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PAKISTAN

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I T I N E R A R Y

Mr. McNamara's Visit to Pakistan

Thursday, November 11, 1976

Evening	Arrival from New Delhi (to be received by the Chief Minister, Punjab, Minister for Planning and Development, Additional Chief Secretary (Development) and a representative of EAD).
2030	Dinner by Mr. & Begum Mohammad Abbas Abbasi, Governor, Punjab in honor of Mr. and Mrs. McNamara.

Friday, November 12, 1976

0800	Departure for Lyallpur.
0845	Arrival at Lyallpur.
0845 - 1015	Field visit Lyallpur University Extension Area (Dr. Mohammad Nasim, Secretary, Agriculture Dept., Punjab to accompany).
1030 - 1130	Visit to Agriculture Research Institute.
1145 - 1245	Visit to the Agriculture University Campus.
1245 - 1345	Lunch by Dr. Amir Mohammad, Vice Chancellor, Agriculture University.
1345 - 1415	Lyallpur to Gujranwala.
1430 - 1600	Visit to industrial estate and small scale enterprises (Mr. Safdar Husain Kazmi, Secretary, Industries Dept., Punjab, to conduct this visit).
1600 - 1630	Gujranwala to Lahore.
1715	Departure for Rawalpindi.
1800	Arrival at Islamabad (to be received by Rana Mohammad Hanif Khan, Minister for Finance, Planning and Development).
2030	Dinner by Rana Mohammad Hanif Khan, Minister for Finance, Planning and Development.

Saturday, November 13, 1976

0800 - 0845	Meeting with Rana Mohammad Hanif Khan, Minister for Finance, Planning and Development and Mr. A.G.N. Kazi, Secretary General, Finance and Economic Coordination.
0900 - 1030	Joint meeting with Mr. V.A. Jafarey (Secretary, Planning Division), Mr. Aftab Ahmad Khan (Secretary, Economic Affairs Division), Mr. I.A. Imtiazi (Secretary, Ministry of Food & Agriculture); Mr. Masur Hasan Khan (Secretary, Ministry of Fuel, Power and Natural Resources); and Mr. Abdur Raouf Shaikh,(Secretary, Finance Division).
1045 - 1115	Meeting with Mr. Rafi Raza, Minister for Production; Mr. S.B. Awan, Secretary, Production Division, also to be present in the meeting.
1130 - 1200	Return to Rawalpindi.
1200 - 1300	Meeting with the Prime Minister.
1300 - 1445	Lunch with the Prime Minister and Begum Bhutto.
1500	Departure for Tarbela.
1530	Arrival at Tarbela.
1515 - 1615	Meeting with Mr. Abdul Hafeez Pirzada, Minister for Education & Provincial Coordination and Chairman Special Cabinet Committee on Tarbela.
1615 - 1700	Site visit.
1700 - 1730	Tarbela To Rawalpindi.
1830 - 1900	Meeting with private individuals (to be arranged by Resident Mission, IBRD).
2030	Dinner (private).

Sunday, November 14, 1976

0830	Departure for London.

October 21, 1976

Airport Arrival Statement

Pakistan

I am grateful to your Government for the invitation. ~~When~~ I was Last in Pakistan four year ago, ~~the country was undergoing rapid changes and I appreciated the opportunity at that time to confer with Prime Minister Bhutto and others on your development plans. Since then I have met with Mr. Bhutto in Washington, and I am looking forward to meeting him here again.~~

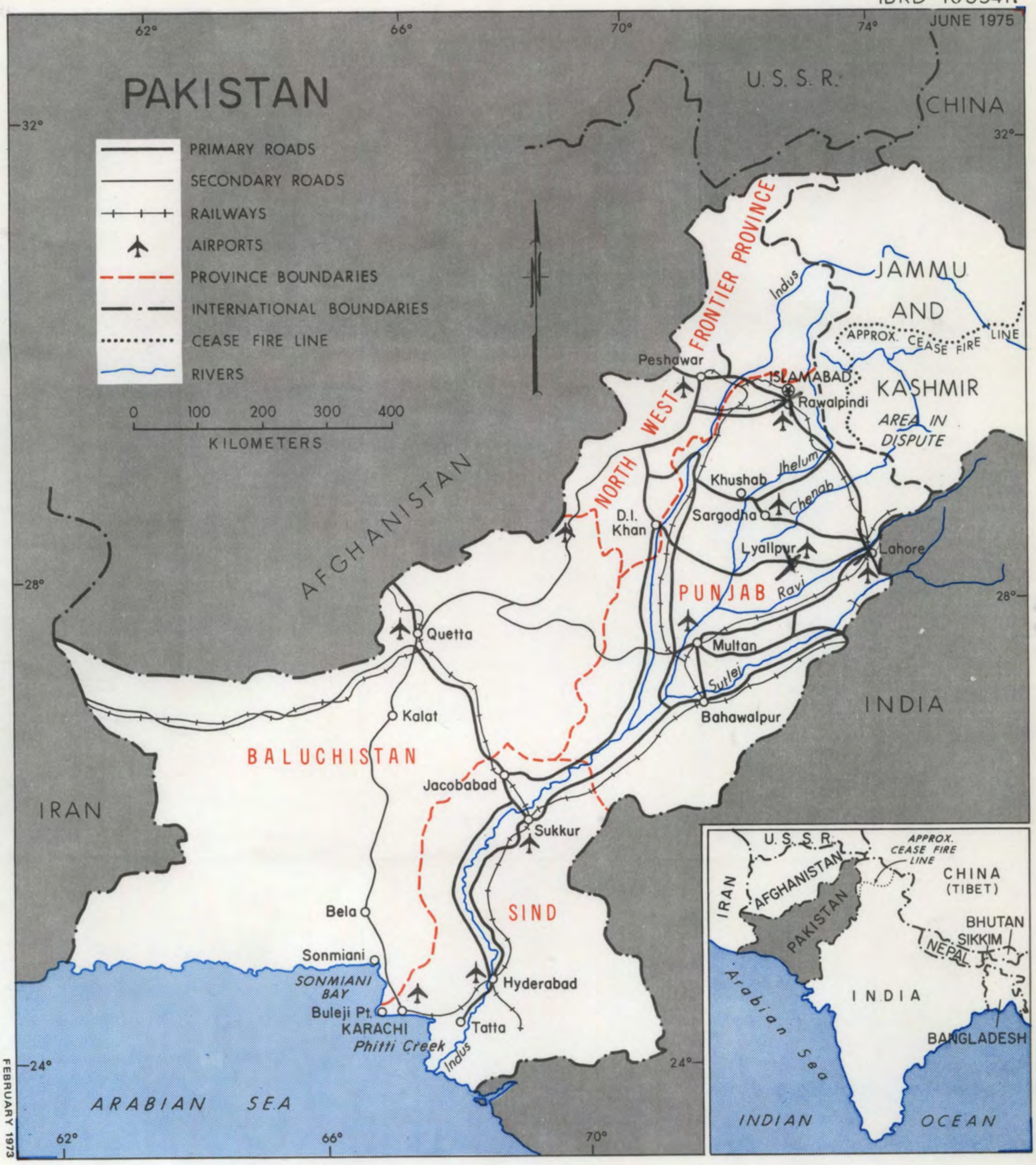
~~In the last four years~~, Pakistan has encountered many difficulties. Droughts, floods, international recession and spiralling import prices have all left their mark on the economy. Nevertheless, Pakistan has succeeded in maintaining a rising trend of investment, and a growth rate of more than four percent per year.

The Bank has long been associated with Pakistan's development plans. We have contributed almost $1.3 billion over a quarter of a century, nearly half has been committed in the past four years.

We have ~~So far, our~~ loans lent for ~~have~~ included ports, railways, pipelines, roads and telecommunications, in addition to the massive power and irrigation works at Tarbela and elsewhere in the Indus Basin. In the future, in response to the increasing emphasis which the Government wishes to give to agriculture because of its central role in the life of the majority of the people, an increasing share of Bank assistance will be directed towards this sector.

I know that much remains to be done, but in the course of my visit I look forward to seeing what progress has been made, what problems lie ahead and what programs are being developed to deal with them. I shall be particularly interested in the plans for moderating the population growth rate and programs designed to enable the poor -- both rural and urban -- to increase their income productivity.

IBRD-10354R


JUNE 1975
PAKISTAN
PRIMARY ROADS
SECONDARY ROADS
RAILWAYS
AIRPORTS
PROVINCE BOUNDARIES
INTERNATIONAL BOUNDARIES
CEASE FIRE LINE
RIVERS
0
100
200
300
400
KILOMETERS
62°
66°
70°
74°
32°
28°
24°
U.S.S.R.
CHINA
AFGHANISTAN
IRAN
INDIA
JAMMU AND KASHMIR
APPROX. CEASE FIRE LINE
AREA IN DISPUTE
NORTH WEST FRONTIER PROVINCE
PUNJAB
BALUCHISTAN
SIND
ARABIAN SEA
Peshawar
ISLAMABAD
Rawalpindi
Khushab
Sargodha
D.I. Khan
Lyallpur
Lahore
Multan
Bahawalpur
Quetta
Kalat
Jacobabad
Sukkur
Bela
Sonmiani
SONMIANI BAY
Buleji Pt.
KARACHI
Phitti Creek
Hyderabad
Tatta
Indus
Jhelum
Chenab
Ravi
Sutlej
U.S.S.R.
AFGHANISTAN
IRAN
PAKISTAN
APPROX. CEASE FIRE LINE
CHINA (TIBET)
BHUTAN
SIKKIM
NEPAL
INDIA
BANGLADESH
Arabian Sea
INDIAN OCEAN
FEBRUARY 1973

background notes

Pakistan

department of state * january 1975

OFFICIAL NAME: Islamic Republic of Pakistan

GEOGRAPHY AND PEOPLE

Pakistan, located in South Asia, extends from the Arabian Sea a thousand miles northward across the Thar Desert and eastern plains to the Hindu Kush and the foothills of the Himalayan Mountains. It is bounded by Iran, Afghanistan, the disputed state of Jammu and Kashmir, and India. Flowing into the Arabian Sea are the Indus River and its tributaries which form the fertile and intensely cultivated Indus Valley. Generally, Pakistan has large plains and deserts as well as a northern mountainous area. Its climate is dry and hot near the coast but cool in the northeastern uplands. Annual rainfall averages less than 10 inches, and temperatures range from below freezing to 120°F.

There are four Provinces in Pakistan—Punjab, Sind, Northwest Frontier, and Baluchistan—plus several centrally administered tribal areas located in the Northwest.

The majority of people live around Karachi in the Indus Valley, and along an arc formed by Lahore, Rawalpindi, and Peshawar.

Some 40 million Punjabis make up the dominant majority, with minorities of other Indo-Aryan peoples, as well as Iranians. Urdu, spoken as a first language by only 9 percent of Pakistanis, is the official language along with English; 65 percent of Pakistanis speak Punjabi, 11 percent Sindhi, 24 percent other languages (Pushtu, Baluchi, Brahui). Punjabi, Pushtu, and Baluchi are of the Indo-European language group; Brahui is a Dravidian language.

HISTORY

The forces which generated the concept of Pakistan as an independent nation for the large Muslim population of the Indian subcontinent stem directly from developments in British India in the first half of the 20th century. Indirectly, however, they go back hundreds of years.

Muslim sailors reached the coast of Sind early in the 7th century, and Muslims made a temporary conquest of Sind early in the 8th century. Between the 11th and 18th centuries successive Afghan and Turkish invaders gradually spread their authority across most of northern India. Although large numbers of Indians were converted to Islam during this long period of Muslim rule, Muslims remained a minority. Islamic influence reached as far east as Bengal but never penetrated deeply into south India, which remained predominantly Hindu.

PROFILE

Geography

AREA: 307,374 sq. mi. (about the size of Calif.). CAPITAL: Islamabad (pop. 250,000). OTHER CITIES: Karachi (pop. 3.5 million), Lahore (pop. 2.1 million).

People

POPULATION: 70 million (1974 est.). ANNUAL GROWTH RATE: About 3% (1973). DENSITY: 227 per sq. mi. ETHNIC GROUPS: Punjabi, Sindhi, Pushtun (Pathan), Baluchi. RELIGIONS: Muslim (96%), small minorities of Christians, Hindus, and others. LANGUAGES: Urdu (official), English, Punjabi, Sindhi, Pushtu, Baluchi. LITERACY: 17%. LIFE EXPECTANCY: 51 yrs.

Government

TYPE: Parliamentary. INDEPENDENCE: August 14, 1947. DATE OF CONSTITUTION: August 14, 1973.

BRANCHES: *Executive*—President (Chief of State), Prime Minister (Head of Government). *Legislative*—National Assembly, Senate (indirect election). *Judicial*—Supreme Court.

POLITICAL PARTIES: Pakistan People's Party, National Awami Party, and others loosely allied in United Democratic Front. SUFFRAGE: Universal adult over 18. POLITICAL SUBDIVISIONS: 4 Provinces, tribal areas, federal capital.

FLAG: White vertical stripe on hoist side; green field with white crescent and star in center.

Economy

GROSS NATIONAL PRODUCT (GNP): $7.6 billion (FY 1974). ANNUAL GROWTH RATE: 5.6% (FY 1974). PER CAPITA INCOME: $110. PER CAPITA GROWTH RATE: 2.6%.

AGRICULTURE: *Land* 24% (does not include one-third of land for which no data available). *Labor* 59%. *Products*—wheat, cotton, rice.

INDUSTRY: *Labor* 12%. *Products*—cotton textiles, fertilizer, cement, iron, steel, tires, electrical goods.

NATURAL RESOURCES: Land, extensive natural gas, limited petroleum, poor quality coal, iron ore.

TRADE (FY 1974): *Exports*—$1.04 billion: rice, raw cotton, yarn, textiles, light manufactured products. *Partners*—Far East 35%, European Communities (EC) 23%, Middle East 19%, U.S. 5%. *Imports*—$1.37 billion: capital goods, raw materials, food grains, consumer items. *Partners*—EC 25%, U.S. 25%, Far East 21%, Middle East 12%.

OFFICIAL EXCHANGE RATE: 9.9 rupees=US$1.

ECONOMIC AID RECEIVED: *Total* $9.4 billion. *U.S. only*—$4.5 billion (since 1951).

MEMBERSHIP IN INTERNATIONAL ORGANIZATIONS: U.N., CENTO, Regional Cooperation for Development (RCD), Asian Development Bank (ADB), International Development Association (IDA), International Court of Justice, INTELSAT.

By the last half of the 18th century Great Britain began to assume control of India, and by 1850 it controlled directly or indirectly the entire subcontinent. After a century of British rule, Muslim and Hindu leaders began to agitate for an effective voice in Indian affairs. The Indian National Congress, organized in 1885, was the first Indian forum through which the United Kingdom was petitioned for a greater degree of home rule, but the Congress included few Muslims.

To present their position more effectively, a number of Muslim leaders formed the All-India Muslim League in 1906 and in 1913 formally adopted the goal already accepted by leaders of the Indian National Congress—self-government for India within the framework of the British Empire. However, the Congress and the League were unable to agree on a formula for the protection of Muslim religious and economic rights and representation in an independent Indian government. Mounting tension over the question of Hindu-Muslim relationships, coupled with widespread disappointment at the limited extent of British reforms, led to a series of bitter communal disturbances which recurred in India at intervals from 1920 until the outbreak of World War II.

Pakistan and Partition

The idea of Pakistan as a separate Muslim nation to be created by a partition of India developed in the 1930's. In 1940 the All-India Muslim League, led by Mohammed Ali Jinnah, officially endorsed the goal of establishing Pakistan as a homeland for the Muslims of the subcontinent.

At the end of World War II the United Kingdom took steps to grant India independence. But the Indian National Congress and the All-India Muslim League were unable to agree on the terms for drafting a constitution or on the method for establishing an interim government. Finally, in June 1947, the British Government declared that it would grant full dominion status to two successor states—India, and for the Muslims seeking a separate nation, Pakistan. Pakistan was to consist of the contiguous Muslim-majority areas of British India; Bengal and the Punjab were to be partitioned; and the princely states were to be free to accede to either dominion. The result was a bifurcated Pakistan, East and West, separated by the breadth of India, a distance of more than 1,000 air miles. Pakistan thus became a self-governing dominion within the Commonwealth of Nations on August 14, 1947.

Post-Partition

The partition of India, particularly the Punjab, was accompanied by communal rioting with the loss of tens of thousands of lives. Some 6 million Muslims fled to Pakistan and a like number of Hindus and Sikhs to India.

The death of Jinnah in 1948 and the assassination in 1951 of his political successor, Prime Minister Liaquat Ali Khan, deprived Pakistan of its two most able leaders and dealt a serious blow to the nation's political development. The political instability which followed brought frequent partisan realignments and cabinet changes in the central government as well as in the Provinces. After 1954 the situation was aggravated by gradual economic deterioration.

On March 23, 1956, following the adoption by the National Assembly of a new constitution, Pakistan ceased to be a dominion and became a sovereign "Islamic Republic" within the Commonwealth of Nations.

In 1958 a group of senior military officers, who previously had avoided direct political involvement, took control of the nation's affairs. On October 7, 1958, President Iskander Mirza, supported by the Army Commander in Chief, Gen. Ayub Khan, and other senior officers, proclaimed a "peaceful revolution" and imposed martial law.

Gen. Ayub, who was appointed Chief Martial Law Administrator and Supreme Commander of the Armed Forces, assumed the presidency with the resignation of Mirza on October 27, 1958. He was confirmed in office in an indirect election during the winter of 1959-60 and was sworn in on February 17, 1960, for a 5-year term.

Martial law was withdrawn on June 8, 1962, and the new National Assembly convened in accordance with a new constitution promulgated by President Ayub on March 23, 1962.

The first Presidential election under the 1962 constitution took place in January 1965, with President Ayub reelected for another 5-year term. He did not complete his term, however, and relinquished the Presidency on March 25, 1969, following several months of political agitation in both East and West Pakistan. The constitution of 1962 was suspended, martial law was again imposed, and Gen. A.M. Yahya Khan, Commander in Chief of the Army, took over as Chief Martial Law Administrator. On April 1, 1969, he assumed the Presidency.

Prior to relinquishing his office, President Ayub had met with opposition political leaders of the East and West and agreed to abandon the 1962 constitution's indirect election process and replace it with direct universal adult suffrage. At the same time, he agreed to the modification of the government's structure from an executive-dominated federal system to a parliamentary system, but these concessions were not implemented prior to the imposition of martial law. Under President Yahya, however, the martial law authorities stated their intent to restore constitutional rule when internal political conditions had stabilized.

Full political activity was allowed to resume on January 1, 1970, and elections were held the following December for a National Assembly and legislatures for Pakistan's five Provinces (East Pakistan and the four in the West). The 313-member Assembly was to have responsibility for adopting the constitution establishing the legal framework for a new civilian government.

The major unresolved issue was the question of the role of East Pakistan in the reconstituted civilian government. East Pakistanis maintained that they had been underrepresented in the central government and denied their share of central government revenues.

The Awami League Party under Sheikh Mujibur Rahman, won 160 of the 162 seats allotted to East Pakistan and a majority in the National Assembly. Its platform emphasized a high degree of provincial autonomy and a central government controlling only defense, foreign affairs, and (possibly) currency. West Pakistan's majority party, the Pakistan People's Party, led by Zulfikar Ali Bhutto, won 81 of the West's allotted 138 seats. Moreover, it stood for an "effective" center with some devolution of power to the Provinces but less than the Awami League wanted.

The inability of the key political personalities to agree on a division of powers between the central government and the Provinces led to a breakdown in the political process and triggered the East Pakistan crisis. On March 25-26, 1971, the Pakistan military banned the Awami League, arrested Sheikh Mujibur Rahman, and charged him with treason.

In response, the remainder of the Awami League leadership proclaimed the independence of East Pakistan on March 26 in the name of "People's Republic of Bangladesh" and later established a government-in-exile at Calcutta, India. An insurgent fighting force called the Mukti Bahini (Liberation Forces) was formed and fought the Pakistani Army in East Pakistan. More than 9 million Bengalis fled the turbulent regions of East Pakistan and were cared for in the refugee camps in India. By late fall 1971 the Mukti Bahini, supported by India but operating throughout East Pakistan, was regularly harassing the Pakistani Army, by now comprised exclusively of soldiers from the West and viewed as an army of occupation. During the late summer and fall, India-Pakistan tensions mounted until full-scale fighting broke out in both the East and West on December 3.

The Pakistani Army in East Pakistan was rapidly overwhelmed and on December 16, 1971, approximately 91,000 troops, paramilitary and civilians, surrendered to the combined forces of India and Bangladesh. On December 17 Pakistan agreed to an Indian cease-fire proposal for the western theater. President Yahya stepped down December 20, and was replaced as President and Chief Martial Law Administrator by Zulfikar Ali Bhutto, head of the Pakistan People's Party, the majority party of West Pakistan.

The problems facing the Bhutto government were extraordinary, not least of which were the shock and demoralization caused by the decisive defeat suffered by the armed forces and the secession of over half the population that had originally opted for a South Asian Muslim homeland in 1947.

The new civilian regime moved decisively on several broad fronts to restore confidence in the nation's leadership. In foreign affairs, Bhutto has affirmed and strengthened traditional friendships while beginning an important process of reconciliation with India. Domestically, a rather sweeping program of nationalization was instituted, followed by a period of retrenchment and careful concentration on development of the country's substantial agricultural potential. The constitutional order has been returned to the earlier parliamentary form of government and the federal system, including four Provinces, affirmed.

The political and economic recovery achieved since 1971 under Bhutto's vigorous leadership has been both solid and impressive.

GOVERNMENT AND POLITICAL CONDITIONS

Pakistan, an Islamic republic, has been engaged in an evolution of its governmental form since the end of the December 1971 war. As a direct and immediate result of the military defeat in East Pakistan and the cease-fire with India in the West, Gen. Yahya Khan on December 20, 1971, turned over control of the Government of Pakistan to Zulfikar Ali Bhutto, leader of the majority Pakistan People's Party (PPP). For the next several months Bhutto, continuing to govern under martial law, tried to bolster the morale of the Pakistani people shocked by military defeat and the loss of half of their nation. Numerous military leaders were dismissed, several social and economic reforms were enacted, and the civil service was purged of alleged corrupt elements. In April 1972, under increasing pressure to return to democratic rule, Bhutto convened the first directly elected National Assembly in the history of Pakistan and lifted martial law; an interim constitution was adopted. Bhutto's subsequent inauguration to the Presidency as leader of Pakistan's democratically elected majority party ended 16 years of military governments.

In May 1972 the four Provincial assemblies met and elected governments under the leadership of Chief Ministers, appointed by the President but commanding the confidence of the majority of the provincial assemblies. In Baluchistan and the Northwest Frontier Provinces, the new governments were a coalition of the National Awami Party (NAP) and the Jamiatul-Ulema-Islam (JUI) parties and in opposition to President Bhutto's PPP.

These opposition governments were dismissed by Bhutto in February 1973 and Presidential rule was established in the two Provinces. PPP-dominated coalition governments were subsequently formed in both Baluchistan and the Northwest Frontier, thus bringing all four provincial governments under PPP control.

A draft of a new permanent constitution was presented in December 1972 to the National Assembly sitting as the Constituent Assembly. Under the constitution, which entered into force August 14, 1973, Pakistan has a strong central, and parliamentary form of government. It provides for a President as Ceremonial Chief-of-State, presently Fazal Elahi Chaudhry, elected by both the Senate and National Assembly of the bicameral legislature. The Head of Government, however, is a Prime Minister, presently Zulfikar Ali Bhutto, elected by a majority of the National Assembly.

The National Assembly (210 seats comprised of 200 members elected by universal, adult–18 years old–suffrage, plus 10 seats reserved for women) must stand for election every 5 years, unless dissolved sooner. The Senate consists of 63 members indirectly elected by the provincial assemblies and tribal councils for 4 years, with half the members up for reelection every 2 years. The Senate is not subject to dissolution.

The constitution permits a vote of no-confidence by a majority of the Assembly, provided that the name of a successor is included in the no-confidence motion. In an unusual variation of parliamentary government, for a period of 10 years, the vote of a member of the National Assembly cast in support of a motion of no-confidence shall be disregarded if it is contrary to the votes of a majority of the political party of which he is a member.

Two lists–federal and concurrent–specify jurisdiction on legislative subjects, and all residual powers are vested in the Provinces. Provincial governors are appointed by the President, on the advice of the Prime Minister but act on the advice of the Chief Ministers who head the Provincial parliaments.

The highest court in Pakistan is the Supreme Court; its justices are appointed by the President. The highest court in each Province is the High Court with justices also appointed by the President. In an April 1972 decision, the Supreme Court found the martial law regime of ex-President Yahya Khan (March 1969 to December 1971) to have been illegal and a usurpation of power.

Principal Government Officials

President–Fazal Elahi Chaudhry

Prime Minister, Minister of Defense and Foreign Affairs–Zulfikar Ali Bhutto

Ambassador to the U.S.–Sahabzada Yaqub-Khan

Ambassador to the U.N.–Iqbal A. A. Akhund

Pakistan maintains an Embassy in the United States at 2315 Massachusetts Avenue, N.W., Washington, D. C. 20008.

ECONOMY

Pakistan bears the usual burdens of a developing country–low per capita income (about US$110 in FY 1974), large and growing population, rigid, highly stratified traditional society, minimal level of literacy and other needed skills, archaic educational system, predominantly agricultural economy of small farms primitively cultivated, inadequate infrastructure, and difficult balance-of-payments problem. Gross national product (GNP) in FY 1974 is estimated at $7.6 billion. (The GNP and per capita income are based on recent Government of Pakistan estimates and an official conversion rate of Rupees 9.9 = US$1.)

But Pakistan does have adequate resources to develop a viable economy. The country boasts one of the largest irrigation systems in the world, fed by the Indus River. The river system also powers a number of large hydroelectric stations. A limited amount of natural gas is being exploited. However, the backbone of the economy is still its arable land which, under intensive agro practices, is expected to make the nation self-sufficient in food grain within the next few years.

Agriculture and Natural Resources

Pakistan's most important natural resource is its land; agriculture accounts for almost 45 percent of the national income. Cotton, raw and processed, contributes more than 50 percent of the country's exports. Through the construction of large irrigation facilities and active land reclamation projects, production of food grain and cotton is now carried out on large areas of land which were previously arid and barren.

Rice production in 1974 should reach 2.5 million metric tons, while 1974 wheat production is estimated at 7.6 million metric tons. This production record was attributable largely to increased use of high-yield seeds, though unfavorable weather and inadequate fertilizer distribution disappointed hopes for an even larger wheat harvest. Rice and cotton production have doubled in the past decade.

The nation's known minerals are limited and include small amounts of petroleum (supplying 15 percent of local needs) and poor quality coal and iron ore. Reserves of natural gas are extensive and are used as fuel for power stations and as the basic raw material for the country's latest chemical fertilizer plants. Copper and phosphate may be commercially exploited in the next few years.

Electric power production is increasing significantly. Production capacity in 1972 was estimated at 2,090 megawatts.

The Indus Basin

The largest canal-irrigated area in the world is being further developed in the Indus Basin, lying mostly in Pakistan and partly in India. In 1947, at the time of partition, the waters of the Indus system were divided giving India control of the upstream reaches of most of the rivers. By 1960, a settlement was negotiated with Pakistan and India under the auspices of the International Bank for Reconstruction and Development (IBRD) and presented as the Indus Waters Treaty. The arrangement allocated the waters of the three western rivers to Pakistan and the waters of the three eastern rivers to India. Under the terms of the settlement, Pakistan has constructed an extensive system of dams (including Tarbela, the world's largest earthfill dam), link canals, and barrages.

These irrigation projects, to be completed in the next few years, are being financed partially by contributions from the IBRD, the United States, and several other friendly governments. Contributions from foreign sources for this ambitious project are expected to exceed $1.3 billion (of which the United States is contributing about half), by the time work is completed.

Industry

There was little organized industry in Pakistan at the time of independence in 1947. In the late 1950's and 1960's a rapid expansion of light industry took place. New plants were established, generally based on local raw materials (e.g., fertilizers, textiles). Presently industrial production accounts for about 15 percent of GNP and is increasing.

Foreign Trade

Pakistan's imports are characteristic of developing nations and consist mainly of capital goods for development efforts, industrial raw materials, food grains, and a limited amount of consumer items.

Since 1971 the government has attempted to curtail imports, in part by devaluating the rupee by 110 percent. Nonetheless, the worldwide price inflation has pushed imports up very rapidly, increasing 75 percent from FY 1973 to FY 1974.

Despite the loss of its eastern wing, Pakistan's export earnings reached an alltime high of $1.04 billion in FY 1974, up more than 28 percent from FY 1973. Rice exports accounted for much of the increase. Under a new government program, a concerted effort is being made to diversify exports, and the export of light manufactured products is becoming increasingly important. Principal sales markets are the United Kingdom, Hong Kong, Japan, and the United States. Exports to the United States in FY 1974 amounted to $54.6 million, primarily textiles.

On the import side, the United States is the leading supplier of goods to Pakistan, selling an average of about $270 million annually for the past several years, or about one quarter of the nation's average foreign purchases. Many U.S. sales are funded through AID loans to Pakistan.

Foreign Economic Assistance

Since 1952 more than $9 billion in economic assistance has been committed to Pakistan by all foreign sources, with the U.S. share being more than $4.5 billion, including $1.7 billion worth of Public Law 480 (Food for Peace) agricultural commodities. U.S. assistance to Pakistan in FY 1975 will exceed $200 million, including $80 million in development assistance, $40 million in debt rescheduling, $30 million in Public Law 480 commodities, and $50 million through multilateral programs, particularly the Indus Basin irrigation projects.

Current Economic Situation

Despite inflation running at 25 percent annually and a 1974 price downturn for its export leaders, Pakistan has weathered the current international economic uncertainties rather well. The balance-of-payments situation is likely, however, to get worse in early 1975 as the full impact of the trade gap is felt. A $580 million soft loan over 1975-77 from Iran and a long-term debt rescheduling of $650 million in 1975-79 maturities will help ease the transition.

TRAVEL NOTES

Climate and Clothing—Lightweight clothing for the hot, dry summer (monsoon rains in July-August); mediumweight clothing appropriate for winter.

Health—Adequate medical facilities in major cities. Pharmacies capable of meeting most prescription needs. Smallpox immunization required. Cholera and typhoid immunization and malaria suppressants recommended.

Telecommunications—Good internal and adequate external telephone, telegraph, and mail service.

Transportation—Adequate railroad transportation. The public bus system is poor. Excellent airlines (PIA). Highways are generally crowded.

Visas—Americans may obtain a tourist visa for stay of up to 30 days and a transit visa for period of up to 15 days at ports of entry. The land border with India is open at Wagah (between Lahore and Amritsar) daily from 9 a.m. to 4 p.m. Pakistan requires a "road permit" for the crossing. India requires that all cars be covered by an international "carnet de passage."

On the domestic side, there is continuing concern over the lack of private investment in the wake of the 1972-73 nationalizations. A late-1974 water shortage (and resulting diminution of hydroelectric generating capacity) has raised the possibility of serious crop shortfalls; if this materializes, there could be major domestic price/supply difficulties and even worse impact on the foreign trade situation. Efforts to spur agricultural development, including expansion of domestic fertilizer manufacturing and improved irrigation practices and supply (including completion of Tarbela) could improve the short-term outlook. A hoped-for gain in cotton exports would also relieve some of the payments pressure.

FOREIGN RELATIONS

Relations between India and Pakistan reflect a centuries-old Hindu-Muslim rivalry and a mutual suspicion which led in 1947 to the creation of the two states. Many issues divide India and Pakistan, but until the East Pakistan crisis of 1971 the most sensitive issue was that of the status of the former princely states of Jammu and Kashmir.

At the end of World War II Kashmir had a population which was 77 percent Muslim but was ruled by a Hindu *maharajah*. When the *maharajah* hesitated to accede to either of the new dominions in 1947, some of his Muslim subjects revolted against his rule and were supported by armed tribesmen from Pakistani territory. The Hindu *maharajah* thereupon offered to accede to India in return for military assistance to repel the invaders. India accepted the accession on the condition that Kashmir's ultimate status would depend upon the expressed will of the people. In the fighting that followed, Indian troops were able to gain control of the eastern part of Kashmir, including the Valley of Kashmir and the capital city of Srinagar.

India took its dispute with Pakistan over Kashmir to the United Nations on January 1, 1948, and a year later the United Nations succeeded in arranging a cease-fire along a line roughly dividing the state in half but leaving the Vale of Kashmir and a majority of the population under Indian control. The following years saw a series of minor skirmishes and firefights along the cease-fire line. The Kashmir dispute led to full-scale hostilities in September 1965, which were brought to an end after 3 weeks through the efforts of the U.N. Security Council. The leaders of India and Pakistan met at Tashkent, in the Soviet Union, in January 1966 for a summit conference. The resulting Tashkent Declaration provided for the return to the status quo in Kashmir and for the peaceful settlement of differences between the two countries. Six years and another war later, however, the Kashmir issue continues as a major point of dispute.

Actions of the Pakistani Army in East Pakistan in 1971, which prompted the flight of approximately 9 million refugees into India, ultimately led to full-scale warfare. Indian recognition of Bangladesh in December 1971 brought a severance of diplomatic relations. The end of the fighting found India in possession of approximately 91,000 Pakistani POW's, versus approximately 700 Indian POW's held by Pakistan; more than 5,000 square miles of Pakistan occupied by the Indian Army, versus less than 100 square miles of India held by Pakistani forces; and India in an unquestionably superior military position in South Asia.

In search for a settlement to resulting problems, then President Bhutto met with Prime Minister Gandhi at Simla in July 1972. Both parties hoped that the meeting might end an era of confrontation and initiate one of peace in the subcontinent. Agreement was reached providing for the withdrawal of forces from occupied territories, delineation of the line of control in Kashmir, and the settlement of future disputes by peaceful means through bilateral negotiations. An impasse then ensued, largely over the issues of repatriation of the Pakistani POW's held in India and recognition of Bangladesh by Pakistan. Solutions to the humanitarian problems were thus deadlocked for nearly 20 months after the conclusion of the war.

On August 28, 1973, the representatives of the Governments of India and Pakistan agreed to the simultaneous repatriation of all but 195 Pakistani POW's from India, all Bengalis from Pakistan, and a "substantial number" of non-Bengalis (Biharis) from Bangladesh. With Pakistani recognition of Bangladesh in February 1974, the stage was set for the "Tripartite Agreement" in April under which the remaining 195 Pakistani POW's, against whom war crimes had been lodged by Bangladesh, were returned, and provisions for resettlement of Biharis in Pakistan were refined.

The "Simla Process" of step-by-step normalization between India and Pakistan has continued to produce constructive results. Agreement was reached in September 1974 on restoration of postal and telecommunications links and on measures to facilitate travel. The negotiators also agreed to early talks on aviation questions (overflight rights and bilateral air links). A November protocol authorized reestablishment of trade relations starting December 7, 1974. Difficult problems and deep suspicion continue to divide these traditional adversaries, but a hopeful new basis has been laid for what could in time permit the development of a more constructive relationship.

Afghanistan

Relations in the past have been complicated by the longstanding controversy over the "Pushtunistan" issue. The basis for this controversy was the establishment of the "Durand Line" (1893) following the second Anglo-Afghan war. In effect, the line divided the territory inhabited by the Pushtun tribes–part went to Afghanistan and part to India. The partition of India and transfer of political authority over the Pushtuns along the frontier to the successor Government of Pakistan precipitated the issue. The Afghans vigorously protested the inclusion of Pushtun areas within the borders of Pakistan without giving the Pushtuns the opportunity to opt for either self-determination or inclusion in Afghanistan. Pakistan regards the Durand Line as an established international border confirmed by successive Afghan rulers and takes the position that Afghan claims to an interest in the status of the people in the area constitute interference in its internal affairs.

The issue resulted in the closure of the Pakistan-Afghanistan border from 1961-63 and has strained relations between the two countries periodically since then. On the other hand, landlocked Afghanistan's reliance on Pakistan for trade outlets through the port of Karachi and land routes to the subcontinent has the potential for a cooperative relationship between the two neighbors.

Soviet Union

Pakistan's relations with the U.S.S.R. have traditionally been correct, but Pakistan's membership in the Central Treaty Organization (CENTO) and the support given by the Soviet Union to India and Bangladesh during the 1971 crisis have inhibited the development of close relations. Soviet sponsorship of the Tashkent meeting after the September 1965 Indo-Pakistan hostilities was seen by many Pakistanis as a sign that the U.S.S.R. wished to develop closer relations with Pakistan. Following Tashkent, Pakistan made a conscious effort to strengthen Pakistan-U.S.S.R. ties through the exchange of various cultural and trade groups and high-level delegations. Trade between the two countries increased between 1966 and 1971, and the U.S.S.R. continued to provide economic aid to Pakistan.

With the beginning of the East Pakistan crisis in March 1971, however, relations between Pakistan and the Soviet Union cooled as the result of the latter's criticism of Pakistan. From the Pakistani viewpoint, the Indian-Soviet Treaty of Friendship, Peace, and Cooperation, signed in August 1971, was in large part directed against Pakistan. Recognition of Bangladesh by the U.S.S.R. early in 1972 further strained Pakistan-U.S.S.R. relations.

Development and maintenance of good relations with the Soviet Union, however, remain an important concern of Pakistan's foreign policy, and since coming to power Prime Minister Bhutto has twice visited Moscow in pursuit of this objective.

People's Republic of China

Pakistan recognized the People's Republic of China in 1950, following the example of other Commonwealth nations, and diplomatic relations were established the next year. Relations have, in general, been cordial.

Relations grew much closer following the Sino-Indian hostilities of 1962. A boundary agreement was signed at Peking on March 2, 1963. Trade, economic, cultural, and civil air agreements have also been concluded. In recent years, agreements for extensive military assistance have been negotiated between Pakistan and the People's Republic of China. Prime Minster Bhutto visited Peking in 1972 and again in May 1974 and has received assurances of continued substantial economic assistance. There have been numerous other visits by high-ranking officials of both governments. Because of the military, political, and diplomatic support extended to Pakistan by China, Pakistan considers good relations with the People's Republic of China as an essential element of its current foreign policy.

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U.S.-PAKISTAN RELATIONS

Diplomatic relations between the United States and Pakistan were established in 1947. With the extension of U.S. military and economic aid to Pakistan in 1954 and its subsequent participation in CENTO and SEATO, relations between the two countries became very close. In 1962, when the United States provided some military aid to India following the outbreak of fighting between the P.R.C. and India, Pakistani public opinion, fearing the use of these arms against Pakistan, became increasingly critical of Pakistan's close relationship with the United States. Simultaneously the government began to develop a closer relationship with the People's Republic of China. Criticism of the United States increased with the suspension of U.S. military and economic assistance to Pakistan and India after the outbreak of hostilities between them in 1965.

Following a low point in late 1965, relations between the United States and Pakistan gradually improved with the resumption of economic assistance and modification in the arms embargo to permit sale of some military items, primarily spare parts for equipment previously supplied to Pakistan. The visits of President Nixon to Pakistan in July 1969 and then-President Yahya to the United States in November 1970, provided opportunities for friendly discussions between the two Chiefs of State and for further improvement of relations between the United States and Pakistan. Zulfikar Ali Bhutto visited Washington briefly in December 1971 just prior to assuming his position of President and Chief Martial Law Administrator and again in September 1973 as Prime Minister.

As a result of the 1971 political crisis in East Pakistan, the United States curtailed its economic assistance (except relief assistance) and again embargoed the shipment of military supplies to both India and Pakistan. However, the quiet efforts of the United States to achieve a political solution to the crisis and, once fighting broke out, U.S. efforts to achieve a U.N. cease-fire resolution were welcomed by Pakistan.

The arms embargo was modified in March 1973 to permit the sale to India and Pakistan, on a cash basis only, of nonlethal military supplies (such as transportation or communications equipment) as well as spare parts and ammunition for previously supplied U.S. equipment. The U.S. supply of lethal equipment (such as fighter-bomber aircraft, tanks, missiles, artillery) continues to be embargoed for both India and Pakistan under the March 1973 policy. In the years since the war, the United States has offered Pakistan some $500 million to assist in rebuilding its economy. The serious floods of August 1973 necessitated additional relief and economic assistance which the United States, together with other countries, has endeavored to meet. In addition, a debt rescheduling has also been negotiated to ease Pakistan's payments situation.

U.S. Policy

U.S. policy seeks to encourage peaceful and stable relationships and the peaceful settlement of differences among all South Asian countries. As President Nixon stated in his foreign policy report of May 1973, "The cohesion and stability of Pakistan are of critical importance to the structure of peace in South Asia. Encouragement of turmoil within nations on the subcontinent can bring not only the devastation of civil and international war, but the involvement of outside powers. This is the basis of America's interest in helping Pakistan now consolidate its integrity as a nation."

To that end the United States has provided large-scale technical and economic assistance to Pakistan, including programs designed to help provide the foreign exchange necessary to implement the country's development plans. The importance of increased agricultural production has been stressed with good results. The United States is hopeful that the spirit of cooperation achieved by Prime Minister Bhutto and Prime Minister Gandhi in their summit meeting at Simla in July 1972 will mark the beginning of a new era of peace for the Subcontinent.

The United States has provided more than $200 million in relief and economic assistance to Pakistan since the end of the December 1971 war, and has made clear to the government and people of Pakistan that U.S. concern for their well-being and security will continue. U.S. policy toward Pakistan, as toward the other nations of South Asia, is to assist it in the structuring of regional peace and stability so that the 700 million people of the Subcontinent may have an opportunity to fashion a strong and productive future.

Principal U.S. Officials

Ambassador–Henry A. Byroade

Deputy Chief of Mission–Hobart N. Luppi

Defense Representative–Col. Howard G. Clayville

Director, U.S. AID Mission–Joseph C. Wheeler

Public Affairs Officer (USIS)–Peter F. Brescia

Counselor for Economic Affairs–J. Bruce Amstutz

Counselor for Political Affairs–Howard B. Schaffer

Consul General, Karachi–M. Gordon Tiger

Consul General, Lahore–William Spengler

Consul, Peshawar–Stockwell Everts

The U.S. Embassy in Pakistan is located at 18 6th Street, Ramna 5, Islamabad.

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Office of Media Services
Bureau of Public Affairs

PAKISTAN OFFICIALS

THE CABINET

* Mr. Zulfiqar Ali Bhutto	Prime Minister, Defense & Foreign Affairs.
Mr. Abdul Qayyum Khan	Interior, States and Frontier Regions.
Sheikh Mohammad Rashid	Food & Agriculture, Cooperatives, Underdeveloped Areas and Land Reforms.
* Mr. Abdul Hafeez Pirzada	Education and Provincial Coordination.
* Rana Mohammad Hanif Khan	Finance, Planning and Development.
Malik Mairaj Khalid	Social Welfare, Local Government & Rural Development.
Mr. Mumtaz Ali Bhutto	Communications.
* Mr. Rafi Raza	Production
Maulana Kausar Niazi	Religious Affairs, Minority Affairs and Overseas Pakistani.
Mr. Mohamed Yusuf Khattak	Fuel, Power & Natural Resources.
Mir Afzal Khan	Commerce & Tourism.
Mr. Hafeezullah Cheema	Railways.
Syed Qaim Ali Shah Jillani	Industries, Kashmir Affairs & Northern Areas.
Malik Mohammad Akhtar	Law & Parliamentary Affairs.
Mr. Mohammad Hanif Khan	Information & Broadcasting.
Syed Nasir Ali Shah Rizvi	Housing, Works & Urban
Mir Taj Mohammad Khan Jamali	Labour, Manpower, Health & Population Planning.
Mr. Yahya Bakhtiar	Attorney General for Pakistan.

* Bio-data attached

MINISTERS OF STATE

Mr. Aziz Ahmed	Defense & Foreign Affairs, with the rank of Cabinet Minister.
Mr. Abdul Sattar Gabol	Labor & Manpower.
Maj. Gen. (Rtd.) Jamal Dar	Establishment.
Chaudhri Jahangir Ali	Health & Population Planning.
Sardar Abdul Aleem	States & Frontier Regions.
Malik Mohammad Jafar	Science & Technology, Cultural Affairs & Provincial Coordination.
Mian Mohammad Ataullah	Education.
Shehzada Saeed-ur-Rashid Abbasi	Tourism.
Makhdoomzada Mohammad Amin	Cabinet.
Chaudhri Mumtaz Ahmad	Food.

PRINCIPAL SECRETARIES

* Mr. A.G.N. Kazi	Secretary General, Finance and Economic Coordination.
* Mr. Abdul Raouf Shaikh	Secretary, Finance Division.
* Mr. V. A. Jafarey	Secretary, Planning and Development.
* Mr. Aftab Ahmad Khan	Secretary, Economic Affairs Division.
Mr. Vaqar Ahmad	Secretary, Cabinet Division.
* Mr. I. A. Imtiazi	Secretary, Food and Agriculture Division.
* Mr. Masrur Hassan Khan	Secretary, Ministry of Fuel Power and Natural Resources.
Mr. H. U. Beg	Secretary, Railways.
Mr. Alauddin Ahmad	Secretary, Ministry Agrarian Reform.
Mr. Badruddin Zahidi	Secretary, Population Planning Division.
Mr. Muzaffar Hussain	Secretary, Social Welfare, Local Government and Rural Development.
* Mr. S. B. Awan	Secretary, Ministry of Production

SPECIAL ASSISTANTS TO THE PRIME MINISTER

Shahid Hussain	Economics.
Sultan Ali Chaudhry	Agriculture.
Gen. Tikka Khan	National Security.

OTHER

* Maj. Gen. Fazle Raziq	Chairman, WAPDA
Mr. N. M. Uquaili	Chairman, PICIC
Commodore (Rtd.) R. A. Mumtaz	Chairman, Karachi Port Trust

BIO-DATA

MR. ZULFIKAR ALI BHUTTO

Prime Minister

Zulfikar Ali Bhutto was born of a politically active, wealthy and distinguished landowning family in the Sind Province of Pakistan. He studied in the United States and in Britain, receiving a degree in Political Science from the University of California, Berkeley, in 1950, and an M.A. degree in Jurisprudence from Oxford University, London, in 1952. He also became a Barrister-at-Law at London's Lincoln Inn in the same year. He returned to Pakistan in 1953 where he taught and practiced Law until 1958 when he became Pakistan's Minister of Commerce. He retained this post until 1960 when he became the Minister of Fuel, Power, Natural Resources and Kashmir Affairs.

In 1962, Ayub Khan came to power in Pakistan and Bhutto quickly became his bright and ambitious lieutenant. Under Ayub, he was first the Minister of Industries and Natural Resources (1962/63) and later the Minister of External Affairs (1963/64). He was appointed Pakistan's Minister of Foreign Affairs in 1965. He retained this portfolio through the 1965 India-Pakistan war, relinquishing it in 1966 when he became disenchanted with Ayub Khan's regime. Subsequently, he played a very active role in the movement which dethroned Ayub Khan in 1969. He has been Chairman of the Pakistan Peoples' Party since he founded it in 1967.

Mr. Bhutto is a maverick. Unpredictable in his judgments and decisions, he is an ambitious and seasoned politician. He has always been controversial and between November 1968 and February 1969 was under political arrest in Pakistan. Under Yahya Khan, Bhutto was loud in calling for a return to civilian administration, no doubt reflecting his own political aspirations.

In the December 1970 elections to the General Assembly, his party won an unexpectedly large majority of the West wing seats (his party did not contest in East Pakistan), dominating both the Sind Province (his home) and the Punjab. His party performed poorly, however, in the two smaller provinces (Baluchistan and the North West Frontier). Mr. Bhutto's election manifestos had a strong nationalist and populist flavor -- confrontation with India and Islamic Socialism -- but his supporters included conservative landowners and business interests.

In the maneuvering after the 1970 election, Bhutto was mainly intent on securing a firm foothold in the Government. When Sheikh Mujibur Rahman's Awami League refused to concede this in advance of the Constituent Assembly's meeting, Bhutto forced postponement of that meeting which precipitated the disturbances and general strike in the East. At the end of the subsequent negotiations his veto killed the agreement on principles which Yahya had reached with Sheikh Mujib (although his veto may have been only a pretext rather than the real reason). Following the Army crackdown in March 1971 and the banning of the Awami League, Bhutto agitated for an early transfer of power to himself as the only remaining popular representative.

Since he took power in December 1971, Mr. Bhutto has devoted himself to overcoming the trauma created by the division of the country and trying to form a new unity of the present four provinces of Punjab, Sind, Baluchistan and North West Frontier, to normalizing relations with India and to establishing some relationship with Bangladesh. While there have been setbacks, Mr. Bhutto has had success on all these counts. There is still tension in Baluchistan and NWFP, and some opposition leaders are in jail. He has also apparently had to make concessions from time to time to left-wing elements in his party to maintain his position. However, the opposition shows no signs of being able to organize any serious threat to Mr. Bhutto and his party. It is thought that he will win the forthcoming election (due to be held by next spring) without difficulty.

MR. RANA MOHAMMAD HANIF KHAN

Minister for Finance, Planning & Development

Mr. Rana Mohammad Hanif Khan was born in 1921. He attended the Government College, Ludhiana (East Punjab, India) and went to England in 1952 to study Law. He was called to the Bar from the Lincolns Inn, London, in 1955, and in the same year returned to Pakistan and started legal practice. Mr. Hanif Khan was elected to the National Assembly from his home District (Sahiwal) in 1970. He served as Minister for Labour, Works and Local Bodies from December 1971 to October 1974 and during part of that period was also in charge of the Ministry of Fuel, Power and Natural Resources. When the Cabinet was reshuffled in October 1974, he became Minister for Finance, Planning and Economic Affairs. His portfolio has recently been re-designated as Minister for Finance, Planning and Development.

MR. M. RAFI RAZA

Minister for Production

Mr. M. Rafi Raza was born in 1936. He was educated at Oxford University, graduating from the Honours School of Jurisprudence in 1957. In December 1957, he did his final Bar examinations from the Inner Temple, London, and was called to the Bar in February, 1958.

Mr. Rafi Raza has been associated with the Government since the Pakistan People's Party assumed power in December, 1971. He was a member of the team led by Mr. Bhutto as the Chairman of the Pakistan People's Party for negotiations and constitutional talks with the Awami League and the Yahya Government in 1971. He was the first Special Assistant to Prime Minister Zulfikar Ali Bhutto from December 1971 until he resigned from this post on election to the Senate in July 1973 following the promulgation of the new Constitution. In July 1974, he was appointed as Federal Minister for Production, Commerce and Town Planning, and in October 1974 became Minister for Production, Industries and Town Planning. As constitutional lawyer, Mr. Raza was closely associated with the political talks prior to the Interim Constitution in April 1972 and with its preparation, as well as with the Constitutional Accord of 20th October, 1972 and the framing of the present permanent Constitution.

MR. ABDUL HAFEEZ PIRZADA

Minister for Education and Provincial Coordination and Chairman of the Cabinet Committee on Tarbela

Mr. Abdul Hafeez Pirzada was born in 1935. He is the son of Pirzada Abdus Sattar, Central Minister in the first Pakistan Cabinet under the Quaid-i-Azam and later the Chief Minister of Sind. After graduation from D.J. Sindh Government Science College in Physics and Mathematics in 1954, he proceeded abroad for studies in Law and was called to the Bar from Lincolns Inn, London, in 1957.

On his return to Pakistan in the same year, Mr. Pirzada started his legal practice in the then High Court of West Pakistan at Karachi and joined the Chambers of Prime Minister Zulfikar Ali Bhutto with whom he worked until October, 1958. In 1967, Mr. Pirzada represented Mr. Bhutto in connection with the cases brought by the Ayub Government against Bhutto. He was also a counsel in the famous trials of habeas corpus petitions filed in the High Court of West Pakistan, Lahore, in November, 1968 in connection with the arrest and imprisonment of Mr. Bhutto and his colleagues. He was appointed a member of the Karachi Organizing Committee of Pakistan People's Party. In January, 1970, Mr. Pirzada took over as Chairman of the People's Party for Karachi Zone. On the formation of the Party's Central Committee he was appointed a member.

MR. A.G.N. KAZI

Secretary General, Finance and Economic Coordination

Mr. Kazi is 54. He is an M.Sc. in applied mathematics and, in 1943, he took the Indian Civil Service Examination and was posted to the Bihar/Orisa Province in India. On independence, Mr. Kazi opted for Pakistan and has since served in many capacities, including Finance Secretary, Sind, and Finance Secretary, West Pakistan. He was Economic Minister for Pakistan at Washington from 1962 to 1965. On return, he served the former West Pakistan Government as Additional Chief Secretary, Planning and Development, and was later appointed Chairman of WAPDA. He joined the Central Secretariat on June 6, 1969, as Secretary, Ministry of Industries and Natural Resources and became Secretary, Ministry of Finance on September 8, 1970. In August 1973, Mr. Kazi was given the newly created post of Secretary General, Finance and Economic Coordination. He thus has responsibility for all three parts of the Ministry, i.e., Finance, Planning, and Economic Affairs. He is said to be one of the fairly small number of senior civil servants whom the new politicians are prepared to trust.

MR. V.A. JAFAREY

Secretary, Planning Division
Ministry of Finance, Planning, & Economic Affairs

Mr. Jafarey joined the Civil Service of Pakistan in 1948. He served in different executive and secretariat appointments under the Government of East Pakistan and West Pakistan. Posts held include Finance Secretary, Government of East Pakistan; Finance Secretary, Government of West Pakistan; and Chairman, Planning Board, West Pakistan. He has also served in the Economic Affairs Division and the Ministries of Finance, Commerce, Industries and Fuel, Power and Natural Resources in the Central Government. He has led a number of trade and other delegations to various foreign countries.

MR. AFTAB AHMAD KHAN

Secretary, Economic Affairs Division
Ministry of Finance, Planning, & Economic Affairs

Mr. Aftab Ahmad Khan is about 50 years old and holds a Masters Degree in Economics from the University of Punjab. He spent two years (1966-68) as country economist with the IBRD. He became Secretary, Economic Affairs Division, three years ago, replacing Mr. Iqbal Hosain, who relinquished his office at the same time as Qamarul Islam and other senior civil servants. Aftab Ahmad Khan has travelled extensively to donor countries in search of aid and debt relief. He has paid particular attention to the Arab world. He speaks very good Arabic, having spent several years as Economic Adviser to Kuwait.

MR. ABDUR RAOUF SHAIKH

Secretary, Finance Division
Ministry of Finance, Planning, & Economic Affairs

Mr. Shaikh was born in 1922. He joined the Indian Audit and Accounts Service in 1946 and has served as Assistant Accountant General, Deputy Accountant General in the former Government of West Pakistan and later Director of Accounts in East Pakistan. He has held a number of positions in the Finance and Budget Sections in the Ministry of Finance.

MR. IRFAN AHMAD IMTIAZI

Secretary, Ministry of Food and Agriculture

Mr. Imtiazi was born in 1927. He has an M.P.A. in Development Economics from Harvard University. Since 1969, he has held the posts of Secretary in the Finance Department of West Pakistan; Additional Chief Secretary in the Planning & Development Department and later Chairman, Planning & Development Board, Government of the Punjab; and Special Secretary, Cabinet Division, GOP. He was appointed Secretary of the Ministry of Food & Agriculture in February 1976.

MR. MASRUR HASAN KHAN

Secretary, Ministry of Fuel, Power, & Natural Resources

Mr. Khan, born in 1923, joined the Government Service in 1949. In 1969, he was appointed Home Secretary in the Government of West Pakistan and a year later became Home Secretary in the Government of Punjab and later Chief Secretary of the Punjab. He has been Secretary, Ministry of Fuel, Power and Natural Resources since last May.

MR. S.B. AWAN

Secretary, Ministry of Production

Mr. Awan was born in 1924. He has an M.P.A. from Harvard and attended the E.D.I. in 1969-1970. He has been the leader of Pakistan delegations to the United Nations and other international conferences including UNIDO. Before becoming Secretary, Ministry of Production, he held inter alia the post of Development Commissioner in NWFP and Chief Secretary in Baluchistan.

DR. AMIR MUHAMMAD

Vice Chancellor, University of Lyallpur

Born in 1930, Dr. Amir Muhammad was educated at Punjab University (M.Sc. Biochemistry 1953) and Oxford University (Ph.D Biochemistry 1959). He did additional post graduate work at Cold Spring Harbor, New York and University of Tennessee at Oak Ridge. During 1969, he was Visiting Professor at Southwest Center for Advanced Studies, Dallas, Texas. From 1969 to 1975 he was Director, Nuclear Institute for Agriculture and Biology, Lyallpur and became Vice Chancellor of Lyallpur University in October 1975. (See also brief on Lyallpur University, tab I.)

PAKISTAN

MAJ. GEN. FAZL-I-RAZIQ

Chairman, WAPDA

Maj. Gen. Fazl-i-Raziq took over as Chairman, WAPDA on July 1, 1976. Born on June 4, 1927, he received his education at the Prince of Wales Royal Military College, Dehra Doon. He was commissioned into Royal Indian Engineers in 1946 and received his engineering training at Roorkee and in U.K. He is a graduate from the Command and Staff College, Quetta, where he also served on the faculty for three years. He saw active service on the Kashmir front in 1948. A Fellow of the Institute of Engineers, Pakistan, Gen. Raziq has served in many senior command and staff appointments including international staff at CENTO Headquarters. His appointment in the Pakistan Army included Chief Engineer, Navy, Commander of Corps of Engineers and Director General, Frontier Works Organization, in which capacity he was responsible for the construction of the first-ever land bridge between Pakistan and China. He has also commanded an infantry brigade and an infantry division for a period of over four years. He is the first engineer officer to command an infantry division in the Pakistan Army.

MR. MOHAMMAD ABBAS ABBASI

Governor of the Punjab

Mr. Abbasi was born on March 19, 1924 at Sadiqgarh Palace in Bahawalpur State. He joined the Aitchison College and passed Senior and High Cambridge examination in 1938. He completed an administrative course at Deradun in 1942-43 and later was commissioned to state forces and attached to Fifth Battalion of Indian Brigade. He served at various places in India, Iran and was on Burma front in 1944. He also served in recruiting branch of Army Headquarters at Lahore in 1943-44 and held the rank of Brigadier. He served as Deputy Prime Minister and later as Prime Minister of Bahawalpur State in 1948. He was elected MNA in 1962. He has taken a keen interest in Boy Scouts movement and led Pakistan contingent to the Seventh World Jamboree in 1951, held in Australia.

MR. NAWAB SADIQ HUSSAIN QURESHI

Chief Minister of the Punjab

Born in 1927, Mr. Sadiq Hussain Qureshi has had a distinguished career as a social worker and a progressive farmer. His family has been playing an active role in the politics of the Province and his father, Nawab Ashiq Hussain Qureshi, was a minister in the Cabinet of the undivided Punjab in 1946. Mr. Sadiq Hussain Qureshi completed his education in Aitchison College, Lahore, and started taking part in social welfare activities. He was elected member of the District Council, Multan in 1948 at the age of 21. He was elected to the West Pakistan Assembly in 1965 and was also elected as Vice Chairman of Multan District Council in the same year. In 1970 he was elected to the National Assembly of Pakistan as a member of the Pakistan People's Party. In February 1972 he was appointed Adviser to the Governor of the Punjab for Agriculture, Planning and Development. A few months later, he was appointed as Provincial Minister for Agriculture, Industries, Planning and Development. He continued to hold this position till his appointment as the Governor of the Punjab on November 12, 1973. He served as Governor till March 14, 1975, and was later elected unopposed in the Punjab Assembly in April 1975. He took over as Chief Minister of the Punjab in July 1975. He is deeply interested in agriculture and sports. He is President of the Pakistan Hockey Federation and has been President of the Asian Hockey Federation for some time.

E. Topics for Discussion

1. Meeting with Prime Minister
2. Meeting with Finance Minister
3. Meeting with Production Minister
4. Meeting with Key Secretaries

TOPICS FOR DISCUSSION

Meeting with Prime Minister

1. General Economic Problems (tab F.)

Concern about Pakistan's economic situation centers largely around apparent lack of well defined set of development objectives and associated programs consistent with available resources -- public investment program dominated by large, capital-intensive projects -- disturbingly large number of instances in which investment decisions influenced by other than strictly economic considerations (e.g. steelmill, nuclear reprocessing plant, Indus Highway, new railway lines) - this is highly sensitive issue as Bhutto himself has dictated many of these decisions, and you should certainly avoid getting drawn into discussion of specifics which is likely to leave no time for anything else -- as consequence, other important areas, in particular agriculture and rural development, have received inadequate attention and resources -- size of public investment program, in face of sharp fall of domestic savings in wake of oil crisis and its aftermath and inadequate effort since in mobilizing domestic resources (domestic savings 8% of GDP in FY1975/76), has made Pakistan very heavily dependent on overseas borrowing from the Consortium and OPEC -- sharp build-up of debt service obligations as result - serious potential problems being created for the future - creditworthiness and access to foreign capital, including Bank lending, endangered (this true even without taking into account external financing of military equipment, magnitude and terms of which we do not know) -- large increase in government borrowing from State Bank last year (Rs 5 billion, roughly 5% of GDP), caused in part by shortfalls in aid, shows how vulnerable to factors outside its control Pakistan economy has become - danger of inflation being re-kindled -- weakening of key institutions on whose strength Pakistan built in its highly successful development efforts in the 1960s -- civil service undermined by political encroachment -- private sector severely weakened by mistrust at the political level, one consequence of which has been "creeping" nationalization -- thus difficult to see through which institutions GOP intends to rely to manage the economy and achieve its developmental objectives -- this, again, highly sensitive subject since these problems seem to be essentially reflection of Bhutto's attitude (see also notes below on topics for meetings with Finance and Production Ministers).

2. Population Planning (tab G.)

Population growing by at least 3% p.a. -- population up from 72 million to 140 million by 2000 -- ongoing population programs having insufficient impact -- Bank human resources mission assessing situation -- Bank ready to assist if necessary Government support forthcoming.

3. Agricultural Development (tab I.)

Insufficient attention to agriculture -- small percentage (18-20%) of total development expenditures devoted to agriculture -- agricultural extension services, credit mechanism and other facilities weak -- improved pricing policies, more efficient use of water resources, reduction in waterlogging and salinity, land reform, etc., required -- Government should concentrate on drainage projects in saline areas, leaving non-saline areas mainly to private sector -- absence of programs aimed at small farmer -- Government's declared commitment to rural development but lack of substantive support -- Bank's inability to find viable rural development project as a result -- need for re-orientation of programs towards small farmer, better coordination among concerned ministries, provision of necessary staff and funds, etc. -- long list of potential agricultural projects identified but project preparation inadequate.

4. Tarbela (tab H.)

Status of works and damage -- shortage of foreign funds -- need to press insurance claim and keep pressure on contractor.

5. Flood Situation (tab J, "Prospective Projects")

Request for flood rehabilitation project as in 1973 -- Government estimate of substantial damage confirmed by appraisal mission's preliminary findings -- project involving either balance of payments or substantial budgetary support difficult to justify.

6. Third World (tab M.)

Government's active role in North-South debate -- proposal by Bhutto for Third World Summit -- Government's vocal support for general debt relief.

Meeting with Finance Minister

1. General Economic Problems (tab F.)

See notes for Prime Minister's meeting above.

2. Budget Position and Resource Mobilization (tab F.(4) and (6))

Budget revenues have failed to keep pace with expenditures -- substantial deficit and heavy borrowings as a result -- defense taking large portion (around 25% in FY76) -- additional revenue measures announced in FY77 Budget but gap still large -- private savings down as a result of recently negative interest rates and nationalization -- inadequate surpluses being generated by public sector industries -- tax system needs reforming -- income taxes inelastic, too many exemptions and allowances -- scope for raising more revenue from agriculture -- land taxes and irrigation water charges too low.

3. External borrowings and debt service problem (tab F.(8))

Heavy external borrowings in recent years to finance investment program, particularly from OPEC countries -- outstanding debt with OPEC countries (principally Iran) over $900 million by end - 1975, still growing -- $300 million medium term Euro-dollar loan with Iran guarantee reported to be under negotiation -- debt relief equivalent to 11% of foreign exchange granted by Consortium countries in 1974 -- actual debt service nonetheless still around 16% -- estimated to jump to over 20% by 1980 when debt relief period over and payments to OPEC countries accelerating.

4. Status of Plan and Investment Priorities (tab F.(2) and (3))

"Fluffy" nature of draft Five-Year Plan -- start of Plan postponed -- Plan's ambitious targets but lack of specific programs and policies to achieve them -- questionable whether necessary measures forthcoming -- Plan postulates rapid per capita consumption growth based on increased agricultural output from Tarbela water and spread of "Green Revolution", and capital intensive investments in industry -- share of Plan for agriculture and water resources remains low at around 18-20% -- steel mill (being financed largely by Russians) accounts for 14% and industry as a whole 25%.

5. Tarbela Finances (tab H.)

See notes for Prime Minister's meeting (item No. 4).

6. Proposed Oil Development Project (tab K.)

Gulf Oil's approach to Bank to participate in financing oil development project in Pakistan -- Gulf's unwillingness to embark on necessary heavy exploration expenditure without some assurance of Bank's willingness to consider providing finance for development -- question of whether Bank could provide such an assurance consistent with its policies which would satisfy Gulf -- Gulf's discussions with Finance Minister, Shahid Husain, and others about its proposals.

Meeting with Production Minister

1. Nationalization and Role of Private Sector (tab F.(9))

Series of nationalizations since 1972 -- started with basic industries -- spread to shipping, banking, rice and raw cotton export trade, internal petroleum marketing, etc. -- recently, cotton ginning, rice and flour milling also taken over -- these "creeping" state takeovers have undermined confidence of private sector -- role of public and private sector not clearly demarcated -- major adverse effect on private investment and savings -- private sector formerly chief force for growth in Pakistan, now being seriously retarded -- need for Government to make clear affirmative statement of role of private sector and stick to it.

2. Performance and Problems of Public Sector (tab F.(10))

Performance of public sector industries has improved after initial problems -- efforts made to strengthen management -- however, there are marked variations between units -- some operating at low capacity and making heavy losses -- overall rate of return under 5%, even though assets undervalued -- more autonomy in pricing, labor and other matters required.

3. Private Sector Investment and Export Incentives (tab F.(7) and (9))

Private sector investment has fallen sharply, mainly due to nationalizations -- confidence of private sector needs to be restored -- firm and specific declaration from Government of private sector's role is required -- "creeping" state takeovers must stop -- export-oriented private activity particularly essential -- present system of export incentives a hotchpotch of rebates and subsidies -- clear strategy for promoting exports should be formulated.

4. Investment Priorities (tab F.(2) and (3))

Over-emphasis in recent years on capital-intensive industry, some of dubious economic priority (notably steel) -- need to re-orientate public investment programs towards agriculture and water resources and towards rural sector generally -- private investment should be encouraged.

Meeting with Key Secretaries

1. General Economic Problems (tab F.)

Discussion and reiteration of main issues outlined above.

2. Status of Plan and Investment Priorities (tab F.(2) and (3))

See notes for Finance Minister's meeting (item 4).

3. Agricultural Development (tab I.)

See notes for Prime Minister's meeting (item 2).

4. Project Preparation (tab J., "Prospective Projects")

Bank's recent agricultural sector mission to Pakistan identified several key projects in agriculture for possible future financing -- action required by Government to set up institutional arrangements and appoint key personnel for project preparation work -- Bank has offered to assist by providing technical services credit but necessary initiatives from Government not yet forthcoming.

5. Flood Situation (tab J., "Prospective Projects")

See notes for Prime Minister's meeting (item 5).

F. The Economic Situation

F. Economic Situation

Gulley
low dom. svgs
need to slow down
inv in cap intensive
sectors of steel
& assoc port & rail

THE ECONOMIC SITUATION

Pakistan's economic problems were discussed at the recent CPP Review meeting. These notes supplement that discussion.

The Investment Program and Debt Problem

The central problem for Pakistan is that there is a heavy, and somewhat "unbalanced", investment program which is being carried out by means of large scale foreign assistance. In FY76 foreign assistance financed over 80% of total investment. Since Pakistan's total debt is already large, this heavy borrowing is likely to store up problems for the future. At the moment Pakistan benefits from a substantial Consortium debt delief operation which runs for four years (from FY74/75 to FY77/78), after which the debt service ratio is likely to rise from its present level of around 17% to somewhere around 23% or more depending on the increase in exports. This rise in debt service is likely to mean a fall in net aid because it is improbable that gross aid will increase as rapidly as debt service. In this sense, Pakistan's major economic problem lies in the future and it is not surprising that the Pakistanis have played a leading role in the attempts of Third World countries to obtain some kind of general debt relief.

The low domestic savings and high external borrowing reflect the fact that when the economy was hit by the oil price rise and the world recession, substantial amounts of money from friendly oil-producing countries were available. Hence the Pakistanis faced the choice of either cutting investment, cutting consumption or borrowing. The Government's response to the situation should, in practice, have included action in all these areas. The Government, however, was slow to face up to the need to adjust prices and to take other steps to restrain consumption. In addition, the investment program was expanded rather than reduced. The resource gap was largely filled by heavy borrowing from the OPEC countries. While the Government obviously should have borrowed, their exclusive reliance on external capital as the adjustment mechanism is unsound and unsustainable.

The alternative of cutting back investment would have involved difficult choices which the Government was not, and apparently still is not, prepared to face. It would have involved cutting back on projects in infrastructure or slowing down the on-going heavily capital intensive projects in fertilizers and steel. The fertilizer projects of course are important, but the steel mill, associated port expansion and new railway lines were more of a political than an economic priority. The steel mill is a major cause of the "imbalance" in the investment program. Although the equipment is being financed by the Soviet Union, a vast amount of local investment is required, not merely on the steel mill itself but on the construction of a new port to serve it and on other necessary utilities and services. If it were not for the steel mill and associated investments, the resource and investment picture in Pakistan would be very different.

Government Plans and Policies

There is little disagreement between ourselves and the Pakistanis on the nature of these problems or on what should be done about them (except that, publicly at least, they will defend the steel mill on the grounds that it will save imports). They are aware of the desirability of increasing investment in agriculture and have followed through on their stated intention, in connection with our Program Credit to increase the amount allocated to agriculture in FY77. The draft Five-Year Plan, the start of which has now been postponed for another year (i.e. until July, 1977), although its macro-economic targets may be too optimistic, nevertheless describes a set of policies and objectives which are unexceptionable. Indeed, one of its major objectives is to increase public savings in order to reduce the dependence of investment on external aid.

While not disagreeing with the general diagnosis of Pakistan's economic problems which has been put forward in our economic reports and discussions over the last few years, the Government officials tend to think we are too pessimistic about the future. They believe, for example, that there is more scope for extending the "green revolution" than was allowed for in our agricultural sector review. They also tend to ascribe the cause of their problems to external circumstances such as the terms of trade, the world recession and vagaries of the climate.

Political Developments

The underlying economic issue in Pakistan is not what policies to pursue but whether the Government and the administration will carry them out. In the sixties, when Pakistan's economic growth surprised all observers, it had a strong military-technocratic administration which gave high priority to economic considerations and a free hand to the private sector. Doubtless the benefits of growth were ill-distributed but they were there. Now, both the administration and the private sector are much weaker. When the politicians re-surfaced after the fall of Yahya Khan, they regarded the civil servants who had served the earlier regimes with deep suspicion. Many civil servants were discharged, and a number left the country. The World Bank Group has more highly qualified Pakistani economists on its staff than the Ministry of Finance, Planning and Development. The private sector has still not shown much interest in investment after the various nationalization measures and the harsh criticism which it received from the politicians.

After coming to power Mr. Bhutto was preoccupied with the major task of holding the country together after its defeat and dismemberment. In this he has been largely successful although the problem of incipient separatism in Baluchistan and NWFP has been suppressed rather than solved. However, both the internal situation and Pakistan's relations with its neighbors, India, Afghanistan and Bangladesh, are now more normal than they have been at any time since 1971.

It had been hoped that, even though Mr. Bhutto's chief preoccupation would probably continue to be political issues, he would at least appoint capable people to look after the economic management of the country and to run the key economic ministries and public sector agencies. There have been some hopeful signs, for example when the left-wing Mubashir Hasan was dropped as Finance Minister in 1974 and later when Shahid Husain was taken on. However, the recent nationalizations of cotton ginning, rice milling and flour milling have once again raised doubts about the trend of events. We gather that the nationalization measures were prepared with extreme secrecy; the motive was a political calculation by Mr. Bhutto that he would gain by appearing to move against a small group of people who seemed to be corrupt and oppressive of the small farmers.

The strains between the moderate wing of the ruling PPP, including Mr. Bhutto, and the more socialist left wing continue. An election is due to be held some time before March 1977, and much will depend on whether the results reinforce Mr. Bhutto's own position or whether they strengthen the socialist wing.

BRIEFING NOTE NO. 1

RECENT ECONOMIC GROWTH

According to the latest revised official figures, the growth rate during the past three years shows an average of 4.5% for Gross Domestic Product. The growth rate in FY1976 is provisionally estimated at 4.8%, and the final figures could be even higher due to the impact of the larger than expected wheat harvest. The 4.5% overall growth rate is deceptive, however, since it included very low growth for the major productive sectors. Agriculture for the past three years has only averaged 2.0%, while industry has grown at 2.4%. The higher overall growth rate is explained by the rapid growth in some of the service sectors, such as construction, transport and public administration. The rapid growth in construction activity reflects the increased pace of public sector investment.

GROWTH OF OUTPUT, 1961 - 1976
(Percent Per Annum)

	FY1961-FY1970	FY1971-FY1973	FY1974	FY1975	FY1976	FY1974-FY1976
Agriculture	5.0	.7	4.2	- 2.0	3.9	2.0
Manufacturing	9.9	2.1	6.5	- .6	1.5	2.4
Construction	12.3	- .3	10.7	27.0	15.2	17.4
Transport, Communication	7.8	5.3	4.3	9.2	7.4	6.9
Public Admin./Defense	7.1	7.7	-10.5	11.6	9.4	3.0
Total GDP	6.8	2.6	5.6	3.0	4.8	4.5

(Fiscal years are July 1 to June 30)

BRIEFING NOTE NO.2

ECONOMIC PLANNING

The last official five year plan (the Fourth) covering the period 1970/75 had to be suspended due to the political problem of 1971 and the division of the country. Since then, country wide economic planning has largely consisted of a series of Annual Plans. A new five year plan for the period 1975/80 was drafted but because of the changes in international prices during 1974, was issued as "Working Papers for the Development Perspective". A revised draft plan entitled "Draft Fifth Five Year Plan, 1976/81 (first version)" was produced in January 1976 and given to the World Bank, but never issued in final form. It is now believed that no new official plan will be prepared until after the elections, which should take place sometime this Spring, and will cover the period 1977/82.

If the new plan is similar to the two earlier drafts it will promise a rapid increase in per capita consumption by a program of capital intensive investments in industry, while extracting additional output from the "Green Revolution" type technology in agriculture, and counting heavily on additional output from Tarbela water. The rapid growth outlined in the "Perspective" and draft Plan (9% per annum) appears to be determined not by what is feasible but what is considered politically necessary. Only a very rapid growth of domestic output provides the resources necessary both to increase consumption levels and to raise the rate of domestic savings, so that the large investment program can be carried out in the face of diminished real foreign resources.

The draft Fifth Plan for FY1977-81 called for a total expenditure of Rs. 110 billion with an allocation similar to that shown in the annual plan for FY1977. Industry would average about 25% of the total, with investments in cement, textiles, petrochemicals and sugar refining, in addition to steel and fertilizers. The share for agriculture and water would decline slightly to 17%, while education, health and population planning, physical planning and housing would constitute 16% of the total. (See also Note 3.).

BRIEFING NOTE NO. 3

DEVELOPMENT EXPENDITURE

During the past five years, development spending has more than doubled in real terms (see table below), and the composition has also changed. In the early 1970's, development expenditures were dominated by the Tarbela Dam expenditures. As these have decreased there has been a roughly equivalent shift in resources to the industry sector. These resources have largely gone to the development of the indigenous fertilizer industry based on domestic natural gas and the Karachi Steel Mill. The steel mill will have a total cost of about Rs 14 billion ($1.3 billion, of which about $450 million will be financed from the Soviet Union), and will account for about 14% of total development spending over the next five years. The share for agriculture and water (largely irrigation) remains at about 18-20% of the total. The drop in the share of agriculture in FY1977 is due, in part, to the reduction in fertilizer subsidies as a result of increased domestic production and lower world price for imports.

ALLOCATION OF DEVELOPMENT EXPENDITURES

(%)

	FY71	FY73	FY75	Est. FY76	Budget FY77	
Agriculture	8	9	11	10	8	
Water	10	8	10	10	10	
Indus Basin/Tarbela	22	13	8	4	1	
Power	14	19	15	15	15	
Industry	6	7	17	18	27	Steel
Transport & Communication	19	18	19	18	15	
Other	21	26	20	25	24	
Total (%)	100	100	100	100	100	
Total (million Rs)	2975	4420	11083	14595	17000	
Total (1976 prices)	6084	7935	15676	14595	17000	
Deflator (1976 = 100)	48.9	55.7	70.7	100.0	100.0	

BRIEFING NOTE NO. 4

THE BUDGET

The Pakistani Government Budgets since 1971 have been characterised by a marked increase in development spending and by heavy expenditure on current account. Despite measures to raise taxes and tariffs and reduce subsidies, total revenues have remained at about 14% of GNP, while development spending has increased from 6% to over 11% of GNP during the same period. The large deficit generated by this rapid increase in development spending has been covered largely by a sharp increase in foreign borrowing, particularly from OPEC sources. Foreign financing now amounts to over 80% of development spending, compared to only 45% in FY1971.

REVENUES AND EXPENDITURES OF FEDERAL AND PROVINCIAL GOVERNMENTS

(Rs Millions)

	FY71	FY73	FY75	Prelim. FY76	Budget FY77
Expenditures	9671	15164	31394	32838	36842
Development	2779	3819	10838	14595	17000
Non-Development	6892	11345	20556	18243	19842
Revenues	7139	9665	16687	18743	21187
Tax	5645	10487	12473	14728	17219
Non-Tax	1494	3270	4214	4015	3968
Foreign Resources	1249	3357	9592	12126	12754
Revenues : GNP (%)	14.2	14.4	14.9	14.3	14.2
Expenditures : GNP (%)	19.2	22.6	28.1	25.1	24.7
Foreign Resources: Development Spending (%)	44.9	87.9	88.5	83.1	74.8

Despite additional revenue measures, the Government has had to increasingly rely on borrowings from the banking system to finance its rising development and non-development expenditures. The recent IMF reports estimates that bank borrowings have increase from Rs.1.3 billion FY1975 to Rs.4.3 billion in FY1976, although official estimatesplace the gap at only Rs.2.0 billion. Additional tax measures announced with the new budget will generate about Rs.1.1 billion of new revenues, which while sizeable, appear to be inadequate to reduce the deficit to manageable levels.

Although the Government has not reconciled the large gap estimated by the IMF (from central bank data) with its official figures, it appears to have been caused by a number of factors, including larger than expected expenditures for defense and other recurrent items, and an overestimation of tax revenues and aid receipts.

DEFENSE

Defense expenditures continue to absorb a large portion of the Federal budget. This share has fallen, however, from a peak of 47% in FY1971 to 26% in FY1976, and is roughly comparable to the level of pre-division Pakistan. As a share of GNP, defense expenditures have remained at about 6% during the 1970's. This is higher than the average for developing countries and a reduction, though perhaps not politically feasible, would be desirable.

DEFENSE AND TOTAL FEDERAL EXPENDITURES

(Rs. Millions)

	FY65	FY66	FY69	FY71	FY73	FY75	FY76 (est.)
Total Expenditures	5372	7125	9408	6441	11297	25394	29430
Defense	1262	2855	2450	3000	4440	6294	7510
% Defense of Total	23.5%	40.1%	26.0%	46.6%	39.3%	24.8%	25.5%
GNP	48254	52730	69772	50306	66978	111888	130818
% Defense of GNP	2.6%	5.4%	3.5%	6.0%	6.6%	5.6%	5.7%

Note: Data before FY71 includes East Pakistan

BRIEFING NOTE NO. 6

RESOURCE MOBILIZATION

Private sector savings have fallen drastically in the past few years, from 14% of GDP in FY1973 to only 7% in FY1976, largely as a result of negative real interest rates offered to savers, and of the nationalization of industry. Public sector savings were only 1% of GDP in FY1976, resulting in an overall savings effort of only 8%. To achieve the public sector investment program outlined in the draft Fifth Plan would require an overall marginal savings rate of 27% during the next five years, resulting in an average public savings rate of 4% of GDP by 1981, and a private savings rate of 11%.

SAVINGS, INTEREST RATES AND INFLATION

(%)

	FY72	FY73	FY74	FY75	FY76[b]
Domestic Savings: GDP	12.7	13.7	10.5	6.0	6.7
Interest Rate, Bank Deposits[a]		5.8	7.25	8.0	8.5
Inflation Rate[c]	9.5	19.6	27.5	25.9	3.7

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[a] for fixed deposits from 6 months to 1 year.

[b] preliminary estimates

[c] rate of change of wholesale price index based on annual averages except FY76 which is the rate of increase from April 1975 to April 1976.

To achieve anything like the Plan's public sector savings objectives will require improvements in all aspects of fiscal policy. The tax system, particularly the income tax, is relatively inelastic with respect to income, difficult to administer and compromised by a complicated series or exemptions and allowances. The inelasticity of the income tax largely reflects the Government's annual practice of granting tax relief by raising the level of allowances, or raising the income eligibility level. Besides reforming the tax structure, additional revenue efforts need to be made, particularly to increase the profitability and self financing capacity of public sector enterprises. The rate of return in the public sector continues to be unsatisfactory due to operating inefficiencies and underpricing of outputs. Additional revenues can also be obtained from the agricultural sector, by increasing land taxes and irrigation water charges, both of which are very low. Water charges, in fact, do not even cover the maintenance cost of the irrigation system, although in our most recent project (Khairpur Irrigation) we negotiated some increases successfully for the Sind.

EXTERNAL TRADE

The volume of exports declined both in FY1974 and FY1975 owing to the world recession and the poor agricultural harvest in FY1974. Imports, on the other hand, increased quite rapidly, at over 20% per year. The gap between imports and exports increased owing to adverse movements in the terms of trade as well. The rise in the price of petroleum in January 1974 was offset by increases in the prices of major exports, particularly cotton and rice. In FY1975, however, the full effect of the petroleum price increase, combined with falling export prices and inflation in the prices of other imports produced a 21% decline in the terms of trade. A slight deterioration of about 1% is estimated for FY1976.

For FY1976, an overall growth rate of export volume of 18% is estimated, based on better exports of cotton yarn, rice and carpets, although export earnings grew by only 10% due to falling prices. With a moderate growth of import volume and stable terms of trade, the current account balance is estimated at about $1.2 billion or about the level of FY1975. The rapid growth of the current account balance from the level of only $130 million in FY1973 has been estimated by Bank staff to have been roughly half due to changes in international prices (both export and import) and half due to changes in the volumes of exports and imports.

TRADE INDICES

(1973=100)

Prices	FY1973	FY1974	FY1975	FY1976[a]	FY1977[b]
Imports	100	136	173	161	174
Exports	100	154	154	143	152
Terms of Trade	100	113	89	88	87
Volumes					
Imports	100	125	141	151	160
Exports	100	83	79	93	108

[a] provisional

[b] projected

The Government has taken steps in the past year to strengthen its external position by encouraging greater exports. The export tariff on cotton has been reduced, and the price to the farmer substantially raised to encourage greater production. The ban on certain minor agricultural exports has been eliminated, making possible exports of shrimp, barley, maize, poultry and other products to markets in the Middle East. Certain increases in export incentives have been introduced, but the overall incentive system continues to consist of a miscellaneous and confusing collection of tax and tariff rebates and credit subsidies. The textile industry needs to upgrade its capital stock if its exports are to remain competitive in world markets, although quota restrictions in Europe and North America will limit possible expansion of textile exports.

EXTERNAL BORROWING AND DEBT SERVICE

Pakistan's external debt is both very large, in relation to its GNP, and growing rapidly. Total external public debt, excluding undisbursed committments at June 30, 1974 was \$4.4 billion. At June 30, 1975 it stood at \$4.8 billion, and by June 30, 1976 it had risen to \$5.7 billion. The pipeline at June 30, 1976 was about \$1.6 billion. [1]

At the present time actual debt service takes about 16% of foreign exchange earned by way of exports, non-factor services, and the remittances of expatriate workers. Relief on debt service equivalent to about 11% is granted by the Consortium, so that without relief, the debt service ratio would be about 27%. On rather optimistic assumptions concerning earnings, the debt service ratio is likely to jump to over 20% by 1980, when the period of debt relief will have come to an end and payments to OPEC countries will accelerate.

Since most of the loans received by Pakistan have been on concessionary terms, the amount of debt service is relatively low when compared to debt outstanding. At June 30, 1975, about 60% of the outstanding debt had original final maturities in excess of 25 years; only 26% had a final maturity of 15 years, or less. The weighted average interest rate was 2.6% and the average grace period was just over 8 years.

During FY1976 Pakistan received about \$1.2 billion in new aid commitments, including about \$800 million in loans and grants from the Consortium countries. After averaging about \$400-500 million per year during FY1974 and FY1975, aid from OPEC countries has gradually diminished. During the past 2 years Pakistan also received \$400 million from various IMF facilities. Borrowings from private sources has been limited but may become more important in the future. It is understood that Pakistan is

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[1] Data Source: EAD, Ministry of Finance, Planning and Economic Affairs.

negotiating with a group of New York banks for a Euro-dollar loan, which is to be guaranteed by Iran. The amount is believed to be $300 million and the final maturity to be seven years at 1% above the London inter-bank rate.

PAKISTAN - EXTERNAL DEBT AND DEBT SERVICE

(In thousands of US dollars)

		1976	1977	1978	1979	1980
Debt outstanding[1] to						
All Creditors	4,887	419	434	470	421	424
Intl. Orgns.	802	51	56	64	68	68
Governments	3,833	300	316	356	313	320
US	1,865	99	100	72	71	78
Germany	515	61	62	52	40	37
Iran	250	6	15	130	127	124
Japan	232	39	38	30	20	17
Canada	186	17	16	6	4	4
UK	162	17	18	15	10	9
France	105	15	19	13	11	11
Abu Dhabi	100	-	-	-	-	-
All others	418	46	48	38	30	40
Private	252	68	62	50	40	36
US - Interest		35	35	34	34	35
Repayment		63	63	38	37	43
Germany - Interest		17	16	14	13	12
Repayment		44	46	38	27	25
Iran - Interest		6	15	14	11	8
Repayment		-	-	116	116	116

1 end 1975, Pakistani fiscal year, disbursed debt only.

International Finance Division
EAPD
September 23, 1976.

External Public Debt Repayable in Foreign Currency

Total Outstanding including Unutilized Pipeline

($ million)

Consortium	June 30, 1973	June 30, 1974	Dec. 30, 1975
AsDB	65.6	147.3	312.7
IBRD	373.5	405.3	379.3
IDA	544.4	557.5	601.8
Sub-Total	(983.5)	(1110.1)	(1293.8)
Belgium	11.3	16.2	21.7
Canada	161.8	242.3	306.8
France	124.8	134.7	203.6
Germany	513.0	557.1	538.2
Italy	65.1	68.1	75.9
Japan	350.7	326.0	261.7
Netherlands	44.5	51.8	69.7
Sweden	8.6	5.7	5.6
U.K.	246.4	243.1	199.4
U.S.A.	1817.6	1927.0	1995.6
Sub-Total	(3343.8)	(3572.0	(3678.2)
TOTAL	4327.3	4682.1	4972.0
OPEC			
Abu Dhabi	-	-	100.0
Iran	-	580.0	628.6
Libya	-	30.0	80.0
Qatar	-	-	10.0
Saudi Arabia	-	-	100.0
TOTAL	-	610.0	918.6
Other Lenders (incl. private)	754.6	735.5	643.8
TOTAL DEBT	5,081.9	6,027.6	6,534.4

Data Source: Economic Analysis & Projections Department.

NATIONALIZATION AND PRIVATE INVESTMENT

A series of nationalizations of large scale private enterprises began in 1972 when the Government took over 31 large scale private units in 10 basic industries. These included iron and steel, basic metals, heavy engineering, heavy electrical, automotive assembly and manufacture, tractor assembly and manufacture, chemicals, petroleum refining, cement and public utilities. In September 1973 the Government nationalized 26 of 28 units in the vegetable ghee industry on the grounds that the owners had created artificial shortages through production cuts and hoarding. In January 1974 the shipping industry and commercial banks were nationalized. The export trade in rice and raw cotton was also nationalized in September 1973 and the internal distribution of petroleum products in January 1974. More recently, in July 1976, the Government took over enterprises engaged in cotton ginning, rice milling and flour milling on the grounds that these enterprises were exploiting the farmer, adulterating products and not operating efficiently.

The series of nationalizations have had major repercussions on private investment and savings. The issue of payment of compensation for take-over units on a mutually acceptable basis was not resolved until last year. More important has been the uncertainty that has been created regarding future government policy towards the private sector. In October 1974 the Prime Minister pledged, in an important policy speech, that there would be no further nationalizations of industrial units during his present tenure of office. There have also been statements that private investment is welcome in small scale enterprise, export-oriented activities and processing of indigenious raw materials, while the public sector would emphasize import-substitution industries. However, the recent nationalization of cotton ginning and rice and flour milling units, although interpreted by the Government as relating to agricultural processing rather than industrial activity, has tended to further undermine private sector confidence and discourage private investment. In addition, there have been no clear-cut pronouncements as to whether the nationalized "basic" industries are exclusively reserved for the public sector, or open to new private sector investment on either joint participation or fully private-owned basis. Private fixed investment now amounts to about only 25% of the total, compared with a figure of 50% three years ago.

PUBLIC SECTOR INDUSTRIES

In January 1972, 31 private large-scale manufacturing units were nationalized valued at Rs. 2.2 billion and comprising 8% of total industrial assets These nationalized units together with existing government industrial enterprises, have been organized into ten sector corporations under the overall supervision of the Board of Industrial Management (BIM). These public sector industries enjoy a monopoly in cement production and automotive assembly and the major share in fertilizer, chemicals, petroleum refining and engineering industries. In addition, the vegetable ghee industry and the newly nationalized rice mills, flour mills and cotton gins are under the direct control of the new Ministry of Agrarian Management.

The performance of public sector industries has improved since 1972. Annual growth of production has averaged 26%, far higher than the national average. Similarly, sales have increased from Rs.1.2 billion in 1971/72 to Rs.4.8 billion in 1974/75 and profits from Rs.56.1 million to Rs.254.5 million over the same period. Capacity utilization has also increased significantly. These improvements are due partly to a recovery from depressed levels of activity which the enterprises were experiencing at the time of nationalization and partly due to improved management. The annual rate of investment of public sector industries increased from Rs.78.5 million in 1971/72 to Rs.3,625.0 million in 1975/76 reflecting the increasing role of the state in manufacturing activity.

Although the performance of public sector industries has improved there are marked variations in performance between operating units. While some have performed well, others are operating at low levels of capacity and making heavy losses. This is partly due to the world-wide recession and natural calamities, but also due to effects of government policies and weaknesses within the units themselves -- e.g., gaps in organizational structure, high labor costs, low internal generation of funds, etc. The rates of return -- on the average less than 5% of fixed assets -- are too low, particularly as these assets are valued at their historic costs instead of replacement costs. Price ceilings are set by the Government also on the basis of historic costs and the resulting flow of funds is insufficient to replace, much less expand, the operating assets of enterprises. They also carry excess labor; the growth of labor force by 75% between 1972 and 1976 (March) is not justified by the increase in output. Finally, although the infusion of top class managers from the private sector has improved the management of some of these industries, limited de facto authority is given to these managers. Greater autonomy of management at the level of operating units is required to improve efficiency and maximize production and profitability.

POPULATION PLANNING

While population growth estimates vary between 2.7% and 3.6%, it is generally believed that the current population growth rate in Pakistan is at least 3%. If this growth rate continues, the population would increase from 72 million (mid-1976) to 81 million by 1980, and 140 million by the year 2000. The economic, social and political effects of such a rapid growth rate make population control of high priority.

While the Government has recognized the population problem since the mid-1950's, and has devoted funds to family planning, work in this area really only began in 1973, with the expansion of the so-called Continuous Motivation System (CMS) to the entire country. The CMS system serves about 74% of the population with full-time motivational workers who call on eligible couples 3 and 4 times a year in an effort to insure the continuous use of effective family planning methods.

The CMS system has been supplemented in recent years by a USAID program of "contraceptive inundation". Based on the idea that many people will practice birth control if supplies of contraceptives are available readily and cheaply, this program sharply increased the supplies of condoms and pills available at local shops and subsidized their selling price. After an initial sharp increase in FY1975 and FY1976, however, the demand has apparently levelled off.

We have been told that the Government is planning to increase its expenditure on the population program substantially. The fact of the matter is, however, that the Government has so far only paid lip-service to this problem and, to the best of our knowledge, no effective programs are yet in sight. A Bank human resources mission is currently in the field to assess the situation. In the light of its report, the Bank will consider whether there are any real signs of change in the Government's attitude to enable the Bank to make a meaningful contribution in this field and, if so, what the scope and nature of a possible project might be. A population project is provisionally scheduled for FY1979.

I. Field Visit Briefs

Tarbela

1. Agriculture
   - Sector Review
   - Agricultural Research
   - Extension Services
   - Rural Development
   - Lyallpur Agricultural University

2. Industry
   - Sector Review
   - Gujaranwala Industrial Estate

I. Field Visit Briefs

TARBELA DAM PROJECT

Status of Works

From an irrigation point of view, the Tarbela Project is now operational. Following further damage to the floor of the Stilling Basin of Tunnel 3 in April this year, irrigation water releases have been made through the spillways and the Left Bank Tunnel (Tunnel 5). However, major works to remedy defects still have to be carried out. During early October 1976 the reservoir level was kept around elevation 1530, about 20 feet below the maximum level. Conversion of Tunnel 1 for the first stage of power generation is nearing completion, but delays in the delivery and installation of station service switchgear (manufactured locally) make it unlikely that the target commissioning date of the end of 1976 for unit 1 will be achieved. Most of the work in the power house has been completed and it should be possible to bring all four 175 MW Units into operation during the first few months of 1977.

In August 1974, during the first impounding, an emergency drawdown of the reservoir had to be carried out when Tunnels 1 and 2 were seriously damaged. Moreover, after the reservoir was emptied, numerous sink holes were discovered upstream of the dam in the impervious blanket area, which, initially at least, was a source of anxiety for the safety of the dam. Essential repairs were completed in time for the second impounding in July 1975. To deal with the sinkholes, an elaborate program of detection with side-scan sonar equipment and dumping of fill material on the affected areas was developed and is still continuing.

In August 1975, after a period of full-gate operation of the irrigation outlets, at high reservoir levels, extensive erosion (up to a depth of 70 feet) was discovered in the floor and foundation rock of the stilling basins,particularly that of tunnel 3. It is believed that this damage originated in August 1974 during the drawdown of the reservoir, caused by the grinding action of rocks, concrete and other debris which was in turn caused by flows produced by the asymetric operation of the gates of tunnels 3 and 4. Such asymetric operation was necessitated by the damage sustained to the outlet gates in 1974 immediately preceeding the drawdown. The eroded area was filled with underwater concrete and consolidated by grouting by the middle of January 1976. New concrete slabs for the basin floor were constructed (10 to 11 feet thick).

All repairs were completed to permit tunnel 3 and 4 gates to be opened on April 21, 1976. However, after tests at full-gate openings, with the reservoir at level 1500, damage was again evident in stilling basin 3. The basins were dewatered and by May 15, a complete examination of both basins became possible. The damage to basin 4 was found to be negligible. In basin 3 the upper part of five slabs (each measuring 60x50x5ft. thick) were severed at the pouring joints and washed out of the basin. The cause of the damage is not yet certain. After some minor repairs, further tests were carried out on basin 4. A program of measures, mainly involving the anchoring of the floor slabs, draining the joints between the slabs and installing aeration troughs in the chutes, is being prepared for basin 3 for completion by May 1977. In spite of the minor damage to stilling basin 4, which will be the permanent irrigation outlet after installation of all the generators, it is believed that this stilling basin may require a major re-design and reconstruction. The extent of such redesign and reconstruction will be determined after the results of the repairs to basin 3 are known from next year's operations.

Insurance Situation

The works are insured under two All Risk and Third Party policies until the termination of the maintenance period in an amount of $100 million (the maximum cover that could be obtained), $70 million of which is covered by a London-based syndicate and $30 million by the Pakistan Insurance Corporation (PIC, which has reinsured elsewhere, partly in London). The policies exclude cover in certain "excepted risks", one of which is faulty design. Under the civil works contract, the Contractor (Tarbela Joint Venture -- TJV), which is co-insured with WAPDA, is responsible for restoring the damaged works, but the responsibility passes to the employer (WAPDA) if the damage is the result of an excepted cause.

Claims for the damage to tunnels 1 and 2 sustained in August 1974 have been submitted to the insurers. In December 1974 the insurers rejected all the claims on the grounds that the damage had been caused by "faulty design". The causes of the damage are complex and are likely to be the subject of much argument. The damage to the stilling basins have been included later in the claims. WAPDA and TJV have given the insurers notice of intention to go to arbitration and WAPDA is currently preparing a rebuttal of the Insurers' contention. It is hoped that ultimately a settlement can be negotiated.

Meanwhile, pending completion of the consideration of the insurance claims, temporary financial assistance is being made available from the Tarbela Fund to TJV to enable it to meet the repair costs as they arise. As of June 30, 1976, amounts totalling $26.5 million in foreign exchange and Rs. 51.4 million have been made available for this purpose.

Financial Resources and Expenditures

Under the provisions of the Indus Basin Development Fund (Supplemental) Agreement 1964 and the Tarbela Development Fund Agreement 1968, the Tarbela Dam Project was to be financed by the surplus of funds in the Indus Fund and the contributions to the Tarbela Development Fund, with the rupee costs, and foreign exchange costs over and above the amounts contributed by the Parties, to be borne by Pakistan. The Bank and IDA contributed $138.5 million to the Indus Fund and the Bank contributed $25 million to the Tarbela Fund. In 1975 the Bank arranged, after several meetings in Paris with the contributing countries, the raising of additional foreign exchange contributions totalling at that time US$41.6 million equivalent, including an IDA credit of $8.0 million, to help pay for repairs of the damage sustained in August 1974 and some additional remedial works.

At the end of every year Sir Alexander Gibb and Partners (Engineering Consultants to the Bank as Administrator of the Indus Basin and Tarbela

Development Funds), review and update the estimated costs of the works and the resources available. The latest review took place at the end of 1975 and another review will be due at the end of this year. The results of the 1975 review are summarized in the attached Annex. It shows that there will be an estimated shortfall of foreign exchange resources of $8 million. However, this estimate is subject to the following qualifications:

(i) The amount ultimately available from the Indus Fund will depend on settlement of the outstanding contractor claims, in particular the Chasma Barrage claim. A large contribution award against this claim (FFrancs 148 million and Rs 16 million) in favor of the contractor is being contested by WAPDA in the Pakistan courts, but a settlement is simultaneously under negotiation. The amount of $339 million shown in the Annex as the remaining foreign exchange balance allows for a payment of $7.36 million as the Fund's share of the foreign exchange cost of a settlement of the Chasma Barrage claim. Other claims pending are in respect of Sidhnai Barrage and the Chasma-Jhelum Link.

(ii) The cost of repairing the April 1976 damage to Stilling Basins 3 and 4 has to be added to the December 1975 estimate of the cost of the project and of repairs and additional works. While no precise estimates are available at present of this cost, Gibb has indicated $25-30 million as a rough approximation.

(iii) No allowances have been made for possible recoveries from the insurers or other parties against claims in respect of the 1974 damage. Under the 1975 Supplemental Agreement, such recoveries have to be repaid to the contributors.

Retention money estimated at Rs 42 million in contract currencies will become payable shortly due to the issuance on September 30 (retroactive to August 1975) of the Certificate of Completion and the expiry of the period of maintenance for the reservoir works excluding tunnels 1 & 2 and the outlet gates and stilling basins for tunnels 3 & 4. WAPDA have advised the contractor that they intend to offset the full amount of this payment against the temporary financial assistance. The contractor indicated a willingness to offset half of the amount but subject to WAPDA entering into an agreement with the contractor on the repayment of the temporary financial assistance. A draft agreement which had been discussed previously was considered to be unduly weighted in the contractor's favor. This issue is still unresolved.

Although the ultimate financial position on the project will not become clear for some time, it seems certain that substantial amounts of foreign exchange, over and above the contributions from the foreign parties, will be required to complete the project. Under the terms of the funding arrangement for the project, the responsibility for providing such amounts rests with the Pakistan Government.

TARBELA

October 27, 1976

To Mr. McNamara,

In response to your request for information on Tarbela, the brief prepared by the Region is comprehensive enough that I only need to add some comments on people particularly involved and on a couple of issues.

Mr. Pirzada (Inter-Ministerial Committee on Tarbela

The constructive and forward approach which, by opposition to recrimination and litigation, made possible the repairs of the various damages with extraordinary speed, involved political courage and, aside from the Prime Minister, much of the credit should be attributed to Mr. Pirzada, Minister of Education and Provincial Coordination, the driving force of the Tarbela Inter-Ministerial Committee and with whom I have developed excellent relations. The other members are Mr. Khattak, Minister of Fuel, Power and Natural Resources, and Mr. Haniff, whom you know.

Chairman of WAPDA

This year General Raziq became Chairman of WAPDA and Mr. Bengash, Manager of the Tarbela project. General Raziq comes from the Pakistan Corps of Engineers where he established his reputation of drive and energy in building the Indus and Karakoram roads to China for which the Chinese Government is supplying the large number of workers required by labor-intensive pick and shovel and wheelbarrow methods. The road is dangerous to build because of the terrain with in particular moraines and other instable terrains causing large slides during excavations; 29 Chinese workers were killed by a slide on the day preceding my visit and the Pakistan army has lost over 400 men since the work started.

Both General Raziq and Mr. Bengash are from the Pathan Region, between Peshwar and the Khyber Pass. They are very energetic and, by contrast with their predecessors, are anxious to complete the Tarbela, rather than taking an arm's length attitude towards the "foreign project". Incidentally, General Raziq is the one who organized the embarrassingly generous trip for Francoise and I to the Kush, Karakoram and Himalaya Regions.

Mr. Blyth

Mr. Blyth is the Alexander Gibb and Partners' representative on the site and, as such, represents the Bank for the supervision of the project. He is very competent and articulate.

Issues

I. U.S./Pakistan confrontation on flip buckets versus stilling basins

Tunnel No. 5 on the left side of the reservoir was: (i) constructed in spite of the reservations of the Bank and without Tarbela funds; and (ii) its detailed designs were carried out by a Pakistan consulting firm, NesPak, with the topography allowing for "flip buckets", in contrast to the "stilling basins" designed by TAMS (U.S.) for tunnels 3 and 4.

Tunnel No. 5 with its flip buckets has performed very well, while Stilling Basin No. 3 which has given serious trouble, caused in my judgment more by structural weakness , quick repairs and over taxing than by faulty design. This contrast had lead to a certain degree of chauvinistic confrontation where the Pakistan consultants--who have since formed a consortium with Coyne-Bellier-Sogreah (France), challenging the basic soundness of the TAMS stilling basins. A model is now being constructed at Sogreah, Grenoble, France, in order to consider the conversion of stilling basins No. 3 and 4 to flip buckets. This would be a costly operation, of questionable justification and with the danger that the erosion caused by flip buckets near the hydro-electric power plant would undermine its foundation. I am following this problem.

II. Insurance

While legally, as explained in the briefing, the situation is very complex, in my opinion the insurers have a very weak case in invoking faulty design by TAMS in order not to pay for the repairs of the tunnel and for the initial damages to the stilling basins: it is almost certain that the initial tunnel collapse was triggered by the jamming of the gates, causing very fast flows to erode the inside of tunnel No. 2 through cavitation. It is also almost certain that the gates became jammed because the fast water flows washed away the gate rails, which were improperly fastened by unsecured nuts. There is a byzantine discussion about "tack welding" shown on the TAMS drawings and not carried out because it was unfeasible by the gate manufacturer, Metalna of Yugoslavia. My opinion is that a gate manufacturer is clearly responsible for the equipment he supplies and that if tack-welding was not feasible to secure the rail nuts many other means could have been used, --and one has been used since--to secure the nuts. Metalna is a regular subcontractor to the civil works contractor which feels compromised by the failure of his subcontractor.

The Bank is pressing for WAPDA to advance its insurance claim, at the cost of tension with the civil works contractor. It is at the Bank's insistence that WAPDA had to buy $20 million worth of insurance and, on the merits of the case, I believe the insurance consortium should pay a substantial part--or say $40-50 million--of the damages. Pierro Sella is providing advice on the legal procedures and has visited Pakistan twice.

Bernard

BChadenet:maf:pgn

issues
1. credit availability
2. fertilizer use
3. water mgt practices
4. price incentives
5. small farmer programs
6. land tenancy & size of [illegible] as it affects incentives & [illegible] land.

7. Efficiency of proj. mgt. capability
8. Coord. of research
9. Exten. serv. work

AGRICULTURE

Agriculture remains the mainstay of the economy for the foreseeable future. It accounts for roughly one-third of GDP, employs about 60% of the labor force and, directly or indirectly, provides nearly two-thirds of Pakistan's exports (principally rice and cotton). A substantial growth of agriculture output occurred in the late 1960's, arising from a rapid increase in the use of improved wheat and rice varieties and fertilizer use, along with private tubewell development. Much slower growth followed in the first half of the 1970's, as a combined result of poor weather, a lack of new technological breakthroughs, and price policies that discriminated against the farmer and in favor of the urban consumer. The delay in the availability of water from Tarbela may have cost Pakistan something on the order of $100 million a year for the past two years.

Query

Further scope remains for expansion of the use of better seed varieties, especially through extension to smaller farmers, a potential the Bank is supporting primarily by means of the recently signed Credit Agreement for a national seeds project. In addition to the benefits of additional water from the Tarbela Dam, there is a large potential for raising production through increases in fertilizer application rates, through more pesticides and further expansion of groundwater use through additional tubewell development, particularly in the private sector, and better enforcement of regulations concerning water use and watercourse maintenance. However, the exploitation of this potential will require that price policies are such that farmers have adequate incentives, that inputs and credit are available in adequate quantities and in timely fashion and that agricultural agencies are strengthened with respect to their finances, their personnel and their organization. Query Query

Over the long term, Pakistan's ability to sustain faster growth in agriculture production than in population depends essentially on fundamental improvements in the management of land and water resources. This will require substantial investments and improvements in agricultural institutions. As such measures take time to become effective, the necessary changes have to be initiated now. There is a general need to improve the efficiency of the canal system and the use of water by the farmers. Up to 40-50% of the water reaching the farm turnouts from the canal system is lost owing to the inefficiencies of the system and 20-30% is lost due to poor water management practices on the farm. Institutional and financial arrangements need to be modified to insure proper canal and watercourse maintenance and improvement. In addition, existing laws and regulations on water management require stricter enforcement. Query

Small farmers having less than 7.5 acres constitute over 40% of the farmers in Pakistan - although they account for only 12% of the total farm area. Steps need to be taken to insure that the long term program in agriculture includes not only measures to augment production, but increases the productivity of these smaller cultivators. Improvements in research and extension are vital to generating technological improvements, such as small tubewells and tractors, and to spreading this knowledge to the smallholder. Despite attempts at land and rent reform, about 60% (1972) of the farmers in Pakistan are tenants or partial tenants, and the majority of these are sharecroppers. Under present arrangements, the owner provides the inputs and pays the taxes and water charges, and receives half of the output. While this system works well in a subsistence economy where crop production is very uncertain, it limits the incentive of the farmer to adopt new techniques when he receives only half of the marginal benefits. While changes in land tenure will involve difficult political and sociological problems, this area continues to offer a potential for increasing small holder productivity.

The Election Manifesto of the Pakistan People's Party, of 1970, held that the "breaking up of the large estates......is a national necessity..." The land reform act of 1972 provided for new ceilings for individual holdings of 300 acres of unirrigated land or 150 acres of irrigated land, compared with the old ceilings of 1,000 and 500 acres, respectively. The surplus land over these ceilings was to be resumed by the State and distributed to landless peasants and those with smaller than subsistence holdings. Figures released by the Government show that about 10,000 land owners have filed declarations of holdings and about 2,000 were found to have excess land. About 1.1 million acres (about 2.3% of total cultivable land) were taken over by the Government, of which 660,000 acres had been distributed among 67,000 small farmers and tenants. Much of the land given up for land reform has been marginal land or uncultivated wastes. In addition, large landowners have been able to divide their properties among their family members and thus escape the law.

Without improvements in land and water management, Pakistan faces the danger of further loss of arable land due to waterlogging and salinity. The technology for reducing waterlogging and salinity is well known, but investment in projects for this purpose has been lagging. This trend must be reversed to prevent further loss of cropping potentials. The return on investments in land and drainage improvement will be low, however, unless supporting services are substantially improved. These include agricultural research, extension services, agricultural credit mobilization of inputs and other services to improve the productivity of the farmer.

To provide these improved services, a sustained flow of broadly based investments is required. The FY76 lending program included the Seed Project and the Khairpur Tile Drainage and Irrigated Farming Development Project (Khairpur II). An education project with agricultural training as an important component has been delayed by a request to reduce the scope of the project but is scheduled to be negotiated shortly. A livestock project has been appraised and is expected to be included, together with the Fauji fertilizer project, the Education Project and a SCARP project, in the FY77 lending program.

In order to carry out the broadened agriculture sector strategy, the Bank Group has identified a project portfolio which includes three projects in agricultural extension and research, two agricultural credit projects, five projects in irrigation, drainage and salinity control, a foodgrain storage project, a technical services project, and integrated development projects for cotton, rice, forestry, sugar and livestock. Of these projects, the first Irrigated Agriculture Improvement Extension and Research Project and the Integrated Cotton Development Project are already under preparation by the FAO/IBRD Cooperative Program (CP); a preappraisal mission has recently reported on the prospective

Fourth Agricultural Credit Project, the appraisal of which is pending improvements in the credit institution (ADBP), and the SCARP VI Project is being prepared by local consultants for appraisal this fall. We are also encouraging GOP to seek other external assistance for some of these projects. The achievement of this program will not be possible, however, unless increased resources can be devoted to project design and preparation. This will necessitate a substantial increase in Bank staff effort as well as a stronger counterpart organization in the Government. A technical services project is currently under discussion which would provide technical advice and training to the Ministry of Agriculture for project development and preparation.

The Bank intends to continue to encourage the GOP to limit public sector drainage projects to saline areas, and to promote private tubewells in non-saline areas to meet both irrigation and drainage needs. In this way, a large part of the irrigation needs of the country will be met with private funds, rather than scarce public resources. The heart of the program is the wide introduction of the small tubewell technology. This small-capacity (1/4 - 1/2 cusec) private tubewell has been very successful in India and has drawn major capital flows from farmers themselves and from the Bank Group. This approach would allow WAPDA to concentrate on the drainage of saline groundwater areas and surface drainage works in those areas where conditions are not initially suitable for private investment. WAPDA would also fill in gaps which may be left by private initiative in fresh groundwater areas. A tentative understanding has been reached on this new approach with responsible Government authorities and reflects a fundamental shift in their thinking.

The new approach would be incorporated into the Fourth Agricultural Credit Project and the SCARP VI Project, both of which are expected to be appraised in FY77 and would be further continued with the Fifth Agricultural Credit Project and the SCARP II Saline Groundwater Area Project. Later on the formulation and priority ranking of irrigated agriculture projects will increasingly be affected by the UNDP-financed Indus Basin Project for which the Bank is the executing agency.

Our lending program also aims at enhancing the linkages between agriculture and industry through agro-industry development. The Bank has participated in the financing of one public and one private sector fertilizer plant and has another under construction. Other projects are envisaged for rice, sugar and edible oil processing and marketing, as well as for marketing and storage of grains and other agriculture products.

Agricultural Research

The various agricultural research programs in Pakistan need better coordination. The four provincial governments have assumed responsibility for the research centers and institutes within their boundaries. Most of the agricultural research work in Pakistan is sponsored by the four provincial research institutes, with headquarters at Tarnab, Lyallpur, Quetta and Tandojam. In addition, there are monocrop institutes at Dokri and Kala Shah Kaku for rice, at Yousafwala and Pir-Sabbak for maize and millet and the Cotton Research Institute at Multan. The education institutes also conduct some agricultural research, especially the Colleges of Agriculture at Peshawar and Tandojam, and the Agricultural University at Lyallpur.

The Ministry of Agriculture has the primary responsibility for national programs of agricultural research but important areas fall under other ministries: the Tobacco Board in the Ministry of Commerce; the Irrigation Research Council, collaborating closely with WAPDA; the Atomic Energy Commission with two agricultural research institutes at Lyallpur and Tandojam and considering a third near Peshawar; the Ministry of Fuel, Power and Natural Resources.

A national coordinating body, the Agricultural Research Council, is responsible for assuming leadership in agricultural research, with the objective of strengthening national agricultural research capabilities, particularly those of the provincial institutes. It is being reorganized and has received assistance under US AID Agricultural Research Development Loan of April 30, 1974. In the next five years, the Council will establish a National Research Center to coordinate research projects and conduct research on problems not being dealt with by the Provincial Institutes. The Council is intended to be the focal point for communication and liaison with the international agricultural research community and to carry out specific national research programs such as on pest management, barani farming systems, fodder and forages, dairy management and breeding, poultry production, sorghum and millet.

Present research is conducted on a narrow scope, focussing on major crops, with development of new seed varieties and determining their responsiveness to fertilizer. This leaves gaps in technology such as the multi-disciplinary problems involved in more intensive cropping. Few experiments are being conducted to determine the change in yield that is associated with alternative soil preparation or cultivation techniques, the relationship between yield and soil type, or between yield and soil conservation practice. Of the commodities, rice, maize, cotton and wheat have received emphasis. Wheat research is the best example of a strongly integrated interdisciplinary research program that is being accompanied by adoption of findings under farm conditions. Pulses, livestock and oilseeds have received little attention. In addition, little emphasis has been given to research management techniques, farm management or marketing economics. The statistical significance of research results is largely unknown and the economics of agriculture is virtually untouched.

In general, not enough emphasis has been given to research, despite high returns from that which has been undertaken. It is underfunded. Technical manpower in most institutions is inadequate. There are less than 600 senior staff in the seven major agricultural research institutions and only about 100 of these with doctorates. These numbers represent a considerable improvement over recent levels. Salary levels are low and the most promising young researchers often leave for more remunerative positions in or outside the country. Research facilities are inadequate to introduce, quickly develop and test new technology in Pakistani conditions.

Although most cultivated land is irrigated, there has been almost no effective government research on water management or irrigation techniques. Experiments conducted by the Irrigation Research Institute have limited value since not all factors of system losses were considered. No full analysis of all component water losses has been undertaken and measurements have not been taken over a full loss cycle. In basic agronomic research, water is not measured.

A few experiments have been conducted at the Agricultural Research Institute on the relationship between yield and irrigation practices but there has been little research on land levelling, where present practices account for significant waste of water and yield potential. The principal current national program on the serious problems of water logging and salinity is under an AID supported Colorado State University contract in the Mona Irrigation Project near Lahore.

Extension Services

Although Pakistan employs from 5-6,000 extension workers, the extension services are not effectively used. About 80% of the extension workers are field workers, each responsible for about 5,000 acres. Their training is inadequate and service conditions poor. Most field workers have had two years of education at an Agricultural Extension Training Institute but little or no in-service training in basic practical agriculture, including irrigation and water management. Thus, they are ill-equipped to deal with farmers. In addition, office and residential facilities and transportation are inadequate. Field workers have to concentrate on a variety of tasks unrelated to extension. Effective service to farmers is accordingly at a low level.

The extension service is unable to concentrate on activities corresponding to national agricultural development objectives. Currently, it is promoting high-yielding varieties and fertilizer but gives very little support to many other important aspects of farming. It has not tackled seriously the more demanding task of initiating improvements in agriculture husbandry, and especially in irrigated agriculture, although it is the predominant part of the agriculture sector. The service has most notably been characterized by a lack of discipline which seriously impairs its ability to implement effective programs. At present, the extension worker has far too many tasks that he is expected to perform with a minimum of supervision and support. On balance, extension personnel lack competence, time and facilities for performing the extension job efficiently. The senior officials of the extension system are painfully aware of these weaknesses.

Integrated Rural Development

In a series of pronouncements beginning in early 1972, Mr. Bhutto has declared his commitment to rural development and his determination to raise living standards of the poorer sections of the population. In accordance with this declared policy, a major international seminar was held in Lahore in late 1972 to discuss rural development in Pakistan. The Bank participated in this seminar and has since mounted a series of missions in an attempt to identify and help formulate an integrated rural development project for Bank/IDA assistance.

The outcome of this major staff effort has been extremely disappointing. We have found that, despite the rhetoric, substantive support for integrated rural development has been lacking. This has evidenced itself in the failure to assign adequate staff to and obtain necessary technical assistance for the program; the general overcentralization of the administration; poor cooperation from the various Government departments concerned; and the absence of steps to remedy weaknesses of key agricultural supporting services. The program was entrusted to a new and weak Government department and a premature attempt was made at integrating a multitude of activities at the markaz (county) level.

Faced with these problems, we have proposed a small research and technical assistance project in Azad Kashmir - where the integrated approach may be suitable - which may help to develop the institutional framework and provide guidance for the formulation of a larger project in due course. The Pakistanis have expressed their dissatisfaction with the narrow scope of the Azad Kashmir project. We are not happy about it either but have concluded that it is the best we can do in the circumstances. We are still willing to support the Government's Integrated Rural Development Program on a broader scale if this becomes feasible but there seems little prospect of this in the near future. We also have doubts that the integrated approach to rural development is compatible with the social and administrative structures in much of Pakistan.

We believe that it would be more fruitful to concentrate our efforts on helping to improve Pakistan's agricultural development program generally and, within that, focus on programs aimed at building up the capacity of key institutions to deliver inputs, credit and advice to small farmers. We attach particular importance in this context to improving agricultural extension services and applied research, which is the principal objective of the Irrigated Agricultural Improvement Extension and Research Project now being prepared with help from the FAO/IBRD Cooperative Program. Unfortunately, the necessary project preparation units for this project have so been established only in Punjab. Action to set up units in other provinces should be taken by the Government immediately.

We visualize that another major means of reaching small farmers would be through providing credit to finance the installation of small (around 1/2 cusec) tubewells. A principal obstacle to developing this program is the inadequacy of the present agricultural credit arrangements. We have identified a number of deficiencies in the Agricultural Development Bank of Pakistan and have urged the Government to employ consultants to help strengthen the organization. Although steps have been initiated to obtain this technical assistance through the British, little sense of urgency has been evident. We would be ready to appraise an agricultural credit project as soon as these consultants had been engaged.

LYALLPUR AGRICULTURAL UNIVERSITY

The financing of construction and equipment at Lyallpur Agricultural University constituted the major part (85%) of the cost of a project for which IDA made a credit of US$8.5 million in March 1964. The balance of the project assisted in expanding and improving middle level technical education in Pakistan. The project was completed this year and a completion report is under preparation. The completion mission found that the university has generally been successful in meeting agricultural manpower requirements for the Punjab Province and in upgrading the quality of agricultural education in Pakistan.

The following baseline data compare the findings of the completion mission with the situation at appraisal in 1962 and appraisal estimates for 1973:

	----- Appraisal ------		
	Situation 1962	Estimate 1973	Completion 1976
Enrollment	1,120	5,000	3,600
Graduate students as percentage of enrollment	18%	n.a.	28%
Teaching staff/student ratio	1:6.5	1:5	1:10
Percentage of teaching staff holding advanced degrees:			
(a) M.Sc. degree	47%)	About 45%	65%
(b) Ph.D degree	4%)		27%
Number of: (a) Faculties	4	4	6
(b) Divisions	2	2	1
(c) Colleges	-	-	1

The reason for the lower than anticipated enrollment at the university is primarily a change in its status from serving West Pakistan as envisaged at appraisal, to its current status of serving mainly the Province of Punjab. The construction program of the university has been modified accordingly.

A dynamic Vice-Chancellor (Dr. Amir Mohammad) was appointed in August 1975. Upon appointment he encountered an atmosphere of unrest among students and staff, as was then prevailing at most higher level educational institutions in Pakistan. The university's morale has, however, shown a marked improvement under the new leadership and strikes have been brought under control. Several new programs have been initiated during the past year, with particular emphasis on research related to production problems in nearby villages and extension. Prior to graduation, students are now required to work in the villages, identify problems and prepare viable programs for their solution. Other new programs include curriculum reform and textbook preparation.

INDUSTRY

The Bank/IDA lending program for the next five years allocates $155 million for industry, including DFC's. The objective of the lending program is to assist the expansion of industrial exports, particularly textiles, and increase production of industries utilizing domestic raw materials, and provide inputs, particularly fertilizers, for the agricultural sector.

The Government expects the private sector to continue to play an important role in industrial development, particularly for export-oriented industries and those utilizing local raw materials. Our assistance to PICIC and IDBP will support the main sources of long term finance for the private industrial sector. PICIC concentrates on financing the medium and relatively large scale private industrial sector, which makes a major contribution to Pakistan's industrial exports. To date, PICIC has received a total of 10 loans amounting to about $190 million. IDBP was created to finance medium and small scale industries. It has received one credit from IDA of $20 million, and an additional credit of $20 million is planned in FY78.

We are discussing with the Government means by which IDBP can extend its involvement in the small scale sector. This sector, with its low capital/labor ratios, is particularly important in employment creation. Small scale industry provides employment for 10% of the total labor force, and 85% of the industrial labor force, although it accounts for less than 5% of total GNP. Until now, IDBP's financing of small scale industry has involved mainly assistance to the upper end of the spectrum (assets of $50,000 to $200,000). Smaller units are more usefully assisted by commercial banks, which can keep close contact with clients through their widespread network of branches and can also fulfill their working capital requirements. We are considering allocating a portion of the next loan to IDBP to these smaller industries through an IDBP/commercial banks refinance scheme or by dealing directly with commercial banks.

Query

The balance of our lending for industry would be for the public sector through NDFC, which received its first credit in FY75. A second credit is scheduled for FY78 or FY79. Over the next five years, the public sector is expected to account for about 50% of total industrial investment (excluding one large public sector steel project). The public sector is expected to concentrate largely on import substitution industries, although some, such as cement, have export potential. One of the main objectives of our involvement with NDFC is to help the Government improve technical and economic standards in public sector projects through the development and application of NDFC's appraisal and supervision skills.

Gujaranwala Industrial Estate

In November, 1962, IDA made a $6.5 million credit (30-PAK) to Pakistan for an Industrial Estates Project to support the development of small industries on the Gujaranwala and Sialkot estates near Lahore. The project was affected by the 1965 Indo-Pak war and settlement of the estates proceeded slowly, so that the credit was not fully disbursed until 1968. Eventually, however, well over 100 enterprises were established on the two estates, and the project provided the Bank with its first experience in the area of developing small industries. Of the several small-scale industrial estates in Pakistan, Gujaranwala has been one of the most successful in terms of occupancy and area utilization. Service centers situated in the Gujaranwala and other industrial estates in Punjab are making an effective contribution to the development of small-scale industry through training, advisory services and common facilities.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: October 21, 1976

FROM: Ernest Stern, VP, South Asia

SUBJECT: PAKISTAN - Proposed Assistance for Flood Rehabilitation

1. You will recall that at the Pakistan CPP review meeting on September 10, we discussed the fact that Pakistan this summer again experienced very severe floods and that the GOP had requested Bank/IDA assistance for flood relief and rehabilitation along the lines of the project approved after the 1973 floods. 1/ Since we last discussed this matter, a mission has gone to Pakistan to review the situation. This memorandum updates the information you have been provided previously and indicates where we now stand with respect to the GOP request for assistance.

The 1976 Flood Mission

2. A Bank mission arrived in Pakistan in early October to assess the current flood damage. It has reported that river discharges this year were larger than during the floods three years ago and that, in many areas and sectors, losses and damage appear to be as great or greater than in 1973. (This was a "once in 50 years" flood.) The mission's tentative conclusions are that GOP estimates of losses in agricultural production of about $330 million (of which the major element is cotton) and damage to infrastructure, including houses, of the order of $220 million, do not seem exaggerated. The estimated loss to crops does not take into account potential benefits to areas where winter crops are dependent on residual soil moisture. This preliminary assessment clearly established that the conditions set out in the mission's TOR had been met with respect to the severity of damage and economic loss. We therefore directed the mission to proceed with appraisal of a rehabilitation project concentrating on irrigation, drainage, flood protection and roads. We have just been advised that it expects shortly to have sufficient data to design a project for rehabilitation of damaged infrastructure involving a quick-disbursing credit of up to $20 million, which would finance about one half of total project costs. The project will probably include some medium to long-term flood protection works based on the national flood planning program prepared by consultants in accordance with Credit 466-PAK.

1/ The last flood rehabilitation project (Credit 466-PAK) of $35 million included a project component for the repair and restoration of flood-damaged bunds and roads and a program component designed to compensate the economy for loss of export earnings. The bulk of that credit was disbursed very rapidly and the project was substantially completed well before the original Closing Date of June 30, 1975. To permit completion of procurement of specialized spare parts for the repair of construction and farm machinery, the Closing Date was extended: first until June 30, 1976 and then to the end of this year. The undisbursed balance now amounts to $1.4 million.

Discussions with GOP

3. Since we first heard of the request, we have been concerned that the Government's principal motive in asking for our assistance was to obtain program assistance or a substantial amount of local currency financing which would provide general support to the balance of payments and the budget, rather than help in flood rehabilitation per se. Our discussions of the subject in Manila reinforced these concerns. Considering our current assessment of economic performance and, in particular, our recent exchanges with the Government on budgetary discipline and investment priorities, we do not think support in either of these forms would be justified. We have, therefore, made it clear to the Government, through our office in Islamabad and most recently to the Pakistan Delegation in Manila, that any financing we may provide would be limited essentially to the foreign exchange component of a project designed to repair damage to economic infrastructure.

4. I should add that I would be prepared, in the end, to recommend that we include some small amount of local currency financing if review of the mission's findings confirms its preliminary assessment of the severity of the damage by this year's floods and if without such financing our contribution would be unreasonably small. However, a judgement on these issues will have to await the return of the mission. ND

Recommendation

5. We have informed GOP that any flood rehabilitation credit would have to be accommodated within the FY77 lending program. Since the program is "full", this would mean deferring presentation of one scheduled project until early in FY78, unless additional funds - perhaps from the Third Window - became available or one of the projects presently included in the program slipped. Given present uncertainties regarding both the Tenth Railway Project and SCARP VI, it is possible that a flood loan/credit would simply substitute for a project which, in any event, would have to be deferred to FY78.

cc: Mr. Knapp o/r

TOsgood/RClements/MBlobel:ls

WASHINGTON D.C. NOVEMBER 9 , 1976
INTBAFRAD, NEW DELHI/INDIA
1351

10 NOV 1976

URGENT FOR STERN RE FLOOD PROJECT. REPORT OF APPRAISAL MISSION CONFIRMS THAT DAMAGE FROM FLOODS, HILL TORRENTS, AND HEAVY RAINFALL THIS Y EAR HAS BEEN CONSIDERABLY MORE EXTENSIVE AND COSTLY THAN IN 1973 AND INDICATES THAT LIKELY REOCCURRENCE OF SUCH A COMBINATION OF CIRCUMSTANCES IS WELL IN EXCESS OF 100 YEARS. MISSION'S BEST ESTIMATE OF COST OF RESTORING INFRASTRUCTURE TO PRE-FLOOD STANDARDS (EXCLUDING CONTINGENCIES) IS %139 MILLION AND ITS VERY PRELIMINARY ESTIMATE OF AGRICULTURE LOSSES %268 MILLION. COST OF REPAIR TO BUILDINGS (PRINCIPALLY HOUSING), WHICH MISSION DID NOT EXAMINE, IS PUT BY GOVERNMENT AT %130 MILLION, MAKING TOTAL ESTIMATED DAMAGES %537 MILLION. MISSION DISCUSSED WITH GOVERNMENT COMPONENTS OF POSSIBLE PROJECT FOR IDA FINANCING. THIS PROJECT WOULD CONSTI TUTE PART OF FY77 GOP PROGRAM FOR REHABILI TATION OF FLOOD DAMAGED PUBLIC INFRASTRUC TURE BEFORE ONSET OF NEXT MONSOON AND FLOOD SEASON AND WOULD BE CONFINED BASICALLY TO RESTORATION OF IRRIGATION, DRAINAGE AND COMMUNICATION SYSTEMS (ROADS, RAILWAYS AND TELECOMS) TO THEIR PRE-FLOOD CONDITION. MISSION AND GOPP AGREED THAT FIRST PRIORITY OF SUCH AN IDA PROJECT SHOULD BE TO FINANCE SPARE PARTS, TOOLS AND SPECIAL EQUIPMENT NEEDED TO MAXINIZE EFFICIENCY OF GOVERNMENT OWNED CONSTRUCTION MACHINERY, REPAIR AND PROPER MAINTENANCE OF WHICH IS ESSENTIAL FOR SUCCESSFUL EXECUTION OF REHABILITATION PROGRAM. DUE TO SHORTAGE OF IMPORTED SPARE PARTS, AVERAGE SERVIC EABILITY OF GOVERNMENT OWNED EQUIPMENT RANGES FROM 30-60 PERCENT AND EQUIPMENT OF DOMESTIC CONTRACTORS IS NOT MUCH BE TTER. UNLIKE 1973, THE ONLY MAJOR FOREIGN CONTRACTOR (TJV) IN PAKISTAN IS FULLY COMMITTED AND NOT EXPECTED TO BE ABLE TO ASSIST SIGNIFICANTLY IN REHABILI TATION PROGRAM. IT WAS ALSO AGREED THAT SECOND PRIORITY OF PROJECT WAS FOR FINANCIAL ASSISTANCE FOR REHABILITATION WORKS THAT WOULD IMPOSE HEAVY BURDEN ON GOP IN FY77. MISSION ESTIMATES THAT ADDITIONAL BUDGETARY COST OF REHABILITATION PROGRAM, OUTSIDE CURRENT ADP, COULD BE AS HIGH AS %200 MILLION. MISSION PROPOSES IDA SHOULD FINANCE THE FOREIGN EXCHANGE COMPONENT OF A PROJECT COMPRISING THE FOLLOWING ELEMENTS AND WHICH

WOULD ACCOUNT FOR ABOUT 50 PERCEXNT OF TOTAL PROGRAM.9

CATEGORY	LOCAL		TOTAL
	-USDOLLARS M EQUIVALENT-		
SPARE PARTS, SPECIAL TOOLS AND EXPERT SERVICES	8.0	0.4	8.4
SPECIALIZED EQUIPMENT	5.0	-	5.0
CONSTRUCTION MATERIALS AND ASSEMBLIES	4.7	-	4.7
MAJOR CIVIL WORKS CONTRACTS	17.0	12.0	29.0
FORCE ACCOUNT AND PETTY CONTRACT OPERATIONS	14.0	36.0	50.0
FLOOD FORECASTING AND WARNING SYSTEMS SUPPORT	0.1	-	0.1
CONSULTANTS SERVICES:			
NATIONAL FLOOD PROTECTION PLANNING	1.0	1.5	2.5
PROJECT WORKS SUPERVISION	0.2	0.1	0.3
	50.0	50.0	100.0

OOEHPEDITE PROJECT, MISSION PROPOSES WAIVING COMPETITIVE BIDDING FOR SPARE PARTS, PURCHASE OF WHICH WOULD BE HANDLED THROUGH ESTABLISHED AGENTS BY MECHANIZED CONSTRUCTION OF PAKISTAN (MCP), GOVERNMENT-OWNED CONSTRUCTION COMPANY. MISSION ALSO PROPOSES PERMITTING COMPETITIVE SHOPPING (MINIMUM OF BIDS FROM THREE SUPPLIERS) FOR ALL OTHER EQUIPMENT AND MATERIALS AND NEGOTIATED CONTRACTS FOR MAJOR CIVIL WORKS- MISSION SAYS COMBINATION OF LIMITED DOMESTIC CONTRACTING CAPACITY AND NEED TO MOBILIZE ALL OF THIS CAPACITY RENDERS COMPETITIVE BIDDING MEANINGLESS. ALSO WAPDA WOULD NEGOTIATE MAJOR CONTRACTS WHICH WOULD ALL BE IN IRRIGATION

ON BEHALF OF PROVINCIAL GOVERNMENTS AND MISSION CONSIDERS WAPDA HAS ENOUGH EXPERIENCE TO ENSURE REASONABLE PRICES. IT IS EXPECTED THAT ALL PROJECT WORKS WOULD BE SUBSTANTIALLY COMPLETED BY JULY 1977 AND ALL OTHER COMPONENTS BY JUNE 1978.

WE SEE THREE GENERAL ISSUES WITH PROJECT. FIRST WE ARE STILL UNABLE UNDERS TAND WHY GOP DECIDED TO REQUEST ASSISTANCE IN FLOOD REHABILITATION FROM BANK RATHER THAN OPEC, PARTICULARLY AS CATASTROPHIC NATURE OF FLOODS WOULD SEEM TO GIVE GOP STRONG GROUNDS FOR ASKI NGOPEC FOR ADDITIONAL ASSISTANCE. CONSIDERING THAT IN OUR CASE ANY ASSISTANCE WOULD BE AT EXPENSE OF OTHER PROJECTS, WE BELIEVE THIS TO BE RELEVANT

QUESTION. WE THEREFORE SEE NEED TO SATISFY OURSELVES THAT GOP HAS MADE ALL REASONABLE EFFORTS TO OBTAIN ASSISTANCE FROM OPEC SOURCES, INCLUDING DEFERRAL OF REQUEST TO OPEC FOR LESS ESSENTIAL PURPOSES. SECOND, GIVEN NEED TO REHABILITATE EQUIPM)EKLT AND OTHER POSSIBLE CAUSES OF DELAY, IT IS HARD TO BE CONFIDENT THAT EXPENDITURE TARGETS FOR FY77 WILL BE MET AND THAT SOME OF THESE WORKS MAY NOT SLIP OVER INTO FY78. WE ARE NOT CONCERNED OVER FORCE ACCOUNT OPERATIONS WHICH WE BELIEVE TO BE WELL WITHIN THE CAPACITY OF THE GOVERNMENT DEPARTMENTS BUT RATHER WITH MAJOR CIVIL WORKS CONTRACTS. NCP WILL HAVE CRITICAL ROLE IN THIS RESPECT. IN VIEW OF MISSION, THIS COMPANY IS REASONABLY COMPETENT AND WOULD IMPROVE FURTHER WITH INJECTIONS OF NECESSARY SPARES. THIRD, POOR CONDITION OF GOVERNMENT OWNED CONSTRUCTION MACHINERY DOES NOT ENHANCE GENERAL IMPRESSION OF PAKISTAN'S ECONOMIC MANAG EMENT, PARTICULARLY GIVEN SMALL COS.F OF REQUIRED SPARES IN RELATION TO COU NTRY'S TOTAL INPORT PROGRAM. EXF.PCT GOP WILL USE OCCASION OF MCNAMARA'S VISIT TO PRESS CASE FOR %5Q MILLION IDA CREDIT FOR FLOOD PROJECT. IN VIEW OF EXTENT OF DAMAGE, CREDIT AROUND THIS SIZE SEEMS APPROPRIATE. AS INSTRUCTED, MISSION EMPHASIZED IN THEIR DISCUSSIONS WITH GOP THAT ANY FLOOD CREDIT WOULD HAVE TO BE ACCOMMODATED WITHIN FY77 IDA ALLOCATION FOR PAKISTAN. TOTAL OF %38 MILLION COULD BE MADE AVAILABLE FOR FLOOD PROJECT BY USING AMOUNTS PRESENTLY ALLOCATED TO LIVESTOCK, LYARI AND SCARP VI PROJECTS. AS YOU KNOW, SCARP VI AND POSSIBLY LYARI MAY IN ANY EVENT SLIP INTO FY78 AND ALL THREE PROJECTS COULD BE DEFERRED TO FY78 WITHOUT SERIOUSLY DISRUPTING IMPLEMENTATION. THERE IS ALSO POSSIBILITY THAT INABILITY TO REACH AGREEMENT ON CONDITIONS WILL COMPEL US DEFER RAILWAY PROJECT, FOR WHICH %25 MILLION IDA PRESENTLY ALLOCATED, BUT IMPORTANCE OF OPERATIONAL AND POLICY ISSUES INVOLVED IN THIS PROJECT IN MY VIEW ARGUES STRONGLY OUR PROPOSING DEFERRAL. THUS IN EVENT YOU CONCLUDE THAT WE SHOULD PROCEED, WE PROPOSE REALLOCATION %38 MILLION WITHIN PRESENT PAKISTAN PROGRAM AND DRAWING %2 MILLION FROM REMAINDER OF REGIONAL PROGRAM TO BRING IDA CREDIT FOR FLOOD REHABILITATION TO %4Q MILLION. IN VIEW OF MISSION THIS AMOUNT WOULD BE SUFFICIENT TO E NABLE THEM DEFINE PROJECT ADDRESSING HIGHEST PRIORITY NEED. FURTHERMORE, CONSEQUENT REDUCTION IN SCOPE OF PROJECT AS AGAINST THEIR INITIAL PROPOSAL WOULD ENHANCE THEIR CONFIDENCE THAT GOP ABLE CARRY OUT WORKS COVERED WITHIN CURRENT FISCAL YEAR. FYI MISSION EXPECTS HAVE APPRAISAL REPORT READY FOR L/C CONSIDERATION END NOVEMBER SO THAT NEGOTIATIONS COULD TAKE PLACE EARLY DECEMBER.

REMAINDER OF FY77 PROGRAM WOULD THEN COMPRISE ALPHA ON BANK SIDE %25 MILLION FOR PICIC, ALREADY APPROVED- %35 MILLION FOR RAILWAYS AND %5Q MILLION FOR FAUJI. BETA ON IDA SIDE %15 MILLION FOR EDUCATION III AND %25 MILLION FOR RAILWAYS. DISCUSSED MATTER BRIEFLY WITH KNAPP WHO REMAINS HIGHLY DUBIOUS THAT FLOOD REHABILITATION PROJECT REPRESENTS OPTIMAL USE OF IDA RESOURCES IN PAKISTAN BUT HAD NO OTHER COMMENTS TO OFFER. REGARDS.
BLOBEL

Performance Under the Program Credit Agreement

While it is still early for a concrete evaluation of Pakistan's performance with respect to a number of the undertakings in the program credit agreement some indications are available. A number of steps have been taken which directly fulfill some of the programs to which GOP agreed. These include raising taxes and import tariffs, eliminating export prohibitions, raising the support price for cotton and reducing the export tariff, lowering the price of fertilizer and increasing retail trade margins, and increasing budget allocations for agriculture and water.

On this last point the program credit side letter states that "allocations in the development budget for agriculture will be increased by 20% over the level of FY1976 of Rs2 600 million...". The actual revised amount budgeted in FY77 for agriculture including water development is Rs3,004 million representing an increase of 17% over the FY76 budget figure of Rs2,561 but a 31% increase over actual expenditures in FY76 of Rs2,296 million. While interpretations of this undertaking may vary it was the apparent intent of the side letter to bring about a 20% increase in actual expenditures. This will come about if the FY77 budget figure is achieved.

The major problem areas relate to Pakistan's ability to live up to other performance targets contained in the agreement:

Public Saving - The agreed target of 2% of GDP in FY77 can be met if the current budget is adhered to. As described in the note on the current economic situation there are, however likely to be substantial pressures on current expenditures that would erode the projected surplus particularly from such items as defense and government wages.

Balance of Payments - It seems likely that the proposed reduction in the current account balance of $100 million excluding project financing for FY77 will not occur. The mission's current projection is that this item will rise from $558 million in FY76 to $640 million in FY77. Some of this can be traced to the small cotton crop. A more normal crop of 3.5 million bales (rather than the anticipated 2.6 - 2.8 million bales) would have added over $200 million to exports, thus producing a reduction in the target deficit of over $100 million.

Interest Rates - If inflation continues at about 8-10% per year then the agreement to keep deposit interest rates 2% above the inflation rate may not be met. Currently the rate structure ranges from 6.5% for savings deposits to 11.75% for five-year time deposits. The weighted average is probably between 7.5 to 8.5%. No increases in interest rates have been made since September 1975.

Public Sector Enterprises - The Government agreed to take steps that would raise the profitability of public sector enterprises to about 20-30% per year. While this is a goal to be attained over several years there is no evidence that any major steps have been taken. The rate of return on BIM industries actually declined in FY76 to 9% from 10% the year before (pre-tax rate of return on capital employed).

Irrigation Maintenance - Special grants were to be provided to Provinces to correct deficiencies in the irrigation system caused by poor maintenance. There is no mention of such a scheme in the present budget but we are told that it has been done. Further allocations have been made for general maintenance, however, the new Fifth Plan allocations for the FY78-FY83 period call for a combined agriculture and water allocation of only 18.2%. This would appear to conflict with the stated goal of raising the agriculture and water share to 20% by FY78.

Pakistan: The Current Economic Situation

The outlook for the current year is largely conditioned by the effects of the unusually severe floods and rains during August. After a 4.4% GDP growth rate in FY76, the Planning Commission's Annual Plan called for an 8.1% growth in FY77. This has already been reduced to 6%, but this is undoubtedly optimistic and a growth rate of about 4% would be a more realistic expectation.

Growth of Output

In agriculture, only modest output increases can be foreseen at best. The crops in the Sind will all be lower than in FY76, while the Punjab will experience some slight increases since there was less flood damage in that province. The cotton crop will probably be between 2.6 to 2.8 million bales, which will satisfy domestic requirements and leave only about 200 000 bales for export. Rice and sugarcane will increase slightly as flood damage has been offset by the favorable effects of more rain. Industrial growth has shown no sign of revival, and output levels for the first quarter of 1977 are slightly below that of a year ago. The textile slump continues, and this sector is now operating at about 75% of capacity.

Earlier in the year, Government actions concerning improvements in the income and wealth tax, the declaration provision for "black" money and other steps were seen as encouraging signs. This improvement in the investment "climate" was undercut, however, by the nationalization of the rice milling, cotton ginning and flour milling industries. At the present time the initial effect of this "shock" appears to have subsided, and new investments are coming forward although at a somewhat more cautious pace. Some entrepreneurs lack capital because their investments in food processing have not yet been compensated. Others, particularly in the large scale sector, are awaiting some clearer signs from the Government before proceeding further.

In this regard the new PPP Manifesto and Fifth Plan Investment Schedule are going to be important, as well as any new policy directions undertaken after the election.

The effect of the recent nationalization on the agriculture sector is somewhat unclear. An adequate number of mills and gins appear to be operating to handle the present crops of rice and cotton, and the flour mills are providing adequate supplies of flour. The new corporations appear to have been able to recruit an adequate number of qualified staff, and in many cases have retained the existing managers and some of the former owners. The fear that the system would breakdown by being overcome with government civil servants appears to have been ill founded, although there already appears to have been a substantial number of new jobs created at the lower level as a means of reducing unemployment. Farmers appear to be receiving immediate payment in either cash or check.

Government Finance and Inflation

The biggest surprise was the large budget deficit experienced in FY76 which resulted in public sector savings of about Rs500 million or only .4% of GDP. This was caused by a variety of factors, but the major ones are a shortfall in expected foreign aid receipts by Rs1.9 billion, increased non-development spending of Rs1.1 billion (half of which is on defense) and increased development expenditures of .3 billion. It should be noted that development expenditures increased despite a drop in project aid of Rs1.2 billion (included in the Rs1.9 billion above). The overall deficit thus increased from the original estimate of .7 billion to about 4.0 billion. The new tax measures taken before and at the time of the budget presentation will add about 1.8 billion to revenues this year. The budget deficit for the first three months of FY77 was Rs300 million but this included the effect of a one-time increase in revenues from the declaration of "black money". This will eventually add Rs 400 million to revenues this year.

The projected deficit for FY77 of Rs1.7 billion is probably conservative. Besides reducing cotton duties the floods have lowered the revenue estimates of WAPDA and the railways. The report of the National Pay Commission is expected shortly to recomend a wage increase for public sector employees to offset inflation. On the positive side a more effective administration of the income tax laws continues to bring in unexpected new revenues. Altogether a deficit of about Rs2.0 billion can be expected at a minimum and this could go higher if wage increases are granted without offsetting increases in taxes and public sector prices. This figure also assumes that defense and other current expenditures can be kept under control, and that increased development expenditures for flood repairs can be offset by increased foreign aid. If the overall deficit is held to Rs2.0 billion then public savings of about Rs2.6 billion or about 2% of GDP could be expected. It should be noted that due to the shortfall in project aid disbursements, the percentage of foreign resources to development spending was only 69% in FY76 compared to the 83% expected level. For FY77 the ratio is expected to rise to about 74%.

Development spending continues to increase rapidly as the Government implements major projects in fertilizers, steel and other industrial and infrastructure sectors. This year's development budget of Rs17.1 billion is over 4 times the size of the development budget for FY73. Even when allowance is made for inflation this is an annual growth rate of about 25%. The industrial sector is the major growth area and now accounts for 27% of development spending compared with 8% for education and health, 17% for agriculture and water, 14% for power, and 17% for transport and communications.

With the large deficit during FY76 financed by borrowings from the State Bank the growth of the money supply during FY76 was 24%. The full effect of the deficit was partially offset by increases in foreign revenues. Inflation, as measured by the Consumer Price Index, was only 5.9% during FY76 (June to June basis). During the first quarter of FY77 prices increased and additional 4.4% compared to 3.2% for the same period one year ago. While this is equivalent to an annual rate of inflation of 18%, prices tend to level off with the harvest in October and November. On a September to September basis the rate of inflation is also 5.9%.

Balance of Payments

While last year's balance of payments turned out somewhat better than expected, with a current account deficit of about $.9 billion, the expected deficit in FY77 could be as large as $1.4 billion. While exports grew by 18% in FY76, the growth this year is likely to be about 8%. This is a result of both the smaller level of cotton exports expected this year, and a slower than expected recovery of textile exports. Worker's remittances continue to grow rapidly and could easily reach $430 million this year compared to $350 million last year. Imports are expected to increase by 22%, largely a result of increased capital goods imports for the Soviet financed steel mill.

The overall need for external financing in FY77 would be about $1.62 billion compared with the estimate of $1.47 billion in last year's economic report and the $1.34 billion received in FY76. The latter figure includes $135 million from various IMF facilities which will probably not be available in FY77. On the other hand gross reserves at the beginning of the fiscal year stood at $688 million, having increased by $138 million last year. Pakistan has secured $150 million in new aid from Iran this year in addition to the Iran guaranteed $300 million standby arrangement financed by a group of New York banks. The attached table indicates a gap of about $300 million; however, this does not allow for any use of the $300 million bank loan which will be utilized as a last resort due to its high cost. It is likely that the gap will be financed by additional non-project aid or a drawdown in reserves, or some combination of these plus use of the bank loan. The non-project aid shown in the table is based on fairly firm commitments and would be conservative.

SUMMARY BALANCE OF PAYMENTS AND ITS FINANCING
(in $ million)

	1975/76 (Actual)	1976/77 (Govt.Est.)
Exports, NFS	1,432	1,521
Imports, NFS	2,587	3,160
Resource Balance	-1,155	-1,639
Home Remittances	353	430
Interest on External Debt	-115	-180
Other Factor Services (net)	-30	+6
Current Account Balance	-947	-1,383
Debt Repayments 1/	-253	-232
Other Capital 2/	-141	(-)
(Changes in Reserves)	(-129)	(-)
External Financing	1,341	1,615
Sources of External Financing 3/		
Project Assistance	389	743
Non-Project Assistance	678	472
IMF (net)	135	-
Other Capital	139	100
Gap	-	300
Memorandum Items		
Total Debt Service (excluding short term)	249	412
Current Account Balance excluding project financing	558	640

1/ Excluding short term.

2/ Including foreign direct investment, grants made by Pakistan, and errors and omissions.

Data Sources: State Bank of Pakistan Planning Commission and Economic Affairs Division.

3/ Figures for project and non-project aid are from EAD "Other Capital" is residual in 1975/76 arbitrary in 1976/77.

Table 2

CONSOLIDATED REVENUES AND EXPENDITURES OF FEDERAL AND PROVINCIAL GOVERNMENTS

(Rupee Million)

	1975/76 Budget	1975/76 Provisional	1976/77 Budget
Current Account			
Revenues	19,830	19,843	22,063
Tax Revenues	15,372	15,293	17,513
Non Tax Revenues	4,458	4,550	4,550
Expenditures	21,288	22,358	23,773
Non Development	18,230	19,243	20,424
Development	3,058	3,115	3,349
Current Account Surplus	-1,458	-2,515	-1,710
Capital Account			
Capital Expenditures	13,873	14,134	16,508
Non Development	3,234	3,291	2,742
Development	10,639	10,843	13,766
Financed by			
Domestic Resources	1,630	574	2,044
Transfers from Current Account	-1,458	-2,515	-1,710
Other Capital Receipts	3,088	3,088	3,754
Foreign Assistance	11,500	9,600	12,713
Expansionary Financing	-743	-3,960	-1,751
Total Expenditures	35,161	36,492	40,281
Non Development	21,464	22,534	23,166
Development	13,697	13,958	17,115

The Six Year Plan

The latest draft of the Fifth Plan is not very different from the previous version. The time horizon has been shifted to FY78-83, a six year period which now excludes the effects of the Tarbela Dam but includes the output of the new steel mill. The overall growth target of 7.5% per annum (compared to 8.8% previously) is more a reflection of this shift, than any fundamental change in assumptions. The major problems of the previous plans remain: the desire to mount a large investment program as well as to have significant increases in per capita consumption in the face of a 3% population growth rate and a decline in net foreign resources necessitates a very rapid growth of output.

Macro Framework
(Rs. billions)

	1976-77	1978-83	Growth Rate
Agriculture	43.8	60.4	5.5
Manufacturing	21.1	41.6	12.0
Others	71.1	108.0	7.2
GDP at f.c.	136.0	210.0	7.5
GDP at m.p.	148.9	234.8	7.9
Private Consumption	121.6	177.3	6.5
Government Consumption	15.0	22.5	7.0
Fixed Investment	27.0	44.6	8.8
National Savings	14.2	37.5	17.6

Agriculture is projected to grow by 5.5% per annum, based on a doubling of fertilizer and pesticide use, as well as further groundwater development. The increased use of fertilizer is the most important growth factor, and results in wheat production rising from 9.9 million tons estimated benchmark for FY77 to 13.2 million tons by FY83. Cotton, which has suffered heavily in past years because of adverse weather conditions and low prices is expected to recover from the present level of 2.7 million bales to 5.5 million by 1983. This depends largely on the establishment of effective programs for pesticide application. Large amounts of money continue to be spent for aerial spraying which is, at best, only 15-20% effective. The provision of free aerial spraying also tends to serve as a negative incentive for ground spraying, for which the farmer receives only a partial subsidy (about 25%).

Production Targets
(million tons)

	1976/77	1982/83	Growth Rate
Wheat	9.0	13.2	6.6
Rice	2.65	3.7	5.7
Sugarcane	25.7	32.5	4.0
Cotton*			
benchmark	3.5	5.5	7.8
actual	2.7	5.5	12.6

*millions of bales

Industry is expected to grow at 12% per year, a rate higher than that achieved during the 1960's. A large part of this increase will come from the operation of the steel mill, which will start production in 1978/79. Other significant increases in production come in the areas of cement, fertilizer, textiles and sugar. Of the total investment in industry of 48 billion expected during the Plan, only Rs10 billion is expected from the private sector. This is an annual rate of 1.6 billion per year, which is very close to the present level. Public sector investment will so dominate the industrial area that by FY1983 the ownership of industrial assets will increase from 20% to 50%. The investment program continues to favor areas of very high capital intensity; chemicals, basic metals, petrochemicals, cement. The impact of these investments on employment will be very small, although no estimates of employment are given in the current draft of the Plan. The modernization of some plants may, in fact, decrease employment, while some projects in chemicals and steel, for instance, may have capital: labor ratios as high as $100,000: 1. At the present time the employment problem in Pakistan has been mitigated by large outflows of both skilled and unskilled workers abroad, but it is difficult to project how long this outflow will continue. At the same time, the 3% population growth means a net addition to the labor force of 600,000 people per year. The impact of concentration on capital intensive industries will be to move a few workers to the high productivity, high wage modern sector while the vast majority of the population is underemployed. Much more investment is needed in the more labor intensive sectors such as apparel, shoes and electronics. Pakistan's relative abundance of entrepreneurial talent, plus a fairly skilled and adoptable labor force would make it attractive for firms in these fields now located in the Far East to relocation in Pakistan. The Government's ambivalent attitude toward private investment, particularly foreign private investment, prevents this from happening.

The Plan calls for a public investment program of Rs167 billion, plus Rs48 billion of private investment. The investment rate during the Plan would average 19% of GDP. The public sector program would be fairly evenly divided between agriculture and water (18%), power and fuel (20%), industries and minerals (25%), transport and communications (17%) and the social sectors (19%). The large size of the program reflects, in part, the assumed rapid growth in demand. In addition, however, there are still included a number of "prestige" projects of doubtful productivity, including the Indus Super Highway (Rs3.0 billion) and the Lowari tunnel and road system (Rs1.0 billion). On the other hand, no allocation has been made for the nuclear fuel reprocessing plant to which the Government is known to be committed. While allocations for the social sectors have been increased somewhat, the relative share is still about what it has been in the past. More resources will have to be allocated to these areas if the Government is to reach its avowed goals in education, health and family planning.

Current expenditure growth in real terms is assumed to be about 13% per annum, with a growth rate of 6% for defense, and 15% for the critical areas of education, health and agriculture. By 1983 over 25% of non-development spending will go toward servicing internal and external debts.

The difficulty facing the Plan is seen most clearly on the financing or resource mobilization effort required. The Plan correctly foresees a reduction in net foreign resources based on declining availabilities of foreign assistance and mounting debt service, so that foreign resources finance only 20% of investment in FY83, compared with 55% in FY76. The domestic savings rate, as a consequence, must rise to 16% of GDP by 1983, and this implies a marginal savings effort of 27%. Even the Plan admits that Pakistan's past record "has not been very encouraging" with the maximum marginal savings rate ever attained in a five year period being only 20%. While the private sector accounts for only 28% of fixed investment, it is supposed to produce about 60% of the savings. In the past, a large portion of private savings was the result of high corporate profits which were used directly to finance new investments. The nationalization of much of the private sector has brought with it higher wages, increased employment and price controls which have reduced profits. In the public sector, the Plan calls for a public savings rate of 6.5% by the end of the Plan, compared with .4% in FY76. Although the revenue projections are more realistic now than in the previous draft, they are still optimistic. Even so, there remains a gap of Rs39 billion which would have to be met from deficit financing or new taxes or other measures. If one takes a more realistic view of the present tax structure, which is highly inelastic, the need for additional revenue is really much higher. The Government could close this gap through various actions, including tax reforms, better pricing policies, lower subsidies and tighter controls on current expenditures. If the past is a guide, however, it is more likely to resort to politically more acceptable measures, including more foreign borrowing, reduced development spending and larger deficits. Since a large part of the industrial and infrastructure program is already underway or committed, it is likely that the cuts would fall on agriculture and the social sectors. It appears that much needed reforms in the social sectors, namely education and health, are underway. The Plan places emphasis on primary and technical training for education, and a system of basic health/rural health centers designed to provide health services to a wide spectrum of the population. These reforms, which are likely to have important distributional implications, are likely to fall short if the development budget has to be reduced.

The mirror image of the resource mobilization problem is seen in the balance of payments. The rapid production with high savings scenario of the Plan implies that the unconsumed surplus will be exported. Consequently, the export growth rate during the Plan will average 10.6% per annum (constant prices), while imports are expected to grow by only 4.25% per annum.

The low growth in imports reflects the assumed timely and efficient operation of the steel mill which will eliminate steel imports, as well as a complete elimination of imports of wheat (FY78) and fertilizer (FY80). Over half of the increase in exports will come from agricultural products or their derivatives, namely rice, cotton, textiles and sugar. The high growth rate of textile exports (7%) is particularly suspicious considering the likely growth of world demand (probably not more than 6% per annum), and the need for modernization of the textile sector in Pakistan. Despite the divergence in import and export growth rates, the current account balance improves slightly; from a deficit of $1.4 billion in FY77 it is expected to fall to 1.0 billion by FY83 (constant prices).