, reflected in Table A-4, is 13 per cent for "processed raw materials for capital goods", and 14 per cent for "processed raw materials for consumption goods".

[18] *See* [14] for a presentation of the regulations governing imports under the free list, including credit controls.

It is generally agreed that domestic prices of free list imports fell relative to prices of licensed imports. A study by Pal [23], mentioned previously, revealed that in Karachi in the summer of 1964, the average percentage mark-up on the sale of licensed imports was about 60 per cent. (The percentage mark-up is the ratio of internal market price less landed costs to landed costs. Landed costs are all costs inclusive of tariffs and sales taxes.) A second survey by Pal [24] of Karachi and Chittagong prices in the winter of 1964/65 indicated that the percentage mark-up on all items had fallen to about 44 per cent (46 per cent in Karachi), and that for free list items, it was down to 28 per cent. Although the overall price indices were rising during this period [6], the prices of free list items fell about 6-7 per cent [24]. Although Pal's research produced the first published results on the price-cost relationship of imported goods, his conclusions were not unexpected; they confirmed the impression of many observers that the free list exerted a substantial downward pressure on prices.

As noted in the previous section, one of the major aims of the free list was to facilitate a solution to the idle (excess) capacity problem, which was widespread in the private industrial sector. Although there are no published studies on the use of capacity, there is agreement among informed observers that this goal of the free list was to a large degree achieved and that industrial production has increased markedly. Industrialists were able to get their raw materials more readily and more cheaply because they no longer had to buy from high-priced commercial importers and black market sources. The free list permitted some industries to import directly for the first time, so that they were better able to import according to their specifications, improving both quality and quantity of their output. Because of this factor, production could be planned in a more rational fashion and frequent shutdowns were avoided.

These favourable trends in imports, prices, and production seem to indicate that a primary objective of liberalization was achieved[19]. However, it could be argued that the short run results could have come about through expanded licensing under OGL (or even under the category system), since they were primarily due to expanded imports of raw materials. The unique feature of liberalization is not more imports, but an import policy relying more on the market mechanism. Although this characteristic is very difficult to appraise, there is some evidence of positive results. Since free list imports are essentially for the private sector, and since they rose from one-fifth to one-fourth of total imports, it might be concluded that the private sector was stimulated and

[19] It is significant to note that the period of import liberalization from 1959-1965 coincided with a major increase in the growth rate of Pakistan's national income, which rose at an average annual rate of only 2.4 per cent from 1949/50 to 1959/60, but increased at an average annual rate of 5.3 per cent from 1959/60 to 1964/65. Although one must be hesitant in drawing sweeping conclusions about the causal relationship, import liberalization was certainly one of the factors contributing to the improved performance of the economy.

strengthened. Since there was more freedom of entry into the import trade, previous monopoly (or quasi-monopoly) positions were weakened or destroyed. Many smaller industrial firms, with few or no import licences, were particularly benefited since they now had easier access to cheaper raw materials. The business community in general noted (and in some instances, complained about) the increasing competition that came with the free list; they indicated that prices were reduced to meet this competition and that they tried to maintain profits by a larger volume of sales. Further, as stated above, the reliance on increased duties and restricted credit in lieu of licensing has been a most significant institutional change toward freer trade[20].

The free list had two surprising, or at least interesting, effects vis-a-vis East Pakistan. The discussion of "disparity" in income between the two provinces, in Section II-A above, indicated that two-thirds of import licences (and two-thirds of imports) have gone to West Pakistan, probably because of its more rapid growth and greater "absorptive capacity". This type of analysis led many to expect that the introduction of freer trade would result in the continuation of this imbalance in imports or perhaps a further deterioration with even more imports going to the West Wing. This expectation was *not* borne out by free list imports during 1964 (Table A-10): East Pakistan received, on the average, 40 per cent of free list imports and in the case of iron and steel, it received over half. While overall, free list imports increased 46 per cent, those in the East Wing rose 64 per cent. Although part of this was due to the fact that certain free list items (such as cement) were restricted to East Pakistan, other factors were undoubtedly important. It may have been due to excessive inventory accumulation (recent evidence of which is that many factories continued to operate during 1965/66, despite severe cutbacks in imported raw materials). To some extent, it may be the result of the recent high growth rate in the East Pakistan economy [11, p. 11], which has brought about an enlarged "absorptive capacity" for imports[21]. Regardless of the causes, this was a surprising, and apparently a pleasing, aspect of import performance under the free list.

A highly controversial effect of the free list has been its impact on the newcomers under OGL, particularly in East Pakistan, who were formerly importing the 51 items. As discussed above, in Section II-A, OGL was very

[20] Nevertheless, the free list has been a limited liberalization, as indicated below.

[21] Since public and semi-public agencies are permitted to import under the free list (*see* the end of Appendix B), their imports may partially explain the East Pakistan performance under the free list. Also, West Pakistan non-free list imports have been so high, that, overall, East Pakistan has continued to receive about one-third of total imports (Table A-10). Consequently, it is difficult to appraise the true significance of the East Pakistan performance under the free list.

important to the Bengali businessmen, because they had generally not been importing in 1950-52, and therefore they were largely excluded from commercial importing under the category system. After OGL was introduced in 1960, many relatively small businessmen were granted licences, and because of the scarcity conditions prevailing, these licences brought profit to their holders. Either they sold the licence, reaping the profit without importing, or they imported the goods and collected the premium prevailing between internal prices and landed costs.

When these items were placed on the free list, the unearned profit disappeared. While an obvious effect was one of income redistribution, in which the former OGL licensees were hurt, a side effect was to eliminate some (possibly many) of the newcomers from the import trade. With a valuable OGL licence, the newcomer was credit-worthy; he had no difficulty opening a letter of credit and importing. Without the licence, the newcomers have encountered difficulty obtaining credit. Although there is no data to permit evaluation of the importance of this problem, the former OGL newcomers (particularly in East Pakistan) have been vociferous critics of the free list.

Overall, however, there seems to be widespread agreement that the economic effects of the free list were very favourable.

How "Free" is the Free List?

As mentioned above, the free list is an import policy of "free trade" with qualifications and exceptions; and, while there are substantial reasons for believing that a significant step toward import liberalization was achieved, the qualifications are rather extensive[22].

There are five major restrictions surrounding the free list, which relate to *i*) who can import; *ii*) the geographical region into which the import can come; *iii*) the country from which the import must be purchased; *iv*) the amount to be imported; and *v*) whether particular sub-types of goods can be imported, and if so, how much of each. In addition, as a result of these restrictions, problems of interpretation and administrative implementation have arisen which themselves have further limited the move toward import liberalization. For example, powdered milk was placed on the free list in July 1964, but within a short time, the aid allocation was used up and the opening of letters of credit for the import of powdered milk was not allowed. Powdered milk remained on the free list, but no one could import it. Some cases arose where there existed confusion as to what could be imported under specific headings.

[22] *See* Appendix B for a detailed description of the free list restrictions.

Under "scientific instruments", for example, it was argued by certain importers that insect spray guns should be allowed; ultimately, after some debate and delay, it was decided by the CCIE that these were not intended to be included as "scientific instruments" under the free list. In other cases, imports of legitimate items were delayed until particular rulings had been handed down. (Although there were many examples of this type of problem, they have probably been reduced in number as a result of increased experience with the free list.)

While this line of argument leads to the conclusion that the 1965 Free List wasn't very "free", it must not be carried to the extreme. It has been an evolutionary change, rather than a revolutionary departure from the past, but it has been a change nevertheless; and on the basis of the reasons outlined in the earlier part of this section, one can justifiably conclude that a major step toward import liberalization has taken place.

III. SUMMARY AND CONCLUSIONS

One of the primary purposes of this paper has been to describe the institutional changes which occurred in Pakistan between 1959 and 1965, which, in the aggregate, have produced a liberalization of import policy that is probably unique among underdeveloped countries. There has existed some confusion about the meaning of "import liberalization", as well as about the nature and significance of its component parts. Hopefully, this study has shed light on these important questions by analysing the decline of direct controls and the rise of more flexible policies which permitted a greater play of market forces. Bonus voucher imports, OGL, repeat licensing, free list, tighter credit, and higher duties have all played an integral part in this trend.

In describing this trend, emphasis has been placed on the quantitative side of import licensing and import liberalization, based on the data made available by the CCIE in 1964 and 1965. Several major statistical points stand out and are worth repeating. *i*) CCIE imports (essentially consumer goods, raw materials, and spare parts) are only about half of total imports. (The remainder are government purchases and private machinery imports). *ii*) Prior to the advent of the free list, substantial import liberalization had already been achieved in the Bonus Scheme, OGL, and repeat licensing, which altogether constituted about half of CCIE licensing in 1963 (or one-fourth of total imports). *iii*) Because of the OGL scheme, over half of the value of all commercial licences were granted to newcomers in January-June 1964 (over one-sixth of all CCIE imports), substantially undermining the "monopoly" position of the old category holders. *iv*) Whereas industrial licences were only about 37 per cent of CCIE imports in the mid-1950's, they have grown to about 55 per cent in the mid-1960's. This change has further weakened the position of the established commercial importers (whose licences were less than one-sixth of CCIE imports in January-June 1964). *v*) The free list encompassed about 25 per cent of total imports in 1964. Including bonus imports, OGL, and repeat licensing with the free list, total liberalization covered over two-thirds of CCIE imports and about 35 per cent of total imports in 1964. *vi*) During this same period that licensing controls were being reduced, the indirect controls of fiscal and monetary policy were being strengthened. Import duties were increased about one-third from 1959-63 and another one-third after the free list was introduced, so that altogether they have been raised, on the average, about 75 per cent above the rates prevailing in 1959. These facts highlight the quantitative dimension of import liberalization.

A qualitative evaluation of liberalization is much more difficult. There has not been a simple, straightline trend, with the removal of direct controls and the substitution of indirect ones. Rather it has been a complex and confusing movement and adjustment, with the introduction of new administrative policies (OGL, repeat licensing) which were still direct controls, but which were somewhat more flexible and market oriented. Even the free list was not very "free", but was hedged in by numerous restrictions (and is even more restrictive in 1966).

This hesitant movement toward liberalization was due to various problems faced by Pakistani officials and planners; and it is necessary to briefly review these problems here, not only to gain insight into the past development, important as that may be, but also because they still exist to some extent, and frustrate further moves toward a more liberal import policy.

1) From the standpoint of government officials, perhaps the overriding problem is the maintenance of control over aggregate foreign exchange expenditures. The removal of licensing requires an alternative form of rationing to prevent imports from exceeding available foreign exchange resources, and although tariffs and credit controls have been increased, they were not and they are not adequate to reduce demand to the available supply of foreign exchange. Because of this balance of payments gap, because of the uncertainties on the supply side (due partly to the unpredictability of aid), and because of the certainty of some capital flight on the demand side, the government has proceeded slowly on the removal of direct controls.

2) It is difficult to know what problem was the next most important, but from the number of restrictions scattered throughout recent import policies, it is probably "protection" (and encouragement) to domestic industry. That is, on grounds of basic industrial development strategy, export promotion, and import substitution, the government has encouraged (directly and indirectly) the development of a large number of firms in a variety of industries. Many of these firms cannot now compete in or against the world market at the official exchange rate of Rs. 4.76 per dollar. Thus bans, quotas, and special licensing arrangements have been used to facilitate the birth and growth of these firms.

3) Closely related to the protection problem is that of "priorities". Investment in certain "essential" industries is less profitable than in other fields. Further, imported raw materials tend to flow to some very profitable "non-essential" industries. In an attempt to confine imported capital goods and raw materials to the "essential" industries, direct controls have been (and continue to be) utilized.

4) The disparity of income within and between the two provinces has been the source of the retention (and in some cases, the expansion) of direct import controls. It is felt that the smaller, weaker firms, sectors and regions need special protection and encouragement.

5) Some of the direct controls over imports have been retained to ensure scarcity and adequate profitability, both to motivate investment and to provide funds for future saving and investment. Paradoxically this "incomes policy" has tended to favour the rich, who are apt to save and invest, and therefore certain controls fostering this incomes policy run counter to other controls imposed to distribute income more equally (4 above).

6) Almost all aid and barter agreements are tied both in source and in commodities permissible for import. These agreements create the need for numerous import restrictions.

7) Finally, for certain goods there are price differentials between Pakistan and neighbouring countries, particularly India. Because of Pakistan's import liberalization, many of Pakistan's prices are lower and in some cases substantially below those prevailing in India, which has led to smuggling (often associated with capital flight, noted in 1 above). In order to reduce this smuggling, the government has imposed specific controls over which firms can import these "sensitive" items, and how much they can import.

Pakistan has made substantial progress toward import liberalization, but the pace and qualitative nature of this development have been heavily influenced by these seven problems. Theoretically, for most of them there exist "liberal" solutions, including taxes, subsidies, and investment and credit policies.

These policies could influence prices, costs, and relative profitability, and thus motivate resource owners and users to act in accordance with planning goals, so that direct import controls would not be necessary. For example, a foreign exchange auction would facilitate the removal of licences without risking a balance of payments crisis; a tariff policy could be developed which could serve the purposes of both protection and aggregate balance of payments control; an excise tax policy could be formulated which would discourage resources from being used in unessential industries by making them unprofitable; *etc.* In some cases, the difficulties may prove illusory and relatively easy policy changes might be made. (To some extent, the smuggling problem has already been solved by raising tariffs or putting the items on the bonus import list; this increases the Pakistani prices and substantially removes the incentive for smuggling.) In most cases, the administrative and political problems in creating and implementing effective liberal policies will be sufficiently difficult that rapid progress in the withdrawal of direct controls cannot be expected. An analysis of these seven problems and alternative solutions is beyond the scope of the present study; but until additional research is done, and until indirect controls are developed and implemented to solve them, these problems inhibit further liberalization of Pakistan's import policy.

Pakistan has moved from an import policy relying almost completely on administrative controls to a policy mix which includes substantial elements of indirect controls working through the market. The question has never been one of controls versus uncontrolled free trade, but rather it has been what type of import controls would be most efficient in facilitating Pakistan's economic growth. The evidence reviewed in this study indicates that the trend toward liberalization has had favourable effects on prices and mark-ups, and on production and utilization of capacity; the private sector was stimulated, particularly the smaller industrial firms. Although adequate evidence is not available to support a dogmatic conclusion, the facts suggest that the experiment with a liberal policy has been successful and that it should be continued and extended. Further progress, however, depends on solving the seven problems noted above. It is to these areas, therefore, that future research should be devoted.

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These policies could influence prices, costs, and relative profitability, and thus motivate resource owners and users to act in accordance with planning goals, so that direct import controls would not be necessary. For example, a foreign exchange auction would facilitate the removal of licences without risking a balance of payments crisis; a tariff policy could be developed which could serve the purposes of both protection and aggregate balance of payments control; an excise tax policy could be formulated which would discourage resources from being used in unessential industries by making them unprofitable; *etc.* In some cases, the difficulties may prove illusory and relatively easy policy changes might be made. (To some extent, the smuggling problem has already been solved by raising tariffs or putting the items on the bonus import list; this increases the Pakistani prices and substantially removes the incentive for smuggling.) In most cases, the administrative and political problems in creating and implementing effective liberal policies will be sufficiently difficult that rapid progress in the withdrawal of direct controls cannot be expected. An analysis of these seven problems and alternative solutions is beyond the scope of the present study; but until additional research is done, and until indirect controls are developed and implemented to solve them, these problems inhibit further liberalization of Pakistan's import policy.

Pakistan has moved from an import policy relying almost completely on administrative controls to a policy mix which includes substantial elements of indirect controls working through the market. The question has never been one of controls versus uncontrolled free trade, but rather it has been what type of import controls would be most efficient in facilitating Pakistan's economic growth. The evidence reviewed in this study indicates that the trend toward liberalization has had favourable effects on prices and mark-ups, and on production and utilization of capacity; the private sector was stimulated, particularly the smaller industrial firms. Although adequate evidence is not available to support a dogmatic conclusion, the facts suggest that the experiment with a liberal policy has been successful and that it should be continued and extended. Further progress, however, depends on solving the seven problems noted above. It is to these areas, therefore, that future research should be devoted.

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Appendix A

TABLE A-1

EXTENT OF GOVERNMENT IMPORTS, 1950/51 TO 1963/64

(million rupees)

Period (July-June)	Imports on private account	Imports on government account[a]	Total imports[a]	Col. (2) as per cent of Col. (4)
(1)	(2)	(3)	(4)	(5)
1950/51	1430.3	189.7	1620.0	88
1951/52	1962.8	274.6	2237.3	88
1952/53	936.2	447.4	1383.6	68
1953/54	735.1	382.9	1118.0	66
1954/55	922.2	181.1	1103.3	83
1955/56	989.8	335.3	1325.1	75
1956/57	1019.4	1315.1	2334.6	44
1957/58	939.7	1110.3	2050.0	46
1958/59	839.7	738.7	1578.4	53
1959/60	1682.0	779.0	2461.0	68
1960/61	2120.8	1066.9	3187.6	67
1961/62	2258.9	850.2	3109.1	72
1962/63	2799.8	1019.0	3818.8	73
1963/64	3191.4	1238.8	4430.2	72

[a] Defence imports are excluded.

Source: [6].

TABLE A-2

PRIVATE IMPORTS:

CCIE LICENSING AND ACTUAL IMPORTS

(million rupees)

Period	Licences issued by the Chief Controller[a]					Actual private sector imports	Col. (6) as % of Col. (7)
	Commercial	OCAC[b]	Industrial	Bonus import	Total CCIE licensing		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Jan-June 1953	—	—	—	—	74.6	—	—
July-Dec 1953	—	—	—	—	309.8	—	—
Jan-June 1954	—	—	—	—	311.9	—	—
July-Dec 1954	153.9	—	94.9	—	248.8	506.6	49
Jan-June 1955	213.6	—	90.6	—	304.3	415.6	73
July-Dec 1955	221.7[c]	—	163.0[c]	—	384.7[c]	522.2	74
Jan-June 1956	227.9	—	178.7	—	406.6	467.6	87
July-Dec 1956	312.6	—	106.3[d]	—	418.9[d]	515.7	81
Jan-June 1957	104.3	106.9	133.1	—	344.3	503.7	68
July-Dec 1957	128.5	100.0	171.1	—	399.6	463.3	86
Jan-June 1958	134.8	81.1	186.2	—	402.1	476.3	85
July-Dec 1958	117.7	106.7	159.1	—	383.5	465.4	82
Jan-June 1959	125.1	105.1	161.2	16.1	407.5	374.3	109
July-Dec 1959	152.5	108.7	221.7	60.2	543.1	692.5	78
Jan-June 1960	156.9	107.3	215.3	70.7	550.2	989.4	56
July-Dec 1960	231.8	107.4	269.6	72.6	681.4	1088.4	63
Jan-June 1961	358.6	65.2	311.1	73.4	808.3	1032.4	78
July-Dec 1961	280.5	102.2	363.8	81.8	828.3	1076.0	77
Jan-June 1962	294.3	110.5	463.8	83.3	951.9	1182.9	80
July-Dec 1962	326.8	107.1	411.3	109.3	954.5	1535.4	62
Jan-June 1963	233.2	108.4	402.2	91.3	835.7	1264.4	66
July-Dec 1963	288.7	108.4	382.7	110.9	890.7	1607.8	55
Jan-June 1964	498.8	117.1	432.0	126.4	1174.3[e]	1589.4	75

a) Although these figures are based on data supplied by the Office of the CCIE, they should not be considered "official". The CCIE generously sanctioned the release and use of the licensing data readily available in his offices, but unfortunately, (yet understandably) this data is not entirely internally consistent—the detailed figures and the totals do not agree in every case, and in some instances, several different total figures were given. Throughout its history, the Office of the CCIE has been understaffed to handle the demands placed upon it, and this has been particularly true of the statistical sections. Data has been collected and worked up by hand (especially in the earlier period) and the office has been "short-handed". Data coming from the regional offices to the main office have not always been clearly defined, and on occasion they have been misplaced—either lost in transit or filed in the wrong place when the main office moved from Karachi to Rawalpindi. In spite of these problems, the CCIE recognized the potential benefit to be derived from making the data available to researchers working on the licensing system in particular, or import policy in general.

(contd. on next page)

TABLE A-3

COMPOSITION OF TOTAL IMPORTS[a]

(*million*; *rupees current prices*)

Year (July-June)	Imports for domestic industry					Imports of consumer goods C_o^b	
	C_A^b	RC_A^b	RC_o^b	Rupees	As per cent of all imports (5)÷[(5)+(7)]	Rupees	As per cent of all imports (7)÷[(5)+(7)]
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1957/58	717	323	152	1,192	58	858	42
1958/59	629	300	165	1,094	69	485	31
1959/60	989	439	305	1,733	70	728	30
1960/61	1210	570	418	2,198	69	989	31
1961/62	1460	468	453	2,381	77	729	23
1962/63	1903	478	505	2,886	76	932	24

Source: [12, Table 1, p. 22.].

a) Defence imports are excluded.

b) C_A = capital goods RC_A = raw materials for capital goods industries;

RC_o = raw materials for consumer goods industries; C_o = consumer goods.

(*from page 529*)

The figures in this table are from the compilation of CCIE data made by the Pakistan Institute of Development Economics (PIDE) [25]; although the data discrepancies are not very great, they are under investigation in both the Office of the CCIE and the PIDE, and it is possible that at some future date more accurate statistics will become available.

Dash (—) means not available.

b) OCAC imports are for the Oil Companies Advisory Committee, which has imported various oil products on behalf of all oil companies in Pakistan. These products have been listed separately in the CCIE data and it is difficult to assign them under either the "commercial" or "industrial" heading.

c) This includes revalidation of 35.1 million rupees due to devaluation of the rupee in July 1955 [9].

d) This excludes industrial aid amounts.

e) Including 354.8 million rupees of free list imports, the total was 1529.1 million rupees, or 96 per cent of total private imports.

Sources: *i*) Figures for the values licensed are from the unpublished records of the Office of the Chief Controller of Imports and Exports (CCIE). Except for July-Dec., 1955, the data are taken from the PIDE compilation [25].

ii) Figures for actual private imports are from the *Statistical Bulletin* [6].

TABLE A-4

AVERAGE RATE OF DUTY ON IMPORTED GOODS BY TYPES OF COMMODITY

Description	1955/56	1956/57	1957/58	1958/59	1959/60	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66
Consumption Goods											
a) Essentials	35	35	35	35	35	55	55	55	56	56	70
b) Semi luxuries	54	54	54	54	54	111	111	111	116	118	148
c) Luxuries	99	99	99	99	99	140	140	140	142	144	180
Raw Materials for Consumption Goods											
a) Unprocessed	26	26	26	26	26	27	27	27	30	31	39
b) Processed	43	43	43	43	43	50	50	48	51	65	81
Raw Material for Capital Goods											
a) Unprocessed	23	23	23	23	23	28	28	28	31	32	40
b) Processed	38	38	38	38	38	40	40	39	42	55	69
Capital Goods											
a) Consumer durables	71	71	71	71	81	85	85	85	89	91	114
b) Machinery and equipment	14	14	14	14	14	17	17	17	17	22	34

Source: The figures for 1955/56 to 1964/65 are based on [27, Table VI]. The 1965/66 column, except for machinery, is 25 per cent larger than 1964/65, reflecting the defence surcharge. For machinery in 1965/66, 12½ per cent has been added to the figure for 1964/65.

TABLE A-5

COMMERCIAL LICENCES ISSUED BY AREA

(JANUARY 1957 TO JUNE 1964)

(per cent of total)

Period (1)	Type of licence	Karachi (2)	West Pakistan (3)	East Pakistan (4)
Jan.—Jun, 1964	OGL	30.87	28.90	42.24
	Automatic	40.92	14.00	45.08
	Others	26.59	10.56	62.84
	Total	30.15	23.54	46.32
Jul.—Dec., 1963	OGL	32.38	27.04	40.57
	Automatic	57.26	10.82	31.92
	Others	46.60	16.25	37.15
	Total	36.03	24.37	39.60
Jan.—Jun., 1963	OGL	36.28	25.77	37.96
	Automatic	77.12	5.13	17.75
	Others	41.58	16.32	42.09
	Total	41.26	21.71	37.04
Jul.—Dec., 1962	OGL	41.44	22.73	35.83
	Automatic	78.92	3.11	17.96
	Others	32.09	14.26	53.65
	Total	42.86	18.76	38.39
Jan.—Jun., 1962	OGL	37.98	21.21	40.81
	Automatic	60.11	7.61	32.28
	Others	30.91	11.43	57.66
	Total	36.92	17.46	45.62
Jul.—Dec., 1961	OGL	37.09	19.41	43.49
	Automatic	38.84	9.63	51.53
	Others	33.87	15.13	51.00
	Total	36.14	17.83	46.03
Jan.—Jun., 1961	Total	40.92	12.76	46.32
Jul.—Dec., 1960	Total	41.81	14.57	43.62
Jan.—Jun., 1960	Total	47.55	20.31	32.14
Jul.—Dec., 1959	Total	42.07	17.79	40.13
Jan.—Jun., 1959	Total	48.93	15.27	35.81
Jul.—Dec., 1958	Total	49.90	18.22	31.88
Jan.—Jun., 1958	Total	48.81	18.27	32.91
Jul.—Dec., 1957	Total	49.25	17.77	32.98
Jan.—Jun., 1957	Total	44.78	13.17	42.05

Source: [25].

TABLE A-6

INDUSTRIAL LICENCES ISSUED BY AREA (JANUARY 1957 TO JUNE 1964)

(per cent of total)

Period (1)	Karachi (2)	West Pakistan (Lahore) (3)	East Pakistan (4)
January-June, 1964	37.71	29.39	32.90
July-Dec., 1963	36.95	36.52	26.53
January-June, 1963	45.01	30.27	24.71
July-Dec., 1962	46.64	27.41	25.95
January-June, 1962	36.49	32.57	30.94
July-Dec., 1961	36.37	26.96	36.67
January-June, 1961	37.46	24.37	38.16
July-Dec., 1960	43.30	30.27	26.43
January-June, 1960	36.27	32.11	31.62
July-Dec., 1959	37.98	22.46	39.56
January-June, 1959	46.93	30.45	22.62
July-Dec., 1958	42.79	31.82	25.40
January-June, 1958	39.59	33.83	26.58
July-Dec., 1957	37.39	25.54	37.06
January-June, 1957	40.59	30.49	28.92

Source: [25].

TABLE A-7

ACTUAL IMPORTS (PUBLIC AND PRIVATE) BY AREA (1957/58 through 1962/63)

(rupees million)

Period	West Pakistan		East Pakistan	
	Value	Per cent	Value	Per cent
(1)	(2)	(3)	(4)	(5)
1957/58	1,314	64	736	36
1958/59	1,025	65	554	35
1959/60	1,806	73	655	27
1960/61	2,173	68	1,015	32
1961/62	2,236	72	873	28
1962/63	2,800	73	1,019	27
1963/64	2,982	67	1,449	33
1964/65	3,672	68	1,702	32

Source: [6].

TABLE A-8

COMMERCIAL LICENCES ISSUED TO ESTABLISHED IMPORTERS AND TO NEW-COMERS

(JULY 1961 — JUNE 1964)

Period	Type of licence	Commercial licences issued (*rupees million*)	Value licensed to: Established importers (*rupees million*)	Per cent of total (4)÷(3)	New-comers (*rupees million*)	Per cent of total (6)÷(3)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
January-June, 1964	OGL	395.0	136.7	34.62	258.3	65.38
	Automatic	5.8	5.8	98.63	0.0	1.37
	Others	98.0	8.0	100.00	0.0	0.00
	Total	498.8	240.5	48.21	258.3	51.79
July-December, 1964	OGL	222.6	106.0	47.61	116.6	52.39
	Automatic	10.4	10.4	99.19	0.1	0.81
	Others	55.7	55.7	100.00	0.0	0.00
	Total	288.7	172.1	59.59	116.7	40.41
January-June, 1963	OGL	158.4	94.0	59.33	64.4	40.67
	Automatic	21.5	21.5	100.00	0.0	0.00
	Others	53.2	53.2	100.00	0.0	0.00
	Total	233.2	168.7	72.36	64.4	27.64
July-December, 1962	OGL	216.1	133.7	61.90	82.3	38.10
	Automatic	31.6	31.6	100.00	0.0	0.00
	Others	79.1	79.1	100.00	0.0	0.00
	Total	326.8	244.5	74.81	82.3	25.19
January-June, 1962	OGL	182.2	109.1	59.89	73.1	40.11
	Automatic	14.8	14.8	100.00	0.0	0.00
	Others	94.3	94.3	100.00	0.0	0.00
	Total	281.4	218.3	74.91	73.1	25.09
July-December, 1961	OGL	192.6	111.9	58.08	80.8	41.93
	Automatic	7.5	7.5	100.00	0.0	0.00
	Others	29.1	29.1	100.00	0.0	0.00
	Total	290.5	209.7	72.20	80.8	27.81

Source: [25].

TABLE A-9

IMPORT LIBERALIZATION, 1960-64

(million rupees)

Shipping period	Total value licensed	Import bonus	OGL	Total Col. (3) + Col. (4)		Automatic licensing			Total Liberalization Col. (5) + Col. (9)	
				Amount	Per cent (6) ÷ (2)	Com-mercial	Industrial	Total	Amount	Per cent (10) ÷ (2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
January-June, 1960	550.2	70.7	—	70.7	12.8	—	—	—	70.7	12.8
July-December, 1960	682.9	72.6	*	72.6	10.6	*	*	*	72.6	10.6
January-June, 1961	809.3	73.4	*	73.4	9.1	*	39.5	39.5	112.9	14.0
July-December, 1961	838.1	81.8	192.6	274.4	32.7	36.6	28.1	64.7	339.1	40.5
January-June, 1962	949.1	83.3	182.2	265.5	28.0	14.8	214.3	229.1	494.1	52.1
July-December, 1962	954.6	109.3	216.1	325.4	34.1	31.6	139.3	170.9	496.3	52.0
January-June, 1963	835.5	91.3	158.4	249.7	29.9	21.5	97.9	119.4	369.1	44.2
July-December, 1963	890.7	110.9	222.5	333.4	37.4	10.4	88.5	98.9	432.3	48.5

Note: Dash (—) means nil.
Star (*) means not available.

Source: [25].

TABLE A-10

GROWTH OF IMPORTS UNDER FREE LIST[a]

(million rupees)

Some of the Free List items	July-September 1963			October-December 1963			January-March 1964		
	E.P.	W.P.	Total	E.P.	W.P.	Total	E.P.	W.P.	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Six Largest Free List Items :									
1. Iron and steel	50.5	85.0	135.5	48.3	71.5	119.8	50.2	62.0	112.3
2. Chemicals	4.1	10.9	15.0	4.4	16.1	20.6	3.5	20.7	24.2
3. Non-ferrous metals	4.4	10.1	14.5	2.5	12.3	14.7	2.1	12.2	14.3
4. Coaltar dyes	3.2	5.9	9.1	4.8	9.2	14.1	4.6	9.3	13.9
5. Life-saving drugs and medicines	.7	4.0	4.7	1.6	5.3	6.9	1.7	4.7	6.4
6. Maintenance spares	1.5	9.1	10.5	2.1	8.1	10.2	3.4	10.8	14.2
7. Total of six items	64.4	124.9	189.3	63.8	122.5	186.2	65.5	119.8	185.2
8. Total free list	75.6	145.2	220.9	105.6	149.2	254.8	114.9	139.1	254.0
9. Total imports	362.5	669.9	1032.4	400.7	867.8	1268.5	361.8	717.0	1078.8
10. Row 7 as per cent of Row 8	85.1	86.0	85.6	60.3	82.0	73.0	56.9	86.1	72.9
11. Row 8 as per cent of Row 9	20.8	21.6	21.3	26.3	17.1	20.0	31.7	19.3	23.5

(contd.)

TABLE A-10 (*contd.*)

(*million rupees*)

Some of the free list Items	April-June 1964			July-September 1964			October-December 1964		
	E.P.	W.P.	Total	E.P.	W.P.	Total	E.P.	W.P.	Total
(1)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
***Six Largest Free List Items*:**									
1. Iron and steel	44.3	76.4	120.6	68.5	132.4	200.9	97.5	93.3	190.8
2. Chemicals	8.1	12.9	21.0	7.1	12.4	19.4	8.4	14.6	23.1
3. Non-ferrous metals	3.0	15.6	18.6	3.0	20.3	23.4	5.7	14.4	20.0
4. Coaltar dyes	4.9	9.1	14.0	3.5	7.7	11.1	6.4	13.4	19.9
5. Life-saving drugs and medicines	2.0	7.3	9.3	1.6	4.0	5.6	1.8	2.7	4.4
6. Maintenance spares	4.2	11.9	16.1	4.0	11.0	15.0	3.6	17.0	20.6
7. Total of six items	66.5	133.2	199.7	87.7	187.7	275.4	123.4	155.4	278.8
8. Total free list	109.0	161.4	270.4	130.0	211.1	341.1	167.2	186.5	353.8
9. Total imports	323.5	726.9	1050.4	397.0	882.0	1279.1	435.5	906.0	1341.5
10. Row 7 as per cent of Row 8	60.9	82.5	73.8	67.4	88.9	80.7	73.7	83.3	78.8
11. Row 8 as per cent of Row 9	33.7	22.2	25.7	32.7	23.9	26.6	38.3	20.5	26.3

a) The "Free List" import figures represent the imports of the fifty-one items on the free list during july-December, 1964. For example, the figures in Row 8 for July-September, 1963 indicate the value of imports of the fifty-one items which later were placed on the free list. (This was Rs. 220.9 million out of total imports of Rs. 1,032.4 million). Imports of these items expanded under the free list to Rs. 353.8 million in October-December, 1964. However, the total free list (Row 8) figure for July-September, 1964 (Rs. 341.1 million) undoubtedly includes some imports ordered prior to July 1964 (and therefore ordered under OGL) which entered Pakistan during July-September.

b) E.P.-East Pakistan ; W. P.-West Pakistan.

Source: G.O.P., Planning Commission, unpublished table; derived from C.S.O. data.

TABLE A-11

IMPORT LICENCES ISSUED TO EXPORT INDUSTRIES

(million rupees)

Period (1)	Request industries (established exporters) (2)	Export industries (newer exporters) (3)	Export Bonus (4)	Total (5)	Export Bonus as per cent of Total (6)
January-June, 1962	7.2	80.5	83.3	171.0	49
July-December, 1962	8.2	90.7	109.3	208.2	52
January-June, 1963	10.2	67.9	91.3	169.4	54
1962/63	18.4	158.6	200.6	377.6	53
July-December 1963	11.3	81.9	110.9	204.1	54
January-June, 1964	14.3	152.6	126.4	293.3	43
1963/64	25.6	234.5	237.3	497.4	48

Source: [25].

Appendix B

THE RESTRICTIONS SURROUNDING THE FREE LIST

The purpose of this appendix is to describe the specific types of restrictions that surround the free list, and for this purpose references will be made to the July 1965 Import Policy[1].

1) A major restriction is that only certain groups can import particular commodities; or, negatively, certain groups are prohibited from importing specific goods. Examples are given below:

a) "Some items, even though on free list, will be available for import by industrial consumers concerned only" (p. 172). That is, commercial importers, who might wish to import for resale, are excluded from importing certain materials on the free list. Proof must be offered to the CCIE that the importer is a legitimate industrial user of the item concerned, and the imports must be used by the industrial importer: they cannot be resold (p. 186). One example is "Fire Bricks with alumina content of 40% and above" (p. 188). A more restrictive case is one in which imports are restricted to "only such industrial consumers as have been licensed for the items in the past" (p. 175). (Wire rods are one example). Most of the iron and steel items have similar limitations, so that only those importers, industrial or commercial, who were importing in the past may import under the free list (pp. 174-175).

b) Certain imports can only be made by "Resident nationals of Pakistan and such firms, business houses, and institutions in which major shares or controlling interests are held by resident Pakistan nationals" (p. 174). Examples of this are cement (p. 188) and coal (p. 190).

c) "Import of nylon twine (for fishing industry) under free list shall be confined to the following: *i*) Fishermen's Cooperative Societies; *ii*) Individual members of Fishermen's Cooperative Societies; *iii*) Others on production of a certificate, either from sub-Divisional Magistrate or District Fisheries Officer or Deputy Director of the Marine Fisheries Department, that they were engaged in fishing" (p. 175).

2) A second type of constraint is that certain commodities can only be imported into East Pakistan, such as cement (p. 188), soda ash (p. 188), caustic

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[1] Specific page references in this July 1965 Import Policy [7, July 5, 1965] will be given in parentheses. Although this policy was never implemented, it contained an expanded free list of 56 items and it was the first 12-month policy. Thus, it probably enunciated the most liberal import policy since the beginning of rigid licensing in 1953.

soda (p. 189), "coal, other than for domestic use" (p. 190), and raw agarwood (p. 192). As might be expected, re-export of such items to West Pakistan is prohibited (p. 178).

3) In many cases, the geographical source is specified (generally due to aid agreements), such as follows:

a) Aluminum, ingots and copper rods must be imported from Canada (p. 176).

b) "Soda Bicarb, soda ash and caustic soda . . . imports shall take place from U. K." (p. 177).

c) "Vats and soluble vats (dyestuff) . . . imports shall take place from West Germany" (p. 177).

d) Coal imports are limited to China (p. 177).

e) Cement (Grey) imports must be from China and Russia (p. 177).

f) Milk and eggs, many of the iron and steel items and some other goods must be imported from the U.S.A. (pp. 177 and 211).

g) "No import will, however, be permissible from Israel and South Africa" (p. 172).

4) An important type of restriction pertains to the amount of imports allowable:

a) "Minimum unit for import under Aid Loan from U.S.A. will be 5,000 U.S. Dollars. No letter of credit shall accordingly be established for an amount less than 5,000 Dollars and no shipment shall be effected for an amount less than 1,000 Dollars per individual invoice" (p. 172). Very similar to this are many cases where both minimum and maximum limits are set (see (*b*) below). There are still other cases where the exact amount is given: "Letters of Credit for import of cement into East Pakistan shall be opened at a flat rate of Rs. 25,000 each" (p. 175).

b) In many cases, importers under the free list are limited to an amount based on their previous licences, with an arrangement for additional imports which is essentially identical to automatic licensing. One important example is in the case of corrugated iron sheets and galvanised corrugated sheets. "The established importers shall be eligible to effect import of 100% of their category with minimum unit of Rs. 25,000 and maximum of Rs. 100,000. OGL importers including newcomers already admitted in iron and steel shall be eligible to open letter of credit on the basis of Passbooks already issued to them by the regional licensing offices. They will be eligible to open further letter of credit on production of bill of lading relating to imports against their earlier letter of credit" (p. 175). This "automatic licensing" type of regulation also applies generally to all commercial importing firms with over fifty per cent ownership or control in the hands of non-Pakistanis (p. 174).

c) "Recognized industrial units which were licensed in the past for Nail Wire/G.I. Wire can open letter of credit at 10% of their half yearly entitlement as shown in their Passbooks for Nail Wire/G.I. Wire" (p. 175). There are many other cases like this one which parallel the old category system—an initial licence without repeat facilities; examples are maintenance spares (p. 191) and barytes (snow-white grade only) (p. 191).

d) Perhaps the most constraining of the quantitative restrictions on the free list was the use of quotas to limit the opening of letters of credit. Letters of credit for each free list item under an aid or barter agreement had to be channelled through a designated commercial bank, which was given a quota by the State Bank for that item. This quota was based on the bilateral agreement and when it was reached (as it was quickly in the case of a few popular items for which relatively low quotas were assigned), the bank stopped opening new letters of credit and notified the State Bank. Depending on the foreign exchange position, the State Bank decided whether to issue a new expanded quota. To some extent at least, the previous direct rationing of imports under CCIE licensing was replaced by implicit rationing by the commercial banks and the State Bank for free list items. (Since the import policy announced in July 1965, was suspended before it was really implemented, this description of the quota system applies to the free lists of 1964/65, and also 1966.)

5) A final general restriction prohibits the importation of some goods and ts the amount of others:

a) Much of Annexure V of the July 1965 Import Policy (pp. 217-223) is devoted to listing the specific items which cannot be imported even though the general type of goods is on the free list. For example, iron and steel is the biggest single item on the free list, but import of the following items (and many others) is illegal: Structurals—Angles up to 4"×4"×1/2" in West Pakistan and up to 1-1/2"×1-1/2"× 1/4" in East Pakistan; Galvanized water/welded pipes of 3" diameter and below; hoops and strings; cast iron plates; and prefabricated structures. Similar lists of items excepted from the free list are given for non-ferrous metals and ferro-alloys, chemicals and pigments, dry colours and painters materials.

b) "Unless otherwise specifically permitted, secondhand or reconditioned goods or factory rejects will not be permissible for import" (p. 172).

c) The following goods can be imported within certain specified limits *i*) In the case of chalk and clay, "not more than 20% of the value of the L/c (Letter of credit) in East Pakistan shall be utilized for import of China clay" (p. 188). *ii*) For chemicals, commercial importers opening L/c of Rs. 25,000 may import soda ash up to 4% of L/c value . . . only" (p. 189). That is 96 per cent of the chemical imports must be in other chemicals than soda ash. *iii*) In dyeing and tanning substances, "recognized tanneries may import sulphonated oils for not more than 10% of the L/c value" (p. 189). *iv*) Under scientific instruments, "not more than Rs. 500 shall be utilized for import of clinical thermometers against individual letter of credit" (p. 190). And many other examples could be cited.

As noted in the text of this paper, these five points relate to *i*) who can import; *ii*) the geographical region into which the import can come; *iii*) the country from which the import must be purchased; *iv*) the amount to be imported; and *v*) whether particular sub-types of goods can be imported, and if so, how much of each. In addition to these five areas, there are a miscellany of other points which should be noted in support of this general theme that the free list is definitely not a "free trade" import policy.

Among the less important "miscellaneous points" are the following two restrictions. "Import of items on free list will not be permissible by Air Freight" (p. 176). "Imports shall be effected at the most competitive rates and importers may be required at any time, to submit documents for scrutiny concerning prices paid by them" (p. 179).

Perhaps somewhat more important is that "the Public and Semi-Public Sector Agencies . . . . are allowed to open Letters of Credit under the Free List" [14, p. 1]. Since these agencies were not under the CCIE licensing system, but rather had (and have) their imports determined by other government rationing mechanisms[2], it is very misleading to include their imports with those of the private sector in any attempt to appraise the extent of import liberalization. The free list releases importers from the necessity of having a CCIE licence.

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[2] See the early part of Section II.A above for a brief description of the three separate rationing systems.

Since the imports of the public and semi-public agencies were never under CCIE control, to "release" them from such control is meaningless. Although they are now importing "under the free list", their imports are still determined by essentially the same rationing system as before. On the basis of available data, it is not possible to estimate the extent of free list imports which are thus not really "free", but the earlier argument based on the quantitative importance of free list imports vis-a-vis other imports is somewhat weakened.

Although by no means all of the free list qualifications have been stated in this appendix, a representative sample has been presented which supports the conclusion that the free list is definitely a limited import liberalization.