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Book Review

Rashid Amjad. *Private Industrial Investment in Pakistan 1960–70.* Cambridge: Cambridge University Press. 1982. Price: $ 25.00. 257 pp. Illustrations; appendices; bibliography; index.

The role of industrialization in economic development can hardly be overemphasized. The process of industrialization takes place through capital formation, and it is important that the factors which determine the rate of capital formation be identified and properly analysed. This book gives an in-depth analysis of private industrial investment in Pakistan during the Sixties, which increased sharply during the Second Plan period but declined during the Third Plan period. It examines the influence of foreign-resources inflow as well as of other factors on private industrial investment during the Sixties. It contains an enlightening discussion about the concentration of industrial power in a few hands, their control over financial institutions, and their role in the industrial growth of Pakistan.

The book is divided into three parts. Part I, consisting of Chapters 1 and 2, deals with the institutional setting. It contains both the theoretical framework and an elaborate discussion about the corporate environment in Pakistan. The first chapter provides the background material and highlights the main issues which are discussed later in the book. This chapter includes discussion concerning the overall behaviour of the economy from 1950 to 1970, and the changes in variables like investment, foreign aid, government expenditure and domestic savings in the Sixties. Private industrial investment reached a peak level in 1964-65, but started declining in the subsequent years. In 1969-70 although there was some recovery but the investment was still below the 1964-65 level. Foreign investment was also very low during the Sixties despite favourable government policies.

Chapter 2 deals exclusively with the "institutional setting" that influences private industrial investment. The author refers to it as the 'corporate environment' which depends on three institutions: the government, the monopoly houses, and the financial institutions. All these institutions play an extremely important role in influencing the private industrial investment. The most interesting part of this chapter is the discussion about monopoly houses. A monopoly house is characterised by "family ownership, has a centralised decision-making authority and consists of several legally separate companies engaged in highly diversified activities ranging from industry to trade, finance and insurance" (p. 41). The author's research on this subject showed that in 1970, 44 monopoly houses controlled 77 percent of the gross fixed assets of all manufacturing companies listed on the Karachi Stock Exchange.

Another important feature of the corporate sector brought to light by the author is the existence of links between the monopoly houses, with members of one monopoly house sitting on the Board of Directors of a company controlled by another monopoly house. For 1970, the author was able to establish the existence of 78 such interlockings between quoted companies belonging to different houses. This chapter provides a very clear picture of the concentration of industrial power in a few hands and their control over the financial institutions.

Part II of the book deals with the profitability analysis in the manufacturing sector. After a brief description of the indicators of profitability, Chapter 3 analyses in detail the profitability in cotton textile, jute, sugar and other industries during the Second and Third Five-Year Plan periods. It was found that profitability was different not only among different industries but also in the same industry during different years. These variations were partially attributed to changes in government measures affecting industries and to vagaries of primary output and prices.

An empirical analysis of differences in inter-industry profitability is given in Chapter 4. The analysis is based on data for 25 industries for the 1965–70 period. This sample covered more than 80 percent of the large-scale manufacturing sector in West Pakistan. With price cost margins as indicators of profitability, the results showed that concentration, foreign competition, and capacity utilization were some of the factors that were found to be statistically significant in explaining the differences in profitability among different industries. The results also showed that exports and advertising expenditure had a negligible effect on profitability.

Part III deals exclusively with the analysis of the factors that influence investment behaviour. This analysis has been conducted separately for firms, monopoly houses, and industries. A number of hypotheses about the effects of profits and sales on investment by firms are tested in Chapter 5. Regression results based on cross-sectional as well as pooled data for the Second and Third Five-Year Plan periods showed that in most cases sales and profits did not have significant effects on investment, but when regressions were run for the entire Plan periods, using average profits and changes in sales as explanatory variables, both of these variables became statistically significant. Foreign exchange loans were also found to influence the investment behaviour of the firms.

The investment behaviour of monopoly houses, discussed in Chapter 6, was found to be different from that of the firms. Monopoly houses engaged in a number of activities including manufacturing, trade, banking, insurance, etc. They can, therefore, diversify their investments within the existing structure and can also invest in new projects to maximize the total profits from all firms under their control.

Empirical results show that during the Second Plan period diversification and foreign exchange loans were the most significant variables in explaining the investment behaviour of monopoly houses. The effect of profits on investment was, however, negligible. For monopoly houses which did not diversify into new industries, profits had some effect on investment but not as strong as the foreign exchange loans had.

Analysis of investment at the industry level (Chapter 7) shows that profits and sales in the previous years were not significantly related to investment in individual years, but their effect was significant over the entire Plan periods except when there were no direct government controls and when investment in new industries was excluded. Government direct controls had a significant effect on industrial investment during the Third Plan. The last chapter, which is written in an historical context, explains the different stages of industrial growth in Pakistan from 1947 to 1970. While the industrial growth in the Fifties is mainly attributed to import substitution, in the first half of the Sixties it depended to a large extent on foreign aid. The lower growth rate of private industrial investment during the 1965–70 period, according to the author, was caused by the decline in foreign aid, increased military imports after the 1965 war, increased imports of food grains because of bad harvests, and the mounting burden of debt repayment.

The book contains a very comprehensive analysis of the private industrial investment in Pakistan during the Second and Third Five-Year Plans. One can not fail to be impressed by the collection of valuable material by the author, its analytical examination and arrangement reflecting profound research work. The conclusions reached demonstrate the author's pragmatic approach, clarity of thought, and logical reasoning.

While going through the empirical part of the book one can not avoid the impression that variations in profitability and investment have been explained through a rather limited number of variables. While the variables included in different models are important, they explain only a fraction of the total variation–in most cases less then 50 percent and in some cases even less than 10 percent. The explanatory power of the models is thus somewhat limited. The discussion about the concentration of industrial power in the form of monopoly houses and their control over the financial institutions is very interesting and revealing. On the whole the book is a good and quite useful attempt, making a valuable addition to the existing literature on the subject.

Aftab Ahmad Cheema

Research Economist,
Pakistan Institute of
Development Economics,
Islamabad.