

# The Export-Performance Licensing Scheme

by

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## INTRODUCTION

The structure and impact of the Export-Performance Licensing Scheme is a particularly interesting study when contrasted with the Export Bonus Scheme. These two export-incentive measures overlap in many ways; yet they are radically different in certain aspects. Each alone has evolved administratively into a formidable institutional structure. The Export Bonus Scheme has been based upon a partially market-oriented, price-determined allocation of resources. However, the Export-Performance Licensing Scheme has been directly controlled by administrative intervention at all levels. It is interesting to search for reasons why the Export-Performance Licensing Scheme has reached a condition such that the following comments could be seriously posited:

Export-performance licensing is an administrative nightmare of such horrendous complexity as to break the spirit of the ablest bureaucrat. Procedures for establishing eligibility and issue rates are complex and responsibility is split. Supervision of the procedure and enforcement of conditions by the responsible agencies are onerous; costs of compliance on the part of businessmen are unusually high. The system is a channel for political pressure from special economic interests. Any useful purpose served by export-performance licensing can be met by incorporating it into the general bonus-voucher system; EPL [Export-Performance-Licensing] should be abandoned forthwith [4, p. 176].

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\*The author was a visiting scholar at the Institute under an NDEA fellowship from Syracuse University to do his dissertation research.

This paper is based upon part of the material in the author's doctoral dissertation at Syracuse University [7]. The author is grateful for the guidance provided by members of the dissertation committee — Professor Irving Swerdlow, Professor Jesse Burkhead, and Associate Professor, James Price — and for the encouragement and help given by Drs. Azizur Rahman Khan and Syed Nawab Haider Naqvi of the Pakistan Institute of Development Economics and Miss Evelyn Ripps of the United States Agency for International Development — Pakistan. The author, however, is solely responsible for any errors.

One purpose of this paper is to review the rationale which lay behind the initial creation of the Export-Performance Licensing Scheme as well as to look at the evolution of its organization and administration. The exercise in Section II provides a means of judging the extent to which the charge that it is an "... administrative nightmare of such horrendous complexity ..." is justified. Secondly, the degree to which the Export-Performance Licensing Scheme's rate structure is compatible with the professed rationale for the scheme's existence is analyzed in Section III. Finally, some comments are made in Section IV concerning the desirability of continuing the Export-Performance Licensing Scheme as a part of Pakistan's export-incentive package.

## II. CREATION, ORGANIZATION, AND ADMINISTRATION

### II.1 Origins

*Early Export-Incentive Schemes:* The Export-Performance Licensing Scheme in its present form may be traced back to July 1964. However, a series of similar but more limited programmes were initiated earlier which gradually evolved towards the present performance-licensing structure. The Export-Incentive Scheme in 1954 and a new Export-Promotion Scheme in 1955 following devaluation were basically attempts to stimulate the export of certain minor primary and manufactured commodities which had not been exported previously. Import licences worth a specified percentage of the value of exports were granted, with restrictions placed on minimum and maximum sizes of import licences as well as on the list of eligible imports. While certain minor export commodities received a stimulus from these incentives, the schemes only covered approximately 1-2 per cent of total exports<sup>1</sup>.

*Export Bonus Scheme:* The advent of the Export Bonus Scheme in January 1959 represented a shift from exhortations, minor incentives, and export quotas to monetary incentives. All previous export-incentive schemes were superseded. While some elements of the new bonus scheme were similar to the previous attempts at export stimulation, the specific structure of the Export Bonus Scheme can be credited largely to Dr. Wilhelm Vocke, a German adviser to the Pakistan Government during late 1958. The objective of the new scheme was to secure an exportable surplus greater than would otherwise have been forthcoming by subsidizing exports of manufactured goods on a selective basis at the expense of those importers willing to pay the market-determined scarcity premium on bonus vouchers. This meant a partial devaluation and the establishment of a (partial) flexible multiple-exchange rate.

Basically, the scheme permits exporters of goods other than Pakistan's traditional primary products to retain a portion of their foreign-exchange earnings in the form of bonus vouchers. These, in turn, can either be used by

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<sup>1</sup>For a discussion of these early export-promotion measures, see [9].

the exporter to purchase imports present on the bonus-import list, or can be freely marketed at a premium because of the scarcity of imports. This subsidy will tend to increase the profitability of exporting for the individual manufacturer and thus raise the domestic price of exports (unless the domestic supply curve of the export is perfectly elastic). The price increase, in turn, will induce greater investment in export industries and reduce domestic consumption of the higher-priced export goods, each effect tending to increase the exportable surplus available. On the import side, the scheme opens up a submarket of imports to price allocations, thus freeing some imports of direct controls and thereby making commercial policy responsive to import-supply shortages as well as capacity and efficiency considerations<sup>2</sup>.

*Import-Licensing Controls:* While the advent of the Export Bonus Scheme saw the dissolution of a variety of export-incentive schemes as such, quantitative restrictions on imports remained in force and in fact initially increased in severity. The import-licensing structure thus continued to provide an avenue by which administrators could directly influence resource allocation as between manufacture for domestic and foreign consumption. Since substantial profits were conveyed upon those fortunate enough to obtain import licences (due to the scarcity premium generated by the quantitative restrictions necessary to equate demand and supply for foreign exchange) foreign-exchange licensing acted as one critical constraint through which substantial control could be exercised upon the operation of the economy.

A deliberate policy of encouraging industrialization was pursued throughout the 1950's and into the 1960's. This was partially accomplished by granting access to import licences to those entrepreneurs willing to reinvest their profits in creating industrial capacity for import substitution and some production for export<sup>3</sup>. In order to encourage this trend further, during the mid-1950's a growing number of these new industries received industrial import licences directly to supply their raw materials and spare parts' requirements. This bypassed the previous practice during the prosperity of the Korean War Boom (1950-52) when essentially unfettered access to foreign exchange allowed commercial importers or "middlemen" to import goods for purposes of resale. To expect these new entrepreneurs, during the latter half of the 1950's, to purchase imported inputs from commercial importers, necessitating the payment of a high scarcity premium, was not considered conducive to the goal of promoting rapid industrialization. This switch to direct importation of input requirements by manufacturers made it possible for industries to import their inputs directly

<sup>2</sup>While some discussion of the Export Bonus Scheme, as it relates to the Export-Performance Licensing Scheme, is provided below, the actual operation and impact of the Export Bonus Scheme has been adequately discussed elsewhere. The basic study remains [3]. More recent discussions of its impact are found in [1; 14; 25], while proposals for changing it are discussed in [4; 5; 10].

<sup>3</sup>For an extended discussion of this policy, see [23].

at the lower world-market prices (plus relevant duties) instead of having to purchase these requirements from commercial importers in restricted domestic markets. Thus, it became a means of providing an indirect or disguised subsidy to manufacturers.

The method channelling imports directly to industries was to survey industrial units periodically (beginning in 1955/56) in order to assess the minimum single-shift requirements for imports of individual factories. This established "quotas" for each industrial unit for each imported raw material and spare part as a basic unit of measurement. Licensing of current requirements for imports was based upon these quotas, while importation of capital equipment for creation of new capacity was handled on a separate basis.

This "quota" basis of issuing licences for current import requirements proved unresponsive to the changing needs of industries in terms of quantities and types of imports required. The first major attempt to make industrial licensing more responsive and flexible came in July-December 1960 when fourteen industries were placed on an automatic licensing for industries list. Under this procedure they received initial licences for their import requirements at 100 per cent of their assessed single-shift capacity, and repeat licences were issued after proper utilization of previous licences. This helped solve the problem of a shortage of import components since utilization aided in determining the total quantity of imports permissible (along with overall foreign-exchange availability). Variations of this method of linking imports to utilization have been the basis of industrial import policy since the inception of automatic licensing for industries.

*Growth of Export Performance-Based Access to Imports:* A direct link between export performance and import licensing was established for twelve selected industries in January-June 1961 and repeated for twelve other industries in July-December 1961. Those units within these specified industries which had adequate export performance to their credit received additional licences for the import of balancing and modernization equipment, while those units without adequate performance (but who nevertheless received automatic-licensing privileges) were threatened with reduction of import privileges in the future if they failed to expand their export performance.

A further change in industrial import policy was affected in July-December 1961 in an attempt to move away from the official "assessment of capacity" basis of licensing which tended to become dated more quickly than it could be reassessed. Basically, selected industries were allowed to "request" necessary imports of raw materials and spare parts for a twelve-month period. The government then attempted to meet one-half of this "request" each six-month shipping period. A further refinement of this "request" basis of licensing came in January-June 1962. Based upon a 1961 survey of the export performance or

potential of industries the "request" group of industries was subdivided. One group of "established" export industries continued to receive the "request" basis of import licensing described above. A second group of "export-potential" industries had licensing linked to export performance. These industries initially received essentially 100 per cent of their previously established import quotas. Additional access to imports was contingent upon export performance and was expressed as a proportion of the *f.o.b.* value of exports.

## II.2 Scope of Operation

The Export-Performance Licensing Scheme, restricted initially to "export-potential" industries in the semi-annual import policies, maintained a rate of 100 per cent of the *f.o.b.* value of exports in additional export licences from January-June 1962 to January-June 1964. In addition, during this period some industries not receiving performance-licensing privileges were allowed advance import licences at 40 per cent *f.o.b.* value of exports.

In July 1964, the limited coverage of performance licensing was removed while the rate structure was revised, thus establishing the scheme as it exists presently. The old "request" and "A-ii export" groups of industries were eliminated and *all* industries (except cotton textiles, jute manufacturing and *bidi*) were theoretically granted export incentives under Export-Performance Licensing in the form of additional licences against their export performance *not exceeding* 50 per cent of the *f.o.b.* value of exports<sup>4</sup>. In January 1968, the maximum applicable rate was reduced to 30 per cent which potentially applied to all industries other than cotton textiles. As a result, jute manufacturers were granted performance licences for the first time at 3 per cent of the *f.o.b.* value of their exports, to be used exclusively for maintenance spares. Starting in January 1967 the leather goods (including leather footwear) and readymade garments industries had their import licensing linked to established export targets.

In terms of the actual mechanics of issuing export-performance licences, certain procedures apply. The licences in recent years have been strictly for specified items of an industry's production requirements, including packing material (during the first two years of the scheme restrictions on licences were less stringent). Facilities for obtaining these licences in advance of exporting have been available when based upon a bank guarantee or irrevocable letter of credit. The licences earned must currently be claimed within six months of the realization of export sale proceeds (up from three months during July-December 1967).

<sup>4</sup>While all industries *not specifically excluded* from performance licensing are theoretically eligible for the benefits, action must be taken by the industry and the government before the privileges are actually extended to exporters.

### II.3 Determination of Rates

The movement of the Export-Performance Licensing Scheme in June 1964 from a single applicable rate (100 per cent) for all industries covered by the scheme to a series of discretionary rates up to 50 per cent (and later up to 30 per cent) introduced the necessity of determining the bases of those various rates for the multitude of eligible industries. Basically, the difference in rates between industries is supposed to reflect different import components of the export products and thereby avoid discrimination against "import-intensive" exports. While the justification for existence of performance licensing remains vague, it certainly has changed from an initial infant-industry subsidization (when the rate was 100 per cent during January 1962-June 1964) to the increasingly stringent provision of import licences to eligible exporters.

It has been stated that performance licences were granted to supplement regular industrial licensing, since the latter avenue was intended primarily to provide the import component for domestic production. Also, given the shortage of imports and high levels of protection, it has often proven more lucrative to produce for the domestic market than for export. As a result, performance licensing, so the argument goes, is intended to provide the imported component of exports. Thus, the specified rate of performance licensing given to each industry is based roughly on the estimated import component of exports. However, this necessarily has to be a rough estimate, since a lack of trained manpower and the technically complicated nature of the information required (not to mention the magnitude of the task of determining rates for all industries) place restraints on the amount of analysis feasible. Also it appears that neither indirect import components (of domestically produced intermediate inputs) nor the import component of capital investment have been included in this exercise<sup>5</sup>.

The introduction of an indefinite rate structure led to a proliferation of applications for rate decisions and revisions. Since each industry's rate had to be determined separately, the job was immense and took a considerable period of time. Also, special appeals for increases in rates flooded the system with additional work.

### II.4 Rate Structure

The actual rate structure for industries under performance licensing has varied in certainty and coverage over the last six years. A summary of rate structures for the Export-Performance Licensing Scheme is compared to rates under the Export Bonus Scheme in Table I. From January 1962 to June 1964, the rate was certain (100 per cent) but the coverage was restricted to a small

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<sup>5</sup>In Section III below this link between Export-Performance-Licensing-Scheme rates for exports and their embodied import components is investigated.

number of "export-potential" industries. During the period June 1964 to July 1966 the number of eligible industries was expanded but the applicable rates remained steady once they had been determined. The list of rates was further expanded during the period July 1966-June 1967. The period of greatest uncertainty and confusion came during July-December 1967 when three separate announcements of rates were made. Finally, in January 1968

TABLE I

**SUMMARY OF RATE STRUCTURES FOR THE EXPORT-PERFORMANCE LICENSING SCHEME AND THE EXPORT BONUS SCHEME**

Period	Export-Performance-Licensing-Scheme rates		Export-Bonus-Scheme rates <sup>a</sup>			
	Export-Performance-Licensing rates: range	No. of industries to which applicable	items excluded	semi-processed	Manufactures	Services <sup>b</sup>
	(per cent)	(number)	(.....per cent.....)			
1959	—	—	0	20	40	—
1960	—	—	0	20	40	20
1961	—	—	0	20	40	20
1962	100 <sup>c</sup>	35	0	20	40	20,30
1963	100	33	0	20	40	20,30
Jan.-June 1964	100	42	0	20	40	20,30
July-Dec., 1964	0-50	90	0	20	30	20,30
1965	0-50	90	0	20	30	20,30
1966	0-50	106	0	20	30	20,30
Jan.-Oct., 1967	0-50	150	0	20	30	20,30
Nov.-Dec., 1967	0-50	150	0	30	40	20,40
Jan.-June 1968	0-30	150	0	30	40	20,40
July-Dec., 1968	0-30	152	0	30	40	20,40
Jan.-June 1969	0-30	150	0	30	40	20,40

<sup>a</sup>The rates given for bonus items are the most common rates in effect for each category of goods at a specific time. However, some important deviations from these rates exist and the sources of rates should be consulted for the rates covering specific exports.

<sup>b</sup>The provisions for including foreign exchange earned from services under the benefits of the Export Bonus Scheme vary in some cases from the treatment of earnings from commodity exports.

<sup>c</sup>From January 1962 through June 1964, some industries not specifically covered by the Export-Performance-Licensing-Scheme rate of 100 per cent could obtain advance licences at the rate of 40 per cent *f.o.b.* value of subsequent exports.

an across-the-board reduction in the maximum applicable rate to 30 per cent resulted in a reduction in all higher rates to the ceiling value.

### II.5 Premium

The import licences granted under performance licensing cannot legally be sold or transferred, nor can the resultant imported commodities be traded. However, in the context of an overall stringent licensing situation and scarcity of foreign exchange there is tremendous opportunity to engage in illegal "black-market" transactions which can prove very profitable. Although such activity is discouraged by the government, its existence is well established and indirectly conceded even by the government<sup>6</sup>. The scarcity of foreign exchange introduces the possibility of a premium on performance licences. The difficulty lies in measuring its level since, by necessity, it must operate at a sublegal level.

Indirect items of information must be used to establish limits within which this premium should fall. Ideally, a specific premium could be determined for each imported commodity by looking at the overall demand and supply situation in each submarket. More realistically, information on the relation between profits and landed costs [2 ; 23] as well as on the experience of placing raw materials on the Stamped Bonus Voucher List provides some indication of the premium level. It is a complex problem to specify the level of this performance licensing premium and is sufficient for the purposes of this paper to recognize that the premium exists.

### II.6 Export Coverage

The determination of the share of exports covered by the Export-Performance Licensing Scheme is rendered more difficult than in the case of the Export Bonus Scheme because performance licences are granted to industries whose resultant commodity exports are not always easily derived. This follows from having performance licensing administered by the Chief Controller of Imports and Exports which uses an industry classification possessing little relation to the commodity-export statistics published by the Central Statistical Office. In addition, the Chief Controller of Imports and Exports does not record the exports on industries claiming performance licences, but rather only performance licences issued, including both advance issues and final settlements for previous export performance. Thus, statistics on licences issued in any one period cannot simply be converted into the value of commodities exported by dividing the value of licences issued by the percentage rate applicable.

These problems dictate that estimates must be made of the coverage of performance licensing. One such estimate made by the Export Promotion Bureau

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<sup>6</sup>In the semi-annual import policies a clause warns that those caught transferring import licences and/or commodities are liable to having their licensing privileges taken away.



is presented in Table II. In terms of overall coverage only approximately one-sixth of total visible exports were eligible for the benefits provided under performance licensing during the years 1964/65 to 1966/67. This compares with

TABLE II

## SHARES OF EXPORTS ASSOCIATED WITH THE EXPORT-PERFORMANCE LICENSING SCHEME

	1964/65	1965/66	1966/67
	(.....per cent.....)		
a) Ratio of performance-licensing exports to total visible exports	16.5	16.3	17.8
b) Distribution of performance-licensing exports by ranges of rates			
1) items receiving performance licensing not exceeding 10 per cent	81.5	75.2	67.0
2) items receiving performance licensing exceeding 10 per cent but not exceeding 20 per cent	2.6	4.0	3.8
3) items receiving performance licensing exceeding 20 per cent but not exceeding 30 per cent	5.1	3.0	11.1
4) items receiving performance licensing exceeding 30 per cent	10.8	12.8	18.3

Source: Estimates made by the Export Promotion Bureau.

approximately one-half of visible exports covered by the bonus scheme during the same period, as shown in Table III. It should be pointed out that exporters often receive benefits from both of these export-incentive schemes simultaneously. A stratification of performance licensing by the range of rates shows that the major portion of exports covered received less than 10 per cent *f.o.b.* value of exports in additional import licences. However, rates exceeding 30 per cent grew in importance over the period covered in Table II. These estimates indicate that performance licensing is not as widespread in its impact as previous observations have proposed. Further, the higher ranges of rates have been relatively unimportant in their impact on total visible export receipts, thus reducing the seriousness of any net foreign-exchange losses or adverse effects on the maximization of the net foreign-exchange earnings on account of the Export-Performance Licensing Scheme.

TABLE III  
EXPORT BONUS SCHEME COVERAGE

Period	Total visible exports	Non-bonus commodities	Percentage of non-bonus commodities in total visible exports	Bonus commodities	Percentage of bonus commodities in total visible exports
(1)	(2)	(3)	(4)	(5)	(6)
	(...million rupees...)		(per cent)	(million rupees)	(per cent)
1957 <sup>a</sup>	1,603.4	1,283.3	80.02	320.1	19.9
1958 <sup>a</sup>	1,416.9	1,203.5	84.94	213.4	17.7
1959	1,527.1	975.5	63.88	551.6	36.1
1960	1,873.0	1,207.8	64.48	665.2	35.5
1961	1,905.0	1,180.3	61.96	724.7	38.0
1962	2,013.5	1,237.6	61.47	775.9	38.5
1963	2,200.7	1,311.2	59.58	889.4	40.4
1964	2,347.9	1,340.0	57.07	1,007.9	42.9
1965	2,515.2	1,436.9	57.13	1,078.3	42.9
1966	2,860.9	1,399.0	48.90	1,461.9	51.1
1967	3,071.0	1,572.7	51.21	1,498.3	48.8

Sources: Total visible exports [19]  
Bonus commodities [18, Table 69].

<sup>a</sup>Extrapolated estimates of a bonus vs. non-bonus breakdown of visible exports for the years prior to the scheme's start are taken from [3, p.61].

## II.7 Import Composition

The importance of performance licensing as a source of imports is summarized in Table IV. As a proportion of total and private imports, performance licensing remained quite small although it gradually increased relatively over the period 1962 to 1966. In terms of private imports controlled by the Chief Controller of Imports and Exports, performance licences increased from an insignificant proportion in 1961/62 to 4.5 per cent by 1965/66. Finally, the relation between performance-licensing imports and bonus imports generally

TABLE IV  
THE RELATION OF EXPORT-PERFORMANCE LICENSING TO IMPORTS

Period	Total imports	Private imports	CCI&E-licensed imports	Export-Performance-Licensing imports	Bonus imports	Export-Performance Licensing as per cent of				
						Total imports	Private imports	CCI&E imports	Bonus imports	
	(..... million rupees.....)					(..... per cent.....)				
1959	1,681	1,067	951	—	76.2	—	—	—	—	—
1960	3,112	2,078	1,232	—	143.4	—	—	—	—	—
1961	3,056	2,108	1,637	—	155.3	—	—	—	—	—
1962	3,515	2,718	1,906	8.4	192.6	0.24	0.31	0.44	4.36	4.36
1963	4,232	2,872	1,726	29.8	202.8	0.70	1.04	1.73	14.69	14.69
1964	4,750	3,834	n.a.	44.2	264.0	0.93	1.15	n.a.	16.74	16.74
1965	4,967	3,987	n.a.	37.7	274.5	0.76	0.95	n.a.	13.73	13.73
1966	5,620	3,433	n.a.	96.8	400.1	1.72	2.82	n.a.	24.19	24.19
1967	5,243	4,003	n.a.	n.a.	431.5	n.a.	n.a.	n.a.	n.a.	n.a.
1960/61	3,188	2,121	1,457	—	n.a.	—	—	—	—	—
1961/62	3,109	2,258	1,555	2.8	n.a.	0.09	0.12	0.18	n.a.	n.a.
1962/63	3,819	2,800	1,684	18.6	n.a.	0.49	0.66	1.11	n.a.	n.a.
1963/64	4,430	3,191	1,894	39.5	n.a.	0.89	1.24	2.09	n.a.	n.a.
1964/65	5,374	4,418	2,400	39.0	n.a.	0.73	0.88	1.63	n.a.	n.a.
1965/66	4,208	3,363	1,417	64.3	n.a.	1.53	1.91	4.54	n.a.	n.a.
1966/67	5,192	3,929	2,001	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a. means not available.

Sources: Total private imports [20]

CCI&E-licensed imports [16]

Export-Performance-Licensing imports [17]

Export-Bonus imports [18].

increased over this period with performance licences rising from 4.3 per cent of bonus imports in 1962 to 24.2 per cent by 1966.

The relation of performance licensing as a source of import licences to the vouchers earned under the Export Bonus Scheme is shown in Table V. These figures differ from those presented in Table IV because the generation of bonus vouchers does not exactly correspond to their usage. However, if figures either for vouchers earned or actual bonus imports are used, it is clear that performance licensing is only a marginal source of imports from an overall standpoint.

TABLE V

## RELATIVE MAGNITUDES OF EXPORT-BONUS VOUCHERS AND EXPORT-PERFORMANCE LICENCES ISSUED

Period	Bonus vouchers earned	XPL's issued	XPL as per cent of bonus
	(... million rupees ...)		(per cent)
1959	95.818	—	—
1960	138.023	—	—
1961	151.246	—	—
1962	175.086	8.404	4.797
1963	196.588	29.747	15.107
1964	240.5	44.184	18.371
1965	248.3	37.657	15.183
1966	335.9	96.802	28.818
1967	373.2	<i>n.a.</i>	<i>n.a.</i>

*n.a.* means not available.

Sources: Bonus vouchers earned [18]

XPL means Export-Performance

Export-Performance Licences issued [17].

Licences.

The composition of performance licensing imports is weighted more heavily towards spare parts than is the composition of normal industrial licensing. Thus, the average share of raw materials is 95.4 per cent for normal licensing while it is only 80.7 per cent for performance licensing, as shown in Table VI. Performance licensing may, thus, serve a useful purpose in allowing exporters more ready access to spare parts than is true under the normal pattern of industrial licensing. To the extent that this permits more continuous operation of plant and machinery by avoiding costly or prolonged breakdowns, exporters may find it advantageous to concentrate their importation of spare parts under performance licensing where they have a guaranteed access to imports (dependent on the level of their exports, the rate of performance licensing, and items eligible for importation<sup>7</sup>).

<sup>7</sup>For a discussion of other aspects of the composition of imports, see [8; 15; 26].

TABLE VI  
COMPOSITION OF INDUSTRIAL IMPORTS

Period	Normal industrial licensing		Export-Performance Licensing	
	Raw materials	Spare parts	Raw materials	Spare parts
	(..... per cent .....) )			
Jan.-June 1962	96.1	3.9	98.8	1.2
July-Dec., 1962	94.9	5.1	63.4	36.6
Jan.-June 1963	93.6	6.4	82.8	17.2
July-Dec., 1963	93.6	6.4	82.8	17.2
Jan.-June 1964	92.6	7.4	81.1	18.9
July-Dec., 1964	93.4	6.6	64.7	35.3
Jan.-June 1965	96.4	3.6	77.3	22.7
July-Dec., 1965	99.4	0.6	81.4	18.6
Jan.-June 1966	98.7	1.3	86.2	13.8
July-Dec., 1966	<i>n.a.</i>	<i>n.a.</i>	88.9	10.1
Average	95.4	4.6	80.7	19.2

Source: [17].

### III. ANALYSIS OF THE RATE STRUCTURE<sup>8</sup>

#### III.1 Scope of the Analysis

The professed rationale behind the Export-Performance Licensing Scheme is to provide specified export industries with the necessary imported inputs of their products, thereby providing incentive to the export trade. While in the early years of the scheme (1962-June 1964) the rates were 100 per cent of the *f.o.b.* value of exports, in later years the rates have been progressively reduced, while the coverage of the scheme has been broadened to include a wide range of industries.

It is of interest to attempt to measure the effectiveness with which this means of subsidizing exporters has achieved its *professed goal*. Does the scheme provide more liberal imports for those industries with higher import components? Is there any relation between the rate structure of the Export Bonus Scheme and that of Export-Performance Licensing? Has the reduction in rates over time been a rationalization of the scheme? These and other

<sup>8</sup>The analysis in this section is based upon [6].

questions are approached in this section. First, the means of measuring the import intensity of industries receiving Export-Performance Licences is discussed. Then various cross-classifications of the information are summarized. Finally, the importance of these findings as well as their limitations is presented.

### III.2 Industry versus Commodity Classification

The Export-Performance Licensing Scheme is administered by the Chief Controller of Imports and Exports (CCI&E) in collaboration with the Export Promotion Bureau. The classification of industries used is that of the import policy itself, an amalgamation of specific industries, commodities and sometimes even individual firms. This presents serious problems in terms of analyzing the impact of import policies since the CCI&E-defined industries bear almost no resemblance to other more standardized statistical measures<sup>9</sup>. Since the CCI&E makes its own independent *ad hoc* determination of the import component of industries for purposes of setting the rate of export-performance licensing to be received<sup>10</sup>, some indirect measure must be used in judging the effectiveness of this rate structure. The measure used here is the 1963/64 input-output table for Pakistan [21]. Each CCI&E-defined industry has been assigned to a sector of destination in the input-output table. These sectors vary from two to four digit levels and are further subdivided into broad categories of consumption goods, intermediate goods, and investment and related goods according to the division used elsewhere [13].

The purpose of this correlation of CCI&E-defined industries with the input-output sectors is to use the estimates of total, direct, and indirect import components per unit of final demand to analyze the Export-Performance-Licensing-Scheme rate structure. This information on import components has been used elsewhere to determine the impact of the Export Bonus Scheme on net foreign-exchange earnings of the input-output sectors [25]. The assumption implicit in this exercise is that the *average* import component for an input-output sector is an approximate representation of the import component for those CCI&E-defined industries included in that sector. If this is the case then some measure of the import intensity of final product is possible and the rates of export-performance licensing can be compared to these import components. Since these are average import components for industry sectors, which are much broader in scope than the specific industries classified by the CCI&E, a broad indication can be derived at best with the possibility always present that the specific industry's import component is either greater than or less than the average figure used. The 1963/64 ratios of imports to final demand are also used in calculations for 1964/65, and November 1967 and January 1968 for the reason stated below.

<sup>9</sup>Such measures include the CSO trade data based upon the Standard International Trade Classification—Revised, or the input-output and Census of Manufacturing studies based upon the Pakistan Standard Industrial Classification.

<sup>10</sup>For a description of this process as well as the rate structure, see [7, Chapter III.E].

### III.3 Rationale for the Use of Input-Output Sector Import Coefficients

One assumption which can be made is that the ratio of imports to final demand is technologically determined and changes only gradually over short periods of time. More practically, it can be argued that these 1963/64 relationships can be used to judge the subsequent rationalizations of the Export-Performance Licensing Scheme beginning in June 1964 since in most cases rate changes made by the CCI&E were likewise based upon surveys from earlier years.

Another way of saying this is that the CCI&E did not resurvey all industries each time that rate adjustments were to be made (although in specific cases of appeal this did take place) but rather depended usually on prior information.

The use of technical coefficients in a developing country involves several risks. Rapid structural changes may take place in the economy, resulting in shifts of the technical coefficients over short periods of time. Also direct controls on imports may mean that technical coefficients reflect these administrative conditions rather than underlying technical considerations, thus allowing substantial change in the coefficients as policy changes. In Pakistan another potential danger in using the particular set of technical coefficients discussed here arises from the weaknesses of the 1959/60 Census of Manufacturing Industries upon which the coefficients are based. In this regard, as long as that portion of the information which was recorded by the Census provided an unbiased representation of the relation of imports to final demand, the ratios may remain approximately valid.

For several reasons the input-output-based information on import components of industries will be used despite the weaknesses outlined here. First, it is felt that these ratios are relatively indicative of broad relationships existing between industries, even if the specific magnitudes are not exactly correct. Secondly, the intent is not to rely heavily on the exactness of these ratios, but rather to use them only as a broad indication of the effectiveness of Export-Performance Licensing in fulfilling its stated goals. Lastly, some measure of import intensity must be used in making policy-decisions and, for the most part, the information from the input-output studies is probably as reliable as the *ad hoc* survey information used by the CCI&E, if not more so.

### III.4 Results of the Analysis

When the CCI&E-defined industries are reclassified into the input-output sectors and then grouped together as either consumer goods, intermediates, or investment and related goods, the 1963/64 average import components are those given in Table VII. The following division of industries according to their treatment under Export-Performance Licensing is also reflected

in Table VII: industries (A) receiving Export-Performance Licensing in 1963/64 (at 100 per cent *f.o.b.* value of exports) are separated both from those industries (B) added to performance licensing in 1964/65 (at rates up to 50 per cent *f.o.b.* value of exports) and industries (C) added to the performance-licensing list by November 1967. The information on direct import component is important because this is presumably the only part of total import component which the CCI&E's administrative-rate determination takes into account. Therefore, it is important to see how good a representation direct ratios give of total import component.

TABLE VII

## 1963/64 IMPORT INTENSITY OF INDUSTRIES BY BROAD CATEGORIES

Category	Rupee imports per unit of final demand		
	Total	Direct	Indirect
<b>(A) Industries receiving Export-Performance Licensing at 100 per cent</b>			
Consumer goods	0.14701	0.11740	0.02961
Intermediate goods	0.14800	0.07007	0.07795
Investment and related goods	0.20548	0.11159	0.09389
<b>(B) Industries added to Export-Performance Licensing in 1964/65</b>			
Consumer goods	0.17182	0.14992	0.02190
Intermediate goods	0.09258	0.05639	0.03619
Investment and related goods	0.18828	0.09762	0.09066
<b>(C) Industries added to Export-Performance Licensing by November 1967</b>			
Consumer goods	0.10899	0.07998	0.02901
Intermediate goods	0.10056	0.05406	0.04649
Investment and related goods	0.22949	0.12797	0.10152

*Source:* Calculated using the import component of exports derived from the inverse of the Tims-Stern input-output table (for 1963/64) [21], as published in [25].



There may be some bias introduced in the determination of average import components in Table VII. This occurs because each average is determined by totalling the CCI&E-defined industries falling under the relevant input-output sectors and dividing by the number of industries involved. If a large number of industries, as defined by CCI&E, fall into a few input-output sectors then the average import components for these sectors will heavily influence the average rate determined for the group of input-output sectors falling into one of the broad categories. To eliminate this possibility, an alternative set of import ratios has been calculated with this weighting removed, as shown in Table VIII.

TABLE VIII

1963/64 IMPORT INTENSITY OF INDUSTRIES BY BROAD CATEGORIES  
UNWEIGHTED

Category	Rupee imports per unit of final demand		
	Total	Direct	Indirect
<b>(A) Industries receiving Export- Performance Licensing at 100 per cent</b>			
Consumer goods	0.14753	0.11483	0.03269
Intermediate goods	0.14885	0.06463	0.08424
Investment and related goods	0.18522	0.10435	0.08087
<b>(B) Industries added to Export- Performance Licensing in 1964/65</b>			
Consumer goods	0.15358	0.12470	0.02888
Intermediate goods	0.07925	0.04565	0.02969
Investment and related goods	0.18522	0.10435	0.08087
<b>(C) Industries added to Export- Performance Licensing by November 1967</b>			
Consumer goods	0.13892	0.11256	0.02636
Intermediate goods	0.10281	0.05268	0.05013
Investment and related goods	0.19062	0.11715	0.07347

Source: see, Table VII.

Thus, the import ratio of each input-output sector was counted only once in the average, even where more than one CCI&E-defined industry fell into this sector. This does not change the relationship between broad categories of goods shown in the weighted calculations of Table VII. The actual average import ratios differ somewhat between the two calculations, but not in a consistent manner. Thus, some ratios increase when the weighting is removed while others decrease.

In both cases the use of direct ratios alone would not provide the same ranking of import intensities between broad categories as does the set of total ratios. Also in both sets of averages the import intensity of intermediate goods is either below that of consumer goods or quite similar. This supports the contention of some that import substitution in intermediate goods can be as profitable as or more so than in the case of consumer goods in terms of net foreign-exchange earnings (or savings in this case).

The same calculations for Export-Performance-Licensing industries in 1964/65 (industries (A) and (B) in Tables VII and VIII) yield the weighted averages given in Table IX. It should be remembered that these are calculated using 1963/64 ratios of imports to final demand for 1964/65. For total import component this shows that the least import intensive category is intermediate goods, followed by investment and related goods and then consumption goods.

TABLE IX

**1964/65 IMPORT INTENSITY OF EXPORT-PERFORMANCE-LICENSING  
INDUSTRIES BY BROAD CATEGORIES**

Category	Rupee imports per unit of final demand	
	Total	Direct
Consumption goods	0.12385	0.10287
Intermediate goods	0.07208	0.04168
Investment and related goods	0.18118	0.09002

*Source: see, Table VII.*

A comparison of Export-Bonus-Scheme rates, Export-Performance-Licensing-Scheme rates and average levels of import intensity for 1964/65 is given in Table X. For both consumption goods and intermediate goods the total and direct import components of industries receiving 20 per cent bonus are lower than for the industries receiving 30 per cent bonus. Thus, the indus-

TABLE X

COMPARISON OF EXPORT BONUS AND EXPORT-PERFORMANCE-LICENSING  
RATES WITH IMPORT COMPONENTS FOR 1964/65 FOR BROAD  
CATEGORIES OF INDUSTRIES

Category and export- bonus rate	XPL rates	Rupee imports per unit of final demand	
		Total	Direct
<i>Consumption goods</i>			
20 per cent bonus	Average	0.10002	0.08637
<i>Consumption goods</i>			
30 per cent bonus	0	0.10339	0.07283
	10—19	0.10374	0.09730
	20—29	0.09749	0.07489
	40—49	0.13435	0.11792
	50	0.18026	0.15142
	Average	0.12385	0.10287
<i>Intermediate goods</i>			
20 per cent bonus	Average	0.07208	0.04168
<i>Intermediate goods</i>			
30 per cent bonus	0	0.10259	0.04558
	10	0.15454	0.05683
	20—29	0.17226	0.10845
	50	0.12887	0.07346
	Average	0.13957	0.07108
<i>Investment and related goods</i>			
30 per cent bonus	0	0.22949	0.12797
	10	0.17109	0.08366
	20—29	0.24600	0.12607
	30	0.18267	0.08483
	50	0.20184	0.11526
	Average	0.18118	0.09002

Source: see, Table VII.

tries with the highest import requirements were receiving the highest bonus rate, a situation not conducive to maximizing net foreign-exchange earnings. For industries receiving 30 per cent bonus the average total import intensity was lowest for consumption goods, while it was highest for investment and related goods. If direct import requirements are used, however, intermediate goods had the lowest average import component while consumption goods had the highest.

Perhaps the most interesting arrangement of average import components is that stratified by rates of Export-Performance Licensing. Table XI provides this data for 1964/65 while Table XII covers November 1967 and January 1968. For 1964/65 both weighted and unweighted estimates are given similar to the approach used in Table VIII. In neither case is there much consistency between performance rates and associated import components. Using direct import

TABLE XI

AVERAGE IMPORT INTENSITY OF INDUSTRIES STRATIFIED BY EXPORT-PERFORMANCE-LICENSING RATES FOR 1964/65

Range of rates of Export-Performance Licensing	Rupee imports per unit of final demand		
	Total	Direct	Indirect
<i>Weighted</i>			
1— 9 per cent	0.16210	0.09737	0.06473
10—19 per cent	0.12614	0.06541	0.06073
20—29 per cent	0.16805	0.09948	0.06857
30—39 per cent	0.18267	0.08484	0.09784
40—49 per cent	0.11477	0.08903	0.02574
50 per cent	0.17589	0.13014	0.04575
<i>Unweighted</i>			
0—9 per cent	0.14302	0.09800	0.04501
10—19 per cent	0.12614	0.06541	0.06073
20—29 per cent	0.13465	0.08808	0.04656
30—39 per cent	0.15101	0.06421	0.08680
40—49 per cent	0.11477	0.08903	0.02574
50 per cent	0.14695	0.10881	0.03815

Source: see, Table VII.

component only, the highest rate of Export-Performance Licensing was going to industries with the highest average import component (whether weighted or unweighted data are used). When total import component is looked at, there is some difference in rankings of import intensity between weighted and unweighted data. However, it is obvious that in many cases industries with higher import components (whether measured as only direct or as total) were given higher rates of Export-Performance Licensing. Also the excessive provision of imports over and above the total import component of final demand is evident in all but the lowest two ranges of rates.

Table XII shows the same (weighted) data for November 1967 and January 1968. The revised rate structures helped "rationalize" the Export-Performance Licensing Scheme over its 1964/65 structure in the sense that industries with low import components were receiving low rates of licensing while industries with high import components were, for the most part, licensed

**TABLE XII**  
**AVERAGE IMPORT INTENSITY OF INDUSTRIES STRATIFIED BY EXPORT-  
PERFORMANCE-LICENSING RATES FOR NOVEMBER 1967 AND  
JANUARY 1968**

Range of rates for Export- Performance Licensing	Rupee imports per unit of final demand	
	Total	Direct
<b>A. November 1967</b>		
1—9 per cent	0.06093	0.03102
10—19 per cent	0.09935	0.07378
20—29 per cent	0.17188	0.12150
30—39 per cent	0.18891	0.12396
40—49 per cent	0.19175	0.12289
50 per cent	0.18120	0.09296
<b>B. January 1968</b>		
1— 9 per cent	0.06093	0.03102
10—19 per cent	0.09935	0.07378
20—29 per cent	0.17188	0.12150
30 per cent	0.18728	0.11327

*Source: see, Table VII.*

at higher rates. This conforms to the view of performance licensing as a means of channelling required imports to export industries. However, the amount of imports provided to exporters per unit of final demand remained excessive to accomplish this goal. Thus, in November 1967 only 11.66 per cent (14 CCI&E industries out of 120 studied) of the industries had performance-licensing rates which were smaller than their total import component (using the average total import component of the relevant input-output sector to represent the import component of the CCI&E-defined industries). When it is remembered that CCI&E-based determination of rates takes into account only direct import component this makes the operation of the CCI&E-determination process even less effective.

It has been argued recently that the reductions in performance-licensing rates in November 1967 and January 1968 represented a move towards maximizing net foreign-exchange earnings by providing higher performance-licensing rates to industries with smaller import components. That this has not been effective (if it was even intended) can be seen from either the total or direct average import components in Table XII.

### III.5 Conclusion

The foregoing information on the provision of imports to export industries, to the extent that the assumptions made are valid, supports the view that Export-Performance-Licensing rate structure is poorly structured to accomplish any of the alternative goals put forward for its existence. If it is designed to provide only the import components of exports, then it continues to provide excessive access to imports, although by November 1967 and January 1968 some progress towards correlating low import components with low performance-licensing rates (and vice versa) had occurred. If the aim of performance licensing is to act as an incentive to exporters then it is poorly structured in terms of encouraging maximization of net foreign-exchange earnings for the country as a whole. It encourages excessive use of relatively expensive imported inputs because the exporters may obtain them at the official exchange rate, a cost lower than the market-demonstrated scarcity value of foreign exchange which must be paid by others. If performance licensing is designed to offset the inadequate incentives for exporters at the official exchange rate then the amount of "subsidy" should be uniform for all industries with equal net foreign-exchange earnings.

## IV. CONCLUDING REMARKS

Historically, those export incentives in existence prior to 1959 were found to be essentially *ad hoc* in nature. They lacked coordination and had only an incremental impact on export receipts. The Export Bonus Scheme, on the other hand, represented essentially a partial devaluation and the establishment of multiple-foreign-exchange rates. To a large degree this scheme has

corrected the weaknesses of the earlier incentive schemes. It has acted as a safety valve on the import side, providing price-determined access to a sub-market of imports. At the same time, on the export side, it has provided a differentiated stimulus to exports based upon the degree of domestic processing involved. The incentive provided to exporters has been linked to the freely determined scarcity value of foreign exchange.

In many ways export-performance licensing has been shown to be similar to the Export Bonus Scheme. Both are related to the *f.o.b.* value of exports, both are differentiated among exports by degree of domestic processing, and both provide foreign-exchange access to exporters. However, performance licensing has avoided any connection with a market determination of the value of the subsidy, instead maintaining direct control on determination of export-subsidy levels and composition. For this reason, performance licensing has grown steadily more complex over time whereas the bonus scheme has been periodically simplified. Because the stated goal of performance licensing has been to provide exporters with the imported component of their product, im-  
mense difficulties were encountered in establishing and updating the eligibility of exporters for imports. To compound the difficulties, subsidies have not been given in freely exchangeable vouchers, but rather in specific import licences tied to specified types of imports. All of these differences between the two incentive schemes have tended to make the Export-Performance Licensing Scheme the more unwieldy of the two in terms of administration, simplicity and compliance cost.

Section III examined the relations of export-incentive rate structures to the import intensity of export industries. Export-Performance Licensing was found to provide excessive access to foreign exchange in relation to the import intensity of subsequent export commodities according to the measurement criteria utilized. More serious, the predominance of direct controls over the composition and usage of imports allowed under the scheme encouraged excessive and wasteful foreign-exchange expenditure. Lastly, the rate structure between industries was not found consistent with a ranking according to import intensity of industries.

The relatively small proportion of total exports subsidized under the Export-Performance Licensing Scheme, as compared to the administrative difficulties and distortions in resource allocation introduced by its existence, argue for some basic changes in commercial policy. Even if the goals of export-performance licensing must continue to be met, there are certainly other ways to achieve them which would probably create less distortion in the economy and be administratively more wieldy. Several proposals have been made which would merge the current Export-Performance Licensing Scheme with the Export Bonus Scheme [4; 5; 7]. Some such consolidation of the administrative intervention in the export market should be seriously considered.

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