PARTITION, INTEGRATION, ECONOMIC GROWTH, AND INTERREGIONAL TRADE:

A STUDY IN THE GROWTH OF INTERWING TRADE IN PAKISTAN

by

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23 Lee Street
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May 11, 1962

Professor Ralph E. Freeman, Chairman
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Dear Professor Freeman:

      In partial fulfillment of the requirements for the degree
of Doctor of Philosophy, I herewith submit the following thesis
entitled: "Partition, Integration, Economic Growth, and Inter-
regional Trade: A Study in the Growth of Interwing Trade in
Pakistan".

                            Respectfully,

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MAR:jw

ABSTRACT

Partition, Integration, Economic Growth, and Interregional Trade:
A Study in the Growth of Interwing Trade in Pakistan

by
M. Akhlaqur Rahman

Submitted to the Department of Economics and Social Science
on May 11, 1962, in partial fulfillment of the requirements
for the degree of Doctor of Philosophy.

Because of the initial patterns of specialization in and the distance
between the regions of East and West Pakistan, there was little possibility
of direct trade between them before the partition of India. Yet after the
establishment of Pakistan, there occurred a six-fold growth of trade between
East and West Pakistan during the period between 1948-49 and 1958-59. This
dissertation analyzes the reasons.

The heart of the thesis presented is that the growth of interwing
trade in Pakistan is to be explained in terms of the combined effects of
partition of India, the formation of the integrated state of Pakistan, and
the initiation of economic growth in East and West Pakistan. Integration
created the necessary conditions for the growth of interwing trade. To the
extent that partition was followed by economic isolation between Pakistan
and India, it created certain problems of adjustment in the prepartition
patterns of trade and production in these regions. The adjustments made
created the sufficient conditions for the growth of trade between East and
West Pakistan.

The coincidence of partition with the desire for the initiation of
long-run economic growth rendered the adjustment process in East and West
Pakistan growth-oriented. Partition also facilitated economic growth, i.e.
the growth of industries in East and West Pakistan, because of the growth
of a vigorous entrepreneurial class, mainly from among the migrants from
India, and because of effective governmental policies designed to facili-
tate long-run economic growth.

The growth of complementary industries in East and West Pakistan in
the process of growth-oriented adjustment led to the secular growth of inter-
wing trade during the second half of the period under consideration. This
is evident from the fact that the growth of interwing trade from 1953-54 on
was mainly due to the growth of trade in manufactures and raw materials.
The possibility of interwing trade, on the other hand, facilitated the
growth of industries in East and West Pakistan through the extension of
their regional markets.

The heavy growth of cotton textiles industry increased the domestic consumption of raw cotton in Pakistan. It led to a sharp decline in the foreign exchange earnings of West Pakistan, since the production of raw cotton did not increase proportionately. The fall in exports of West Pakistan abroad was partly compensated for by the increase of her exports to East Pakistan. This led to a triangular pattern of trade between East and West Pakistan, and the rest of the world.

The surplus foreign exchange earnings of East Pakistan up to 1955-56 enabled West Pakistan to partly bridge the gap between her exports to and imports from the rest of the world. This involved a transfer of capital from East to West Pakistan which facilitated the economic growth of West Pakistan. The fruits of the economic growth of West Pakistan were partly transmitted to East Pakistan through the movement of the terms of interwing trade in favour of East Pakistan in most of the years.

Thesis Supervisor: E. E. Hagen
Title: Professor of Economics

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Written at M.I.T. under the supervision of Professor E. E. Hagen, the present study is actually the outgrowth of a project undertaken by the author at the Institute of Development Economics, Karachi, Pakistan, in 1959. My gratitude is due to the Institute, and especially to its director, Professor Emile Despres, for sending me to M.I.T.

My thanks are due to Professor R. M. Solow for the benefit I derived from his comments on an early draft of Chapter 2. I must express my gratitude to Professor C. P. Kindleberger for the trouble that he so kindly took in reading and commenting upon the draft chapters from which I have immensely benefited.

To my supervisor, Professor E. E. Hagen, I am bound by an irreparable debt. Besides all that I have learned while working under him, I wonder whether the dissertation would ever have become what it is now without his guidance, untiring comments, and paternalistic encouragement. However, I am responsible for all possible flaws, omission, and commissions that may still be found in it.

Lastly, I must thank Miss Joyce Willett for typing the thesis and for making certain linguistic improvements in the text.

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CHAPTER 1

Introduction

1.1. The Purpose of the Study

The purpose of this study is to investigate the causes and consequences of the growth of interwing trade in Pakistan, i.e., the trade between East and West Pakistan, during the last decade.

The explanation of the growth of interwing trade, for reasons discussed below, would seem to be an interesting problem. A brief description of the historical background of the problem will, it is hoped, enable us to appreciate its nature and significance.

1.2. The Historical Background

1.2.1.　　East and West Pakistan constitute the integrated state of Pakistan, which was established after the partition of India in August 1947. Politically, East and West Pakistan are integral parts of the same state. Economically, they have the same financial system and the same monetary and commercial policies.

Geographically, however, one wing is separated from the other by over a thousand miles by land, and by about three thousand miles by sea. Geographically and climatically, East Pakistan is essentially a part of South-East Asia, while West Pakistan belongs to the Middle East.

Not only are the resource endowments of East and West Pakistan different; the differences between them in respect of climate, language,

and the attitude, behaviour, and mode of living of people are not unimportant.

At the time of the partition of India, East and West Pakistan were almost entirely less developed primary producing regions. Since then, and especially during the First Plan Period (1955-60), significant changes have occurred in the structure of production and trade of these regions, partly through private initiative and partly because of the initiation of planned development activities in Pakistan. Now East and West Pakistan can properly be described as developing less developed regions.

1.2.2.   Till August 1947, the regions of East and West Pakistan were parts of undivided India. And like most less developed primary producing regions, they specialized in a few major primary products, although their total production activities included many minor crops, a variety of handicraft manufactures, mining, fisheries and the like. Thus the region of East Pakistan specialized in the production of two major products, rice and raw jute. Almost the entire production of raw jute was for the purpose of export. Likewise, the region of West Pakistan specialized in a few primary products, of which wheat and raw cotton were the most important. The production of cotton was mainly for the purpose of export.

The primary importance of raw jute and raw cotton to the regional economies of East and West Pakistan respectively lay in the fact that the levels of their incomes were mainly governed by the export of these commodities.

The region of India, i.e., the rest of the regions of undivided India, had a fairly well-developed industrial sector, including the production of jute and cotton manufactures. It follows that at the time of partition, the region of India was relatively more developed than the regions of East and West Pakistan.

Several socio-economic factors had possibly contributed to this pattern of regional specialization in undivided India. Some of these factors may be briefly mentioned here. The classical theory of regional specialization based on comparative advantage arising out of differential resource endowments of different regions seems to be only a partial explanation in the present instance. For, other things being equal, there could be no reason why the location of the jute industry in the region of East Pakistan and of the textiles industry in the region of West Pakistan would have been less advantageous. The consideration of comparative advantage involves the discussion of such elements of the theory of location as the nearness on the one hand to raw materials and on the other hand to the market for finished products, nearness to ports, fuel, and power, and the agglomeration effects of initial development of certain industries at particular places. The latter, however, is not an independent factor, because the operation of the agglomeration effects depends, in the last analysis, upon the initial location of industries, which is supposed to be governed by the former.

Most locational factors mentioned above are advantages in costs, which in the ultimate analysis may be summed up into (a) the cost of

transport and (b) the cost of labour.[1] If the transport costs are a
large factor in the total cost of production relative to the value of
commodities produced, they may be the controlling factors in the location
of industry. Since the total cost of transport is the product of the rate
on and the weight of the goods transported, whether location of an industry
will be raw material-oriented or market-oriented would depend upon two
factors: (1) the loss of weight that results from manufacturing, and (2)
the relation of the rate on raw materials to the rate on finished products.
Generally speaking, industries using weight-losing material tend to develop
near the supply of raw materials. For the same reason the influence of
fuel tends to pull industries toward the source of the supply of fuel. If
the rates on raw materials are higher than the rates on finished products,
there is an advantage in locating industries near the supply of raw materials.

Neither the cost of transport nor the cost of labour could explain
the location of jute and cotton textiles industries in undivided India
outside the regions of East and West Pakistan respectively. Even the
absence of social overheads could not be a reason for this since, more
often than not, the latter are induced by the growth of the demand for
them. It seems that the pattern of regional specialization in undivided

[1] Alfred Weber, Theory of Location, The University of Chicago Press,
Chicago, 1929. E. M. Hoover, The Location of Economic Activity, McGraw-
Hill Book Company, Inc., New York, 1948. Walter Isard, Location and
Space Economy, The Technology Press of M.I.T., Cambridge, Massachusetts,
1956.

India can only be explained by taking into account also the socio-cultural factors governing the location of economic activities, as stressed by Weber.

East and West Pakistan were the Muslim majority areas in undivided India. As is well known, the Muslims in India were educationally and economically more backward than the other communities. The sphere of trade was mostly dominated by the Hindus. This was partly due to the Muslim attitude toward money-making and partly due to certain other socio-economic factors, the latter being more important than the former. In the region of West Pakistan the more educated and well-to-do Muslims were the landlords. And the traditional attitude of this class against productive activities need not be stressed here. Moreover, the educated section of this class in the region of West Pakistan was more oriented toward civil and military services. In the region of East Pakistan, not only did most of the big landlords come from the Hindu community, but a great majority of them were of the type of absentee landlords who preferred to live in big cities like Calcutta and Dacca. And whatever industrial investment these landlords made went to the developing industries around Calcutta. To these must be added the fact that the Muslims of undivided India had little interest in the financial institutions developed in India before partition. These socio-economic factors prevented the growth of an entrepreneurial class among the Muslims who might have developed industries in the regions of East and West Pakistan before partition. This, in our opinion, was the most important reason for the prepartition pattern of regional specialization in undivided India. It is well known that in

the industrial development of many industrial countries, especially in England, the whims of the entrepreneurs, among other factors, played an important role in the location of industrial enterprises. More important is the fact that it is the entrepreneurs who introduce technical progress; and technical progress, in the last analysis, changes and governs the differences in resource endowments between different regions.

1.2.3.   The pattern of regional specialization in undivided India governed the prepartition patterns of the intra- and extra-regional trade of the subcontinent before partition. Reliable data relating to the interregional flow of goods and services in undivided India are not available. It is, therefore, difficult to describe accurately the exact economic relation between the regions of East Pakistan, West Pakistan, and India before the establishment of Pakistan. However, the composition of trade between Pakistan and India in 1949 should give us a reasonably good idea of the prepartition interregional economic relations because of the liberal trade that existed between them until September 1949.

Table 1.1 shows the composition of the Indo-Pakistan trade in broad commodity groups for the calendar year 1949. This year is more representative than 1947-48, since the latter was a highly disturbed year following the partition of India. Although a deadlock of trade between India and Pakistan occurred in September 1949 following the devluation of the Indian Rupee, that probably did not affect much the composition of total trade for the year 1949.

TABLE 1.1
The Composition of Indo-Pakistan Trade in 1949
(Values are in million Rupees)

	INDIA TO PAKISTAN		PAKISTAN TO INDIA	
	VALUE	SHARE PERCENT	VALUE	SHARE PERCENT
1. Food, Drink and Tobacco	157.46	28.54	94.43	15.53
2. Raw Materials	47.67	8.64	466.71	76.74
(of which raw jute and cotton)	---	---	(392.33)	(64.51)
3. Manufactures	346.62	62.82	47.01	7.73
TOTAL	551.75	100.00	608.15	100.00

Source: Statistical Abstract, Office of the Economic Adviser, Government of India, Delhi, 1950, Vol. 11, pp. 1694-1700.

Table 1.1 indicates that the 1949 interregional flow of goods included mostly the export of primary products from the regions of East and West Pakistan to India and the export of manufactures from India to East and West Pakistan. Notable among the exports of East and West Pakistan was the importance of two commodities, namely raw jute and raw cotton. The total value of the export of these two commodities amounted to Rs.392.33 million, or 64.51 percent of the total export from Pakistan to India. Though we have no data, we may reasonably assume that the pattern of trade before partition was similar.

Assuming that the foreign trade of the regions of East and West Pakistan used to be conducted by India, the prepartition structural relation between these regions may be briefly described as follows. East and West Pakistan used to supply to the other regions of India mainly primary products, a part of which went to the domestic consumption of these regions while the rest was exported to the rest of the world with little or no processing. East and West Pakistan, in return, used to import most of the industrial goods consumed by them from the other regions of India. A major portion of these goods was supplied from the domestic output of India, while the rest was supplied from the foreign goods imported in India.[2]

1.2.4. One peculiar aspect of the prepartition economic relation between these regions seems to have been the existence of little direct trade between the regions of East and West Pakistan. The absence of

[2] The data to show this are not available, but it is well known.

relevant data makes the empirical verification of this hypothesis almost impossible. Nevertheless, the hypothesis appears to be justified on a priori grounds. The pattern of production in East and West Pakistan was such that they specialized in certain primary products for the purpose of export to the manufacturing regions of the world. Since they did little processing, they had little opportunity for the consumption of each other's major export products. Because of the distance involved, the cost and other difficulties of transportation were likely to make it more profitable for East and West Pakistan to trade in minor tradable products with the adjacent regions of India rather than between themselves.

Thus it can be said that so long as the prepartition patterns of production or trade in the regions of East and West Pakistan remained unaltered, there would be little possibility for the growth of direct trade between them. Therefore, the explanation of the growth of interwing trade in Pakistan must be sought in the historical circumstances following the partition of India and the formation of the integrated state of Pakistan. These historical circumstances were conditioned by three factors: (a) the fact of partition and integration, (b) the coincidence of partition with the conscious efforts for long-run economic growth, and (c) the emergence of a vigorous class of private entrepreneurs in Pakistan.

1.3. The Effects of Partition, Integration, and Economic Growth

1.3.1. For analytical purposes the economic consequences of partition and integration on the prepartition interregional flow patterns may be

investigated separately, even though the effects were interwoven. The
fact of political partition may have had a negative aspect in the sense
that it may have resulted in economic isolation between Pakistan and India.
Isolation in the form of partial or complete cessation of economic coopera-
tion would involve a more or less abrupt change in the prepartition economic
flows between Pakistan and India. Complete cutting off of or drastic
reduction in the magnitudes of the prepartition economic flows between
India and Pakistan would reduce employment, income and consumption in these
regions. This would call for immediate action in order to maintain the
prepartition levels of employment, income and consumption. As will be
explained in Chapter 2, depending upon circumstances, such actions may
take the form of adjustments in the prepartition pattern of trade and/or
production in East and West Pakistan. It is our hypothesis that one
important condition for the growth of trade between East and West Pakistan
is likely to be created in the process of such adjustments.

From the standpoint of the growth of trade between East and
West Pakistan, political integration between them, on the other hand, has
a positive aspect. For it means that East and West Pakistan would form a
common market while there would be certain barriers or costs to trade with
the outside regions. Integration in this sense would create favourable
conditions for the growth of trade between East and West Pakistan. The
argument is that free trade between East and West Pakistan with tariff
barriers against the outside world would make the price differences wider
than transport costs between them. This is the necessary condition for the

growth of trade between the two regions. But because of the prepartition nature of their economic specialization, mere integration between East and West Pakistan will not provide the <u>sufficient condition</u> for the growth of trade between them. As stated earlier, actual secular growth of trade between East and West Pakistan would depend upon fundamental changes in the prepartition pattern of production in these regions.

1.3.2.   To the extent that economic growth, defined as sustained rise in per capita real income, leads to changes in the prepartition pattern of production in East and West Pakistan, it is likely to create the sufficient condition for the growth of trade. By change in the prepartition pattern of production is meant the introduction of processing or manufacturing in hitherto primary producing economies. There are a few reasons why the initiation of long-run economic growth may imply this in East and West Pakistan.

First, in regions like East and West Pakistan, with surplus labour and growing population, with low land- and labour-ratios, the basic problem of economic growth is both to increase the productive capacity of the currently employed labour force and to create gainful employment opportunities for the growing labour force. It does not seem to be possible for such regions to absorb the growing labour force in primary production without pushing the marginal productivity of labour to zero. Withdrawal of a part of the currently employed labour force from agriculture and their employ-

ment in manufacturing production would raise the total output in these economies.[3]

Second, and it follows from the first, while technical improvement in primary production will increase output, under certain circumstances it may aggravate the problem of unemployment. Furthermore, increased production for export without proportionate increase in the demand for primary products in the world market would lead to further deterioration of the terms of trade of these regions. This would affect the growth of income adversely. Under the circumstances, expansion in the initial lines of specialization would imply "immiserising growth".[4] The historical pattern of foreign trade did not help in initiating the process of long-run growth in most primary producing regions. On the other hand, the dependence on a few primary products for export made these economies extremely vulnerable to external shocks. This, as is well known, impinges upon the economic growth of primary producing regions through erratic effects on the levels of income, foreign exchange earnings, and domestic savings.[5] Thus the long-run trend

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[3] R. Nurkse, Problems of Capital Formation in Underdeveloped Countries, Blackwell, London, 1953. W. A. Lewis, "Economic Development with Unlimited Supplies of Labour", The Manchester School, May 1954. The Theory of Economic Growth, Allen and Unwin, Ltd., London, 1955.

[4] J. Bhagwati, "Immiserising Growth", Review of Economic Studies, June 1950. H. G. Johnson, International Trade and Economic Growth, Allen and Unwin, Ltd., London, 1958.

[5] Raul Prebisch, "Role of Commercial Policies in Underdeveloped Countries", American Economic Review, Papers and Proceedings, May 1959. Hans Singer, "The Distribution of Gains Between Investing and Borrowing Countries", American Economic Review, Papers and Proceedings, May 1950. G. Myrdal,

in the foreign trade of primary producing regions implies diversification
of their production pattern in the process of the initiation of long-run
economic growth.[6]

This is not to say that foreign trade is not important in the economic
growth of less developed regions or that they will not gain from improve-
ment and modernization of the technique of production in their initial lines
of specialization.[7] We are only stressing the need for the diversification
of production in regions like East and West Pakistan. Moreover, in view of
the growth of labour and some capital and skill through time, and in view
of the conditions of demand for their products in the world market, these
regions have little incremental comparative advantage in expanding along
the initial lines of their specialization.[8]

Economic Theory and Underdeveloped Regions, Gerald Duckworth and Co.,
Ltd., London, 1957; An International Economy, Routledge and Kegan Paul,
Ltd., London, 1956. U.N. Economic Commission for Latin America, The
Economic Development of Latin America and Some of Its Problems, New
York, 1949. .Hla Myint, "The Gains from International Trade and Back-
ward Countries", Review of Economic Studies, 1954-55, No. 58.

[6] G. Myrdal, ibid. U.N. Department of Economic Affairs, Measures for
International Stability, New York, 1951. Relative Prices of Imports
and Exports of Underdeveloped Countries, New York, 1949.

[7] J. Viner, International Trade and Economic Development, Glencoe, Illinois,
Free Press, 1952. G. Haberler, "Critical Observations on Some Current
Notions in the Theory of Economic Development", L'Industria, No. 2, 1957.
Charles P. Kindleberger, Economic Development, McGraw-Hill Book Company,
Inc., 1958.

[8] R. Nurkse, Pattern of Trade and Development , Stockholm, 1959 (Wicksell
Lecture).

Third, the coincidence of the desire for long-run economic growth with partition may work as an immediate reason for economic growth in East and West Pakistan, taking the pattern of industrial development. Insofar as partition of India and the integration of East and West Pakistan is followed by complete or partial economic isolation from India, it will, as pointed out above, create the problems of adjustment in the prepartition economic flows between India and Pakistan. If East and West Pakistan are unable to make such adjustment through the rechannelling of the course of their prepartition volume of trade they would be forced to make adjustment in the initial pattern of production which, as we shall argue in Chapter 2, will involve the processing of their own raw materials. This may be undertaken by the new government in Pakistan as a part of their political responsibility not to allow the prepartition levels of employment, income and consumption to decline, or as a part of their political policy to make the newly established country economically viable, over and above the fact that industrialization may be undertaken as a long-run policy for economic growth. Of course mere adoption of government policies will not accomplish the results; if government plants are to be constructed, it is necessary to find men to run them effectively, and if the government makes loans to private enterprises, it is necessary to find effective private enterprises to make the loans to. Of course, government policies of protection may be enough to stimulate private action, if enough effective entrepreneurs are present.

In this study we are not primarily interested in how the process of economic growth or industrialization gets started in a country. Our main interest is in the fact that with partition and integration, economic growth in the form of the development of manufacturing is an important condition for the growth of trade between East and West Pakistan. However, since partition and the initiation of economic growth in Pakistan are interconnected, a few observations in this respect seem to be in order. Economic growth, in whatever way that term may be defined, involves a change in the production function which frequently involves technical progress. It involves the growth of physical capital, skill, and knowledge, the new application of old knowledge or the application of new knowledge to the production of goods and services, and above all, the growth of entrepreneurship. In a sense, the growth of a vigorous class of entrepreneurs is the most important element in the chain of causation, for economic growth can be initiated with the new and better use of existing resources. It is the entrepreneurs who carry out the new combination of old resources[9] for profit. And capital and other factors grow in the process of growth.

In this sense, how economic growth gets started is vitally connected with how the entrepreneurial class actively emerges in a society.[10] There

[9] J. A. Schumpeter, Theory of Economic Development, Harvard Univ. Press, 1936.

[10] E. E. Hagen, "How Economic Growth Begins: A General Theory Applied to Japan", Public Opinion Quarterly, 1958. Especially his On The Theory of Social Change: How Economic Growth Begins, Dorsey Press, Homewood, Illinois, 1962.

may exist in every society a class of people having the qualities which characterize the entrepreneur such as what Professor Hagen calls need achievement, need autonomy, and need order. This does not mean that these qualities are entirely inborn. These are conditioned by the process of individual socialization, a discussion which we cannot take up in this study. For our purpose here it is important to note that the activation of the potential entrepreneurial class is a function of the relation between man and the world around him in a society. In a traditional society, where roles are mostly ascribed, rewards are not correlated to efforts, the world is viewed as unmanipulative, and the social relationship is based on authoritarian hierarchy, the growth of active entrepreneurship is highly limited. Sudden social, political and economic changes in such societies may activate the innovative and creative individuals out of sheer necessity. For such a situation may be utilized by <u>social deviants</u> to experiment with new ideas. Government initiative in developing industries may also create conditions for the activation of the potential entrepreneurs.

Sometimes sudden displacement of individuals from their initial socio-economic position unleashes the spirit of enterprise in them. Partition would not only create certain difficult problems of adjustment; it would also bring to Pakistan a huge number of displaced persons from India. Many of these individuals might have been trained in business and craft. The socio-economic circumstances prevailing in Pakistan after partition, together with the initiative of the government in facilitating post-partition economic adjustment and/or long-run economic growth, might have

given birth to a vigorous entrepreneurial class in Pakistan to carry out the process of industrialization.

Thus the coincidence of partition with the desire for economic growth would facilitate the growth of manufacturing in East and West Pakistan. In the initial phase the pattern of industrialization would involve (a) the utilization of basic raw materials which used to be wholly exported and (b) the replacement of the import of manufactured goods by domestic production. In view of the difference in their initial resource endowments, the growth of manufacturing in East and West Pakistan would be complementary in nature. Under the circumstances, integration between East and West Pakistan, for reasons discussed earlier, would lead to the growth of trade between them. This in turn would facilitate the growth of manufacturing in these regions through the fuller utilization of each other's regional market. This of course assumes that adequate transport facilities between East and West Pakistan would be created.

1.4. The Analytical Problems

From the foregoing discussion, several important aspects of the problem under study become clear. These are the effects of partition, integration, and economic growth on the prepartition patterns of trade and production in East and West Pakistan. Thus any attempt at formulating a model for the explanation of the growth of interwing trade in Pakistan is likely to involve certain analytical problems.

First, because of the existence of structural unemployment, occupational immobility, and technical backwardness, the classical type

of adjustment through horizontal reallocation of factors of production in East and West Pakistan is likely to play only a marginal role.

Second, because of the imperfection of the market structure, the price effects on resource allocation are likely to be less effective in these regions.

Third, unlike the classical situation where all adjustment takes place in the long-run, we are mainly concerned with the problems of short-run adjustment.

Fourth, since we are basically concerned with abrupt changes in trade and production which involve certain drastic overhauling of past economic relations between regions, we are unable to follow the familiar macro-dynamic analysis which deals with marginal changes in a given structure.

Lastly, although we are essentially concerned with the problems of general equilibrium analysis, the traditional general equilibrium analysis is not applicable to our problem because of the technical changes in the pattern of production involved.

Under the circumstances, we shall try to construct our model in Chapter 2, step by step, with the help of certain linear graphs. It is hoped that these graphs will serve the readers as visual aids in following the analysis.

1.5. The Plan for the Study

In the light of the above discussion we shall, in Chapter 2, formulate a model in order to examine the consequences of partition, integration,

and economic growth on interregional trade between three hypothetical

regions. The purpose of this model will be to search for a pattern which

will explain the growth of trade between two of the regions involved

among whom there existed no trade before partition.

Chapter 3 will be devoted to the expansion of the model developed

in Chapter 2 in order to investigate the consequences of the growth of

trade between two hypothetical regions for their economic growth, foreign

trade, and for their balance of payments.

Chapters 4 and 5 will be devoted to the analysis of the causes and

consequences of the growth of interwing trade between East and West Pakistan

in the light of the analysis made in Chapters 2 and 3.

A summary of the major conclusions will be given in Chapter 6.

CHAPTER 2

Partition, Integration, Economic Growth
and Interregional Trade

2.1. Introduction

The purpose of this chapter is to construct a model explaining
the effects of partition, integration and economic growth on the structure
of economic activity of two hypothetical regions, East (Pakistan) and
West (Pakistan), on various assumptions. These assumptions relate to
the availability of capital and entrepreneurship, consumption patterns,
employment, mobility of labour, and inter-industry relations in East and
West before partition.

The nature of our model is essentially governed by partition and
integration.[1] Partition and integration, in the context of the present
analysis, is being assumed to include complete economic isolation of two
integrated regions from a third region.

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[1] Integration here refers to 'complete' political and economic integration.
Political integration is being used in the narrow sense only to imply
the formation of a common government by the regions involved rather than
in the wider sense of national integration as understood in political
science. Political integration includes economic integration in the
sense that it leads to the introduction of common currency, common
monetary, fiscal, and commercial policies in, and free mobility of re-
sources between, the integrated regions. For an excellent discussion of
different concepts and forms of economic integration, see Bela Balassa,
The Theory of Economic Integration, Richard D. Irwin, Inc., Homewood,
Illinois, 1961, Ch. 1.

2.2.   The Basic Assumptions

2.2.1.   Consumption Pattern, Employment, Mobility of Labour, and Transport Costs

The consumption pattern in each region is assumed to be governed by consumer preference as well as by the autonomous decision of the governments concerned. It is assumed that the prepartition consumption requirement, i.e., the types and amounts of goods and services consumed, in each region must be satisfied "as much as possible" in the adjustment process. In other words, an unchanged consumer demand function is assumed for the purpose of the following analysis.

It is assumed that land is fully employed but unemployment, chronic and disguised, exists in   East and West. Moreover, because of backward technique, lack of capital and entrepreneurs, it is assumed that there is little mobility of labour among alternative employments in these regions. This implies that because of little or no secondary production, labour cannot move out of agriculture to other gainful non-agricultural activities. This means that the currently employed labour can only move from the production of one type of primary product to another. In the event of unemployment in one sector of a primary producing economy due to sudden structural change in demand, re-employment of labour will depend upon the elasticity of substitution of land in the production of alternative crops. Other things being equal, this is likely to be governed by the conditions of demand for alternative primary products. In the case of regions specializing in a few primary products for export, the conditions of demand for their products are likely to be uncertain, since these are governed mostly by external

circumstances. All these factors limit the occupational mobility in primary producing regions like East and West. The significance of such occupational immobility lies in the fact that adjustment of production in primary producing regions involves the creation of the supply of new capital and skilled labour and the creation or appearance of entrepreneurs rather than horizontal reallocation of existing factors.

Because of the long distance involved between East and West, the cost and physical facilities of transportation will play an important role in the following analysis, for these limit the mobility of goods and labour between East and West.

2.2.2. The Regions and Sectors

The model involves the consideration of four regions represented by the big outer circles in Figure 1.1. These regions shall be called East (Pakistan), West (Pakistan), India, and Foreign. Before partition East, West, and India used to be the three regions of the same country.

Each of these regions has its own economic sectors, represented by the small inner circles in Figure 1.1. For the sake of simplicity and analytical convenience, it is assumed that East has only four economic sectors: the households (H_e), the production of raw jute (J_{re}), the production of all other primary products (P_e), and handicraft production (m_e). The loop representing (J_{me}) attached to (m_e) indicates the potential sector for the growth of jute manufacturing.

Likewise, West has four sectors: the households (H_w), the production of raw cotton (C_{rw}), the production of all other primary products (P_w), and

FIGURE 1.1

Regions, Sectors, and Intra-Sectoral Flows
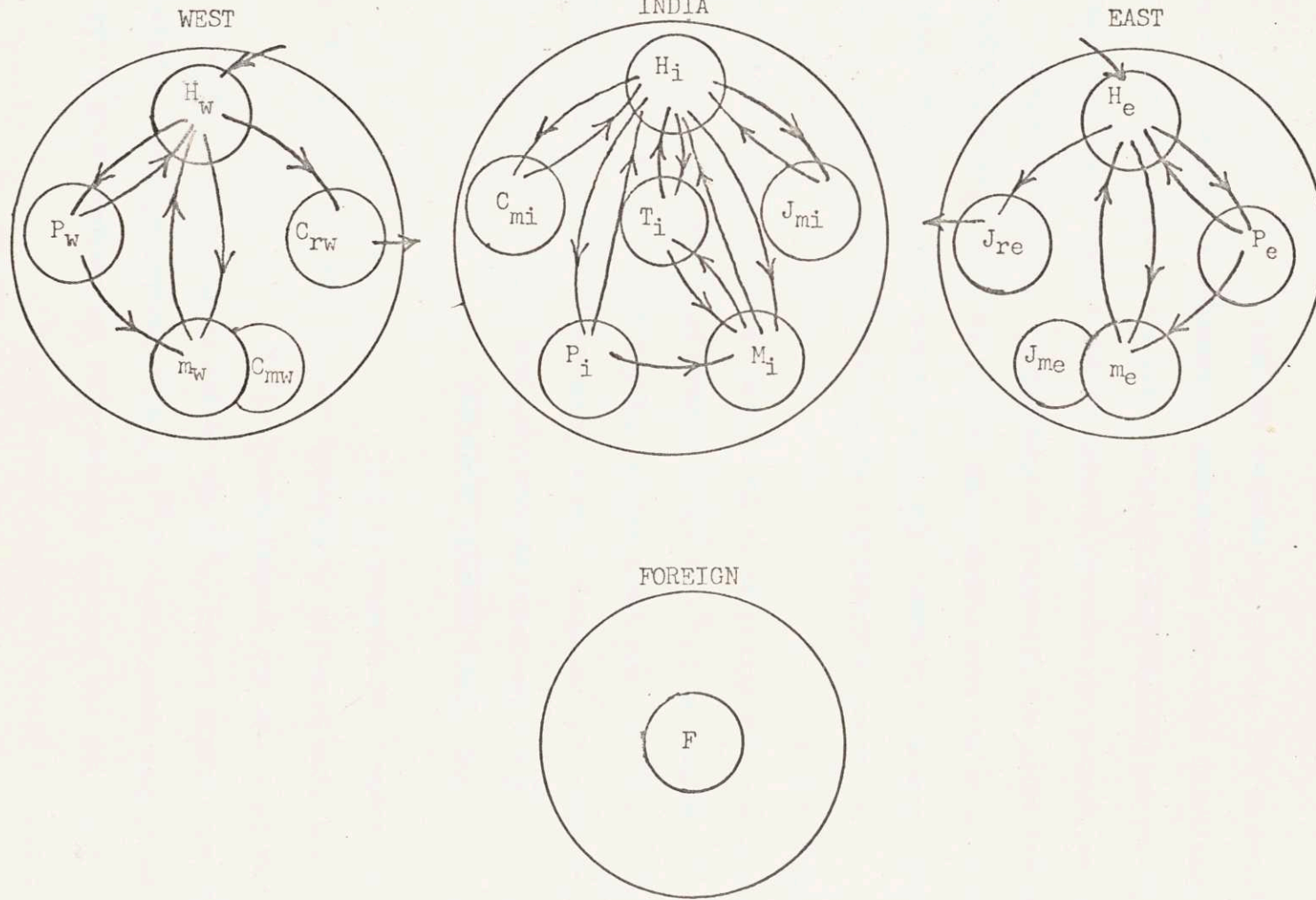
handicraft production (m_w). (C_{mw}) attached to (m_w) indicates the potential sector for the growth of cotton manufacturing.

India has six sectors, representing the households (H_i), the production of jute manufactures (J_{mi}), the production of cotton manufactures (C_{mi}), the primary sector (P_i), the sector representing all other manufactures (M_i), and the trading sector (T_i).

The Foreign region is assumed, for the sake of convenience, to have only one sector, represented by (F).

2.2.3. The Inter-Industry Relations

The inter-industry relations are defined by the inter-sectoral flows of goods and services. These flows are described by the arrows, e.g. $(J_{re}\ J_{mi})$, $(J_{mi}\ H_e)$ and the like, in Figures 1.1 and 1.2. The notation $(J_{re}\ J_{mi})$ means that (J_{re}) is the beginning point and (J_{mi}) is the end point of the arrow. The direction of the arrows shows the direction of the respective flows.

To facilitate discussion a distinction is made between two types of inter-industry relations. The first refers to the relation between two sectors in the same region. These will be called intra-regional relations, which are presented in Figure 1.1. The second refers to the relations between two economic sectors in two economic regions. These will be called interregional relations, and are presented in Figure 1.2. Note that these relations are assumed to describe the prepartition economic activities in and between the regions involved.

FIGURE 1.2

Prepartition Interregional Flow Pattern
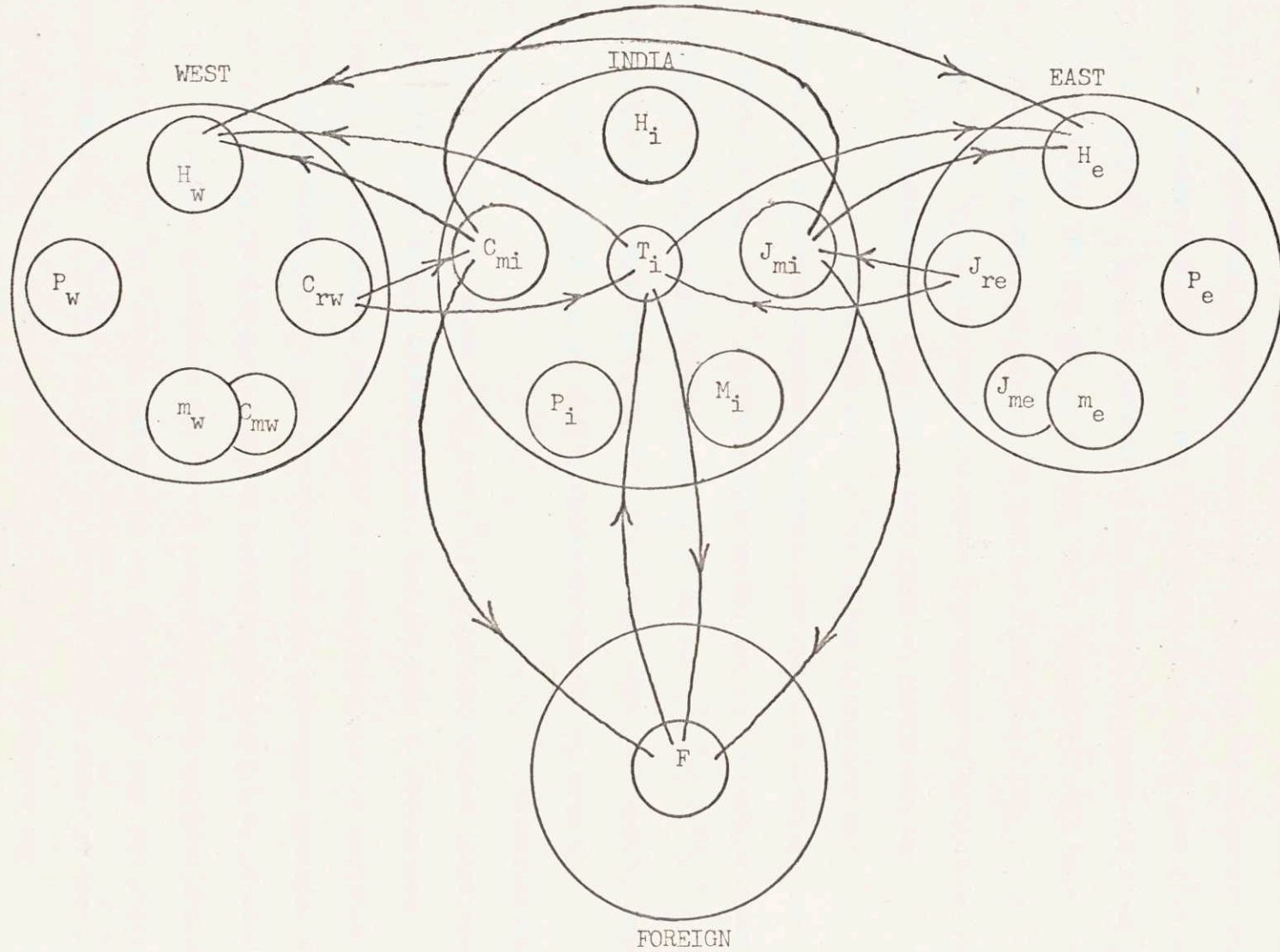
The Intra-Regional Relations.

The households in East mainly supply labour for the production of primary products represented by $(H_e \, J_{re})$ and $(H_e \, P_e)$. They also supply labour and some capital to the handicraft sector, $(H_e \, m_e)$. The primary sector supplies some raw materials to the handicraft sector $(P_e \, m_e)$. Because of very low capital-output ratios in primary and handicraft production in backward economies, we shall assume that the only input involved in the production activities in East is labor. The same will hold for West also. The households in East in turn receive primary products, e.g., rice and handicraft manufactures from (P_e) and (m_e), shown by $(P_e \, H_e)$ and $(m_e \, H_e)$ respectively.

In West the households supply labour to the production of raw cotton, other primary products like wheat, and to handicrafts. These are represented by $(H_w \, C_{rw})$, $(H_w \, P_w)$ and $(H_w \, m_w)$ respectively. The primary sector supplies some raw material to the handicraft sector $(P_w \, m_w)$. The households in turn receive primary products and handicraft manufactures from the primary sector $(P_w \, H_w)$ and handicraft sector $(m_w \, H_w)$ respectively.

The households in India supply capital, entrepreneurs and labour to her respective manufacturing sectors, represented by $(H_i \, J_{mi})$, $(H_i \, C_{mi})$ and $(H_i \, M_i)$. They also supply capital and labour to primary and trading sectors in India, $(H_i \, P_i)$ and $(H_i \, T_i)$. Because of low capital-output ratios in primary and tertiary sectors, it is assumed that (H_i) supplies only labour to (P_i) and (T_i). Both the primary and the trading sectors supply certain raw materials to the other manufacturing sector, represented by $(P_i \, M_i)$ and $(T_i \, M_i)$ respectively. The manufacturing sectors supply jute manufactures $(J_{mi} \, H_i)$, cotton $(C_{mi} \, H_i)$ and other manufactures $(M_i \, H_i)$ to the households

in India. Likewise, the trading sector supplies foreign manufactured goods ($T_i \cdot H_i$) to the households in India. The primary sector supplies primary products like rice, wheat, etc., to the Indian households.

The Interregional Relations.

The interregional relations describe the trading patterns of the regions involved. As regards exports, the arrows ($J_{re} \, J_{mi}$) and ($J_{re} \, T_i$) in Figure 1.2 indicate that East exports only raw jute, of which a part goes to the jute manufacturing sector and the other goes to the trading sector of India. West exports only raw cotton, of which a part goes to the cotton manufacturing sector ($C_{rw} \, C_{mi}$) and the rest goes to the trading sector ($C_{rw} \, T_i$) of India. Note that there may be minor export of other primary and handicraft products from both East and West to India. For analytical convenience, the existence of such exports is being assumed away. The same assumption applies to the possible export of minor products from India to East and West.

It is assumed that the jute and cotton manufacturing sectors of India export only jute and cotton manufactures to East, West, and the Foreign regions. These are indicated by the arrows ($J_{mi} \, H_e$), ($J_{mi} \, H_w$), ($J_{mi} \, F$), ($C_{mi} \, H_e$), ($C_{mi} \, H_w$), and ($C_{mi} \, F$). The other manufacturing sector of India exports certain other manufactured goods via the trading sector ($M_i \, T_i$) to the other regions involved. The trading sector of India exports raw jute, raw cotton and other manufactures ($T_i \, F$) to the Foreign region and foreign and other domestic manufactured goods to East ($T_i \, H_e$) and West ($T_i \, H_w$). The Foreign region is assumed to export only manufactured goods (FT_i) to the trading sector of India.

FIGURE 2

Preparation Inter-Industry Relations
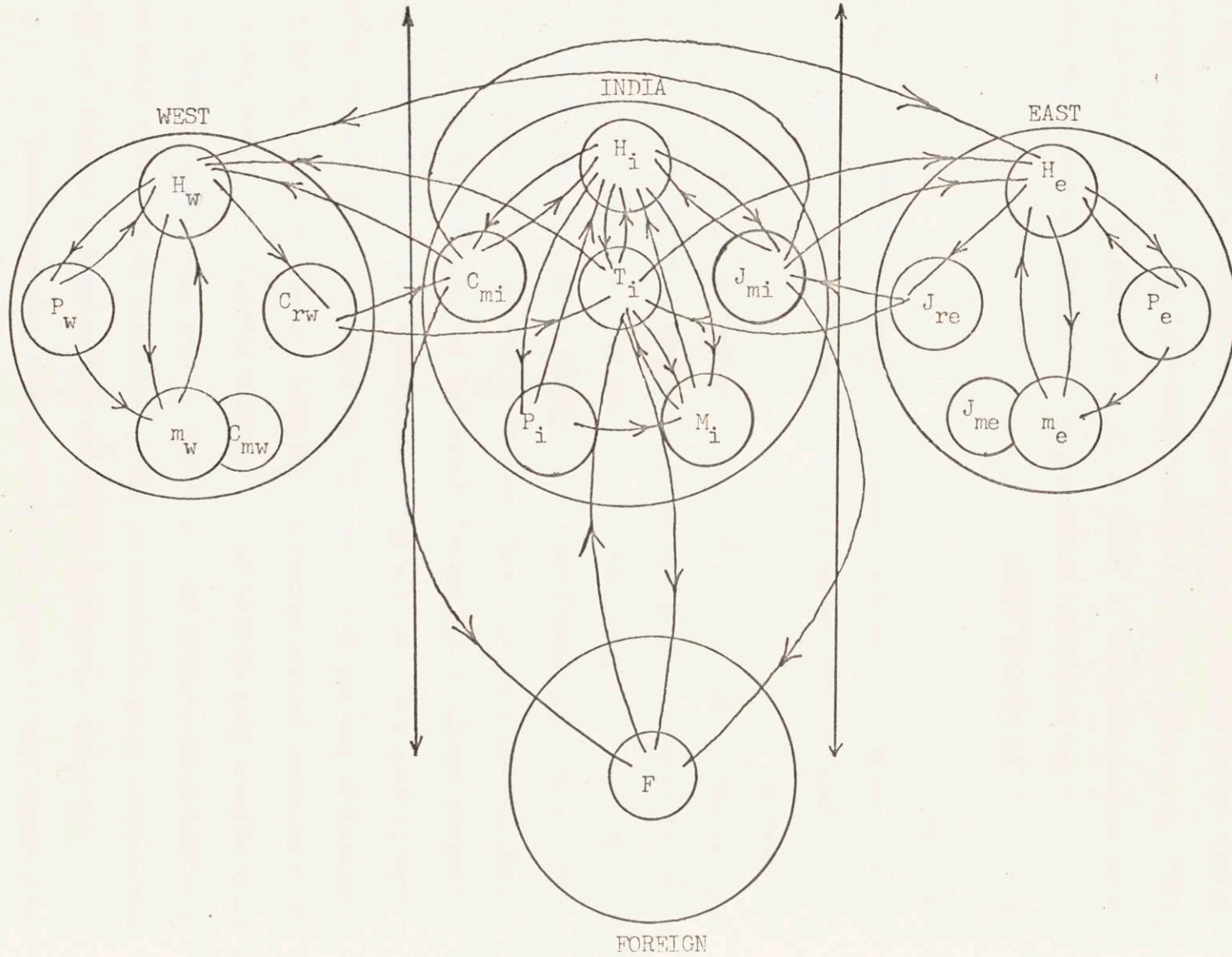
Since the export of one region is the import of the other, the above
description also explains the interregional flow of imports.

The above description indicates certain central features of the
prepartition trading pattern of the regions involved. First, there exists
no direct trade between East and West. Second, there is no direct trade
trade between East or West and the Foreign region. Third, the region of
India performs certain marketing functions for East and West in the form of
re-export or transit trade. Fourth, the pattern of interregional speciali-
zation is such that East and West mainly produce and export primary products,
and mainly import manufactures. India and the Foreign region mainly produce
and export manufactured goods. Because of the triangular pattern of trade,
India also exports primary products. Fifth, Figure 1.2 implicitly indicates
that the total exports of one region equal its total imports. In other
words, it is assumed that there exists balance of payments equilibrium in
each region. Payments flows other than on account of interregional trade
are ignored.

Figure 2, which is the sum of Figures 1.1 and 1.2, indicates the
full picture of inter-sectoral structural relations between the regions
involved.

2.2.4.   The Circuit Flows

The postulated prepartition interregional economic relations
can be further analyzed in terms of different types of individual circuit
flows. It is hoped that the circuit flows will facilitate more precise
analysis of our problem than is possible in mere macro-analysis. The dis-
cussion will be carried out with the aid of Figure 3, which reproduces the

FIGURE 3

Simplified Prepartition Interregional Flow Pattern
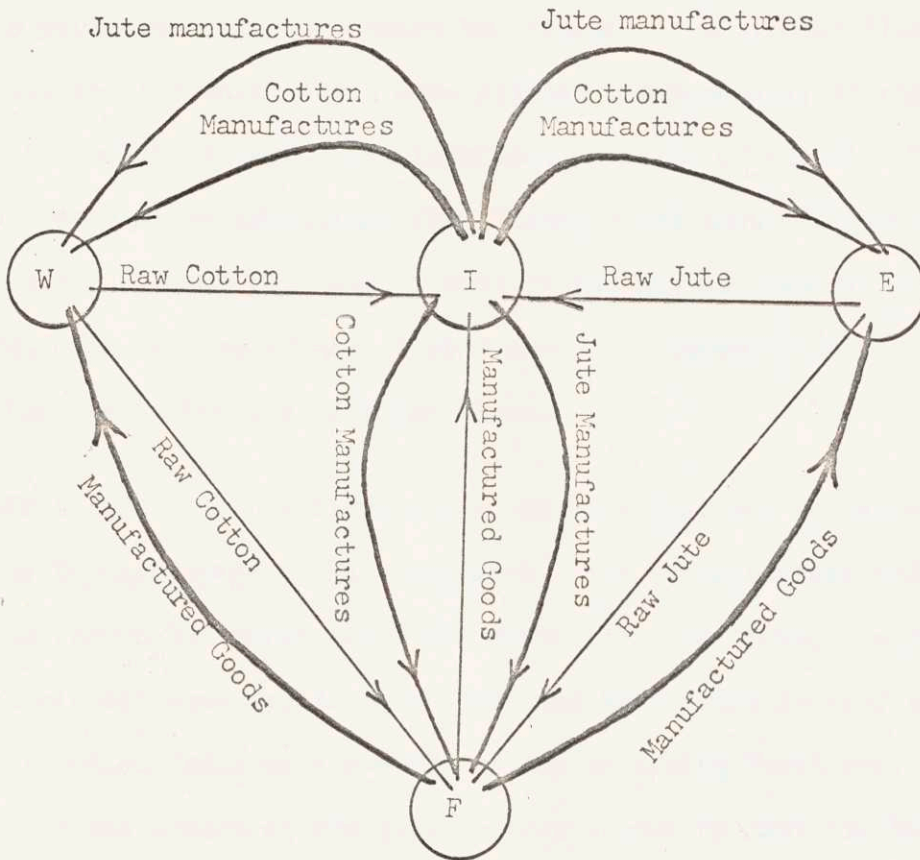
flows represented by Figure 1.2 in a more simplified manner. The former also differs from the latter in that in Figure 3 the trading sector of India (T_i) is shifted to the Foreign region.

From the flow structure depicted in Figure 3, we can identify certain individual circuit flows. By the term 'individual circuit flow', we mean to imply an exchange of goods between two regions or a circuit flow among more than two regions which could have existed independently of other flows during the prepartition days. All important patterns of circuit flows which could possibly be identified from Figure 3 are shown in Figure 4. The eleven circuit flows depicted in this figure may be classified in three main groups. The meaning of the circuit flow will become clear as we proceed with the identification of these flows.

GROUP I refers to the flows connected with what may be called the prepartition transit trade of East and West. The transit trade refers to all flows in Figure 1.2 which touch the sector (T_i) in India. In other words, it means all external trade of East and West which is carried through India and for which India mainly performs the marketing functions. This group includes the export of raw jute and raw cotton by East and West respectively, and the import of manufactured goods in these regions from the Foreign region through the trading sector of India. Flows A and B, due to the shifting of the trading sector from India to Foreign region, show a pattern of circuit flow which obviously could have existed independently of other flows of goods.

GROUP II refers to the raw cotton-based flows which involve West, India and the Foreign region. Flow C indicates a pattern of relation which

FIGURE 4

Independent Circuit Flows
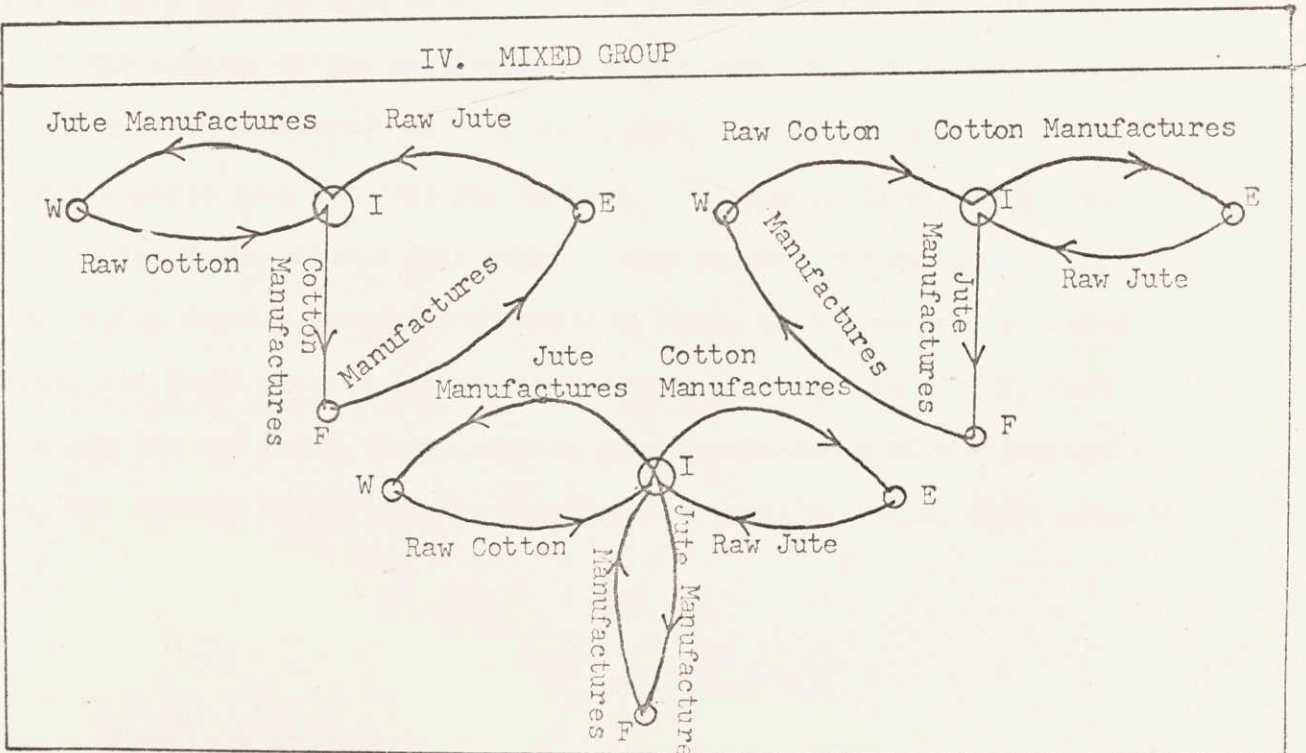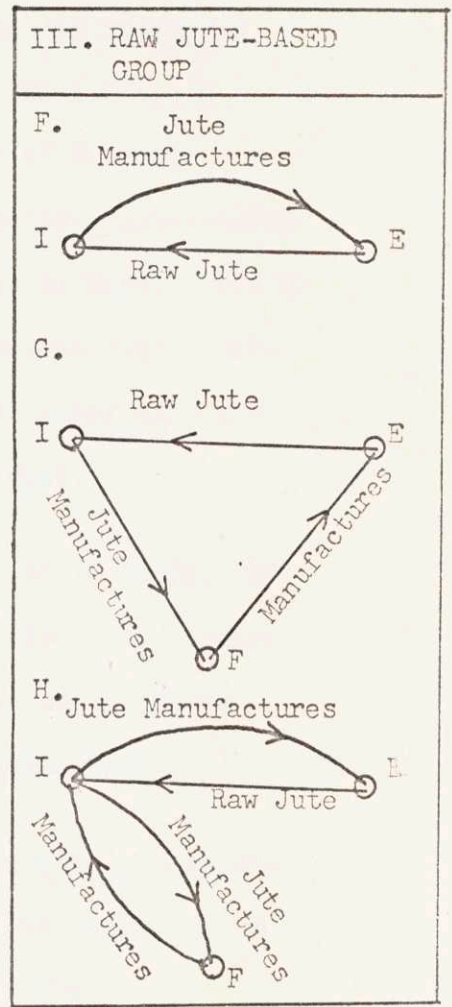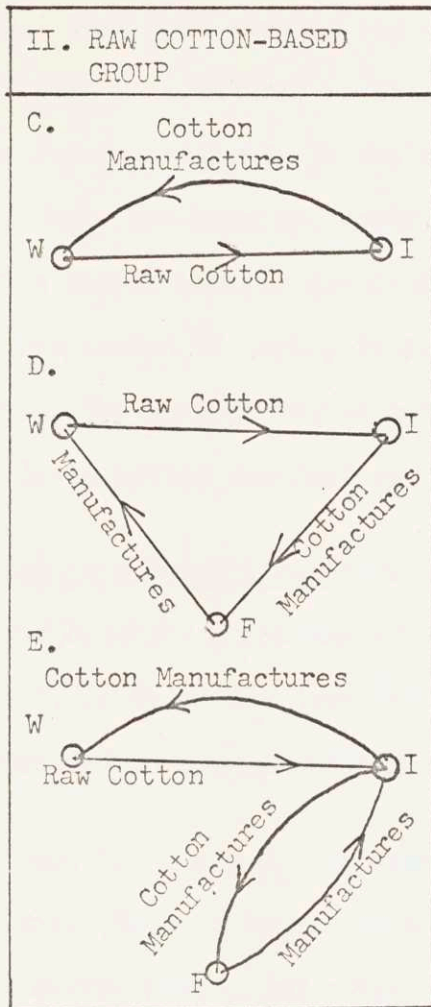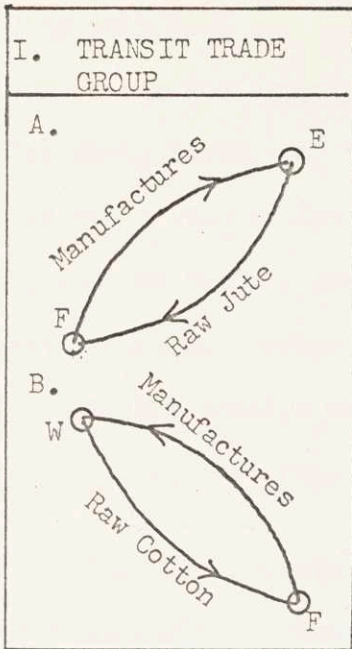
involves only West and India. Here West exports raw cotton to India and India produces and exports cotton manufactures to West. Flows D and E involve West, India, and the Foreign region. In the case of D, West exports raw cotton to India, India produces and exports cotton manufactures to the Foreign region, and the latter exports manufactures to West. Flow E indicates that West exports raw cotton to India, India exports cotton manufactures to the Foreign region, the Foreign region exports other manufactures to India, and India exports cotton manufactures to West.

GROUP III indicates raw jute-based flows involving East, India, and the Foreign region. Flows F-H describe a pattern of relationships similar to that described by flows C-E, in which raw jute and jute manufactures are substituted for raw cotton and cotton manufactures respectively.

GROUP IV, including flows I, J, and K, represents a mixed relation-ship involving all four regions. Each of these flows may be described as either raw jute-based or raw cotton-based, depending on whether one starts with East or with West. In flow I, West exports raw cotton to India, India exports cotton manufactures to the Foreign region, the Foreign region exports manufactured goods to East, East exports raw jute to India, and India exports jute manufactures to West. In flow J, East exports raw jute to India, India exports jute manufactures to the Foreign region, the Foreign region exports manufactured goods to West, West exports raw cotton to India, and India exports cotton manufactures to East. In flow K, East exports raw jute to India, India exports jute manufactures to the Foreign region, the Foreign region exports manufactured goods to India, India exports

jute manufactures to West, West exports raw cotton to India, and India exports cotton manufactures to East.

Each of the circuit flows described above is independent in the sense that any commodity going out of a sector must be followed by a certain commodity of equal value coming into that sector. This means that each circuit flow is a closed path. The economic significance of this property is that for each region the balance of payments is in equilibrium. It should be noted that not all of the raw material with which a flow begins remains in the flow. For example, in flow I some of the raw cotton which flows into India from West will remain in India. The flow of cotton manufactures to the Foreign region is equal in value to the value of the raw cotton. India contributes manufacturing services and keeps some of the raw cotton.

For each type of circuit flow certain functions are performed by each region. Every region in turn derives certain benefits, i.e., employment, income, and consumption, from each type of circuit flow. These are summarized in Table 2.1. The types of functions performed by the various regions in the case of different circuit flows are shown in Columns 1-3. The benefits derived from them are shown in Columns 4-6.

It can be seen from Table 2.1 that for all the flows involved, on the assumption of non-capitalistic nature of raw material production, East and West supply only labour services. India, on the other hand, supplies variously capital, entrepreneurs, labour, and marketing services.

TABLE 2.1

The Functions Involved In and the Benefits Derived From
Each Type of Circuit-Flow

GROUP	FLOW	PREPARTITION FUNCTIONS INVOLVED			PREPARTITION BENEFITS INVOLVED		
		EAST (1)	WEST (2)	INDIA (3)	EAST (4)	WEST (5)	INDIA (6)
GROUP I	A	Labour	....	Marketing	Employment Income Foreign goods	....	Employment Income
	B	....	Labour	Marketing	....	Employment Income Foreign goods	Employment Income
GROUP II	C	....	Labour	Capital Labour Entrepreneurship Domestic market	....	Employment Income Cotton goods	Raw Cotton Employment Income Cotton goods
	D	....	Labour	Capital Labour Entrepreneurship Domestic market Marketing	....	Employment Income Foreign goods	Raw cotton Employment Income
	E	....	Labour	Capital Labour Entrepreneurship	....	Employment Income Cotton goods	Raw cotton Employment Income Foreign goods
GROUP III	F	Labour	....	Capital Labour Entrepreneurship Domestic market	Employment Income Jute goods	....	Raw jute Employment Income Jute goods
	G	Labour	....	Capital Labour Entrepreneurship Marketing	Employment Income Foreign goods	....	Raw jute Employment Income Jute goods
	H	Labour	....	Capital Labour Entrepreneurship	Employment Income Jute goods	....	Raw jute Employment Income Foreign goods

TABLE 2.1 (continued)

The Functions Involved in and the Benefits Derived from
Each Type of Circuit-Flow

GROUP	FLOW	PREPARTITION FUNCTIONS INVOLVED			PREPARTITION BENEFITS INVOLVED		
		EAST (1)	WEST (2)	INDIA (3)	EAST (4)	WEST (5)	INDIA (6)
GROUP IV	I	Labour	Labour	Capital Labour Entrepreneurship Domestic market Marketing	Employment Income Foreign goods	Employment Income Jute goods	Employment Income Jute and cotton goods Raw jute and cotton
	J	Labour	Labour	Capital Labour Entrepreneurship Domestic market Marketing	Employment Income Cotton goods	Employment Income Foreign goods	Employment Income Jute and cotton goods Raw jute and cotton
	K	Labour	Labour	Capital Labour Entrepreneurship Domestic market	Employment Income Cotton goods	Employment Income Jute goods	Employment Income Jute and cotton goods Raw jute and cotton Foreign goods

One characteristic of Groups I-III is that none of the flows included in these groups involve any economic cooperation between East and West in respect to either the services performed or the benefits derived. In the case of flows I-K, there exists indirect cooperation between East and West due to the consumption of cotton and jute manufactures respectively.

2.2.5. Location of Factor Inputs

In the above discussion, labour is the only factor input used in East and West. The inputs used in India are capital, entrepreneurs, and labour (supplied by Indian households) and raw material (supplied by East and West).

2.3. The Effects of Partition and Integration

The partition of India and the integration of East and West will, ex hypothesi, lead to the complete economic isolation of East and West from India. This will, as indicated by the two vertical lines in Figure 2, completely cut off the interregional economic flows between East, West, and India. As a result of this abrupt cessation of trade between these regions, because of the inter-industry relations described in 2.2.3., the levels of employment, output, and consumption in each region, as governed by interregional trade, will be totally eliminated. In order to maintain the prepartition levels of employment, output, and consumption, these regions will have to make rapid adjustment in the channels of their trade and, insofar as this does not accomplish the purpose, they will have to make

adjustment in their production structure. These adjustments are likely to be drastic because rechannelling of trade, under certain circumstances, may be a difficult and time-consuming process. In the second place, because of the restricted occupational mobility of labour, adjustment in the production pattern, especially in East and West, would involve the difficult task of creating a supply of capital and entrepreneurship.

We shall make an attempt below at analyzing the possible processes and consequences of the structural changes in East and West necessitated by partition. By the term process is meant the identification of different types of adjustment, including the order in time in which these adjustments are likely to take place. And by consequence is meant the emergence of a new pattern of trade and/or production, i.e., new inter- and intra-regional flows, after certain types of adjustments are completed. The explanation of the growth of trade between East and West, which is our major concern, is likely to appear as a special aspect of the adjustment process.

2.4.   The Analysis of the Adjustment Process

2.4.1.   Any attempt at preventing the prepartition levels of consumption from declining in East, West and India would necessitate the adoption of certain measures to remedy the effects of partition on the levels of employment and income in these regions. Such remedial measures would involve rearrangement of functions in respect to each circuit flow described above to produce the same benefits, derived before partition, as far as possible. For East and West, such rearrangement would involve the replacement of the

functions which used to be performed by India before partition. And, as we know, India performed (a) the marketing functions, and (b) the processing functions.

The word 'replacement' implies that the functions previously performed by India must be developed elsewhere, i.e., in East, West, or in the Foreign region. Where these functions might most economically be developed would be governed, generally speaking, by the following criteria: (1) the extent of the existing market, (2) the possibility for creating new factor supplies, e.g., capital and entrepreneurship, for processing, and (3) the possibility for creating new market. The importance of these criteria lies in the fact that the adjustment efforts in East and West in respect to timing and the specification of the type(s) of flow(s) in order of priority are likely to be governed by them.

Since East and West are assumed to have no active supply of capital and entrepreneurs, the immediate adjustment efforts in these regions are likely to be directed toward the replacement of Indian marketing functions and the replacement of Indian market for raw jute and raw cotton through the creation of new export markets. Since successful adjustment in these lines will not necessitate any change in the initial pattern of production and, therefore, the difficult and time-consuming task of creating new factor supplies, we shall call these adjustments consumption-oriented. But because of the coincidence of the desire for the initiation of long-run growth with partition, it is not unlikely that the adjustment efforts in these regions will become simultaneously growth-oriented. Since, for reasons discussed in Chapter 1, economic growth in East and West implies the development of manu-

facturing industries, the partition effects might initiate efforts for long-run growth in the form of replacement of Indian processing functions in East and West. It is, therefore, rather arbitrary to say anything definitely about the order of time in which these two types of adjustment efforts would actually be undertaken in East and West. However, partly because of analytical convenience and partly because of the need for the creation of new factor supplies for growth-oriented adjustment, we shall assume that the consumption-oriented adjustments would be undertaken first in East and West.

The adjustment process may be analyzed under two assumptions: (a) that the government of East and West remains passive and the adjustment efforts are undertaken only by private individuals seeking to maintain their initial incomes in the new situation (e.g., to regain the sources of income they have lost due to partition); and (b) that the government acts for the purpose of replacing the loss of employment and income suffered by the people of East and West due to partition.

The first case assumes the existence of some potential classes of traders and entrepreneurs in East and West, which may not be unrealistic. There are two reasons why it may be assumed that the active supply of traders and entrepreneurs in East and West might increase. The sudden displacement of people from their initial lines of activities might force them to shift to new lines out of sheer necessity, or they may be induced by the incentive provided by the new sources of income. In the second place, partition may be followed by interregional migration of displaced people from India to East and West and vice-versa. To the extent that some of the

trading classes migrate from East and West to India, a vacuum will be
created in the former regions. This may be filled up by the indigenous
people of East and West and/or by the migrants from India. If some of the
migrants from India were initially experienced in trade and investment,
the sheer necessity of finding sources of income in the new situation would
goad them to refill the vacuum in East and West. Even some of the non-
trading immigrants might go into trade and investment in East and West in
order to gain new sources of income. The entire process of replacement
may be expedited by favourable government actions, motivated by both poli-
tical and economic incentives, in order to replace the loss of employment
and income in East and West as quickly as possible.

If the opportunities to earn profit in trade dwindle, a possibility
which, as we shall see, may arise in East and West, the trading classes
may shift to industrial investment in East and West. In the process, a
new class of entrepreneurs may grow up in East and West, thus initiating
the growth-oriented adjustment process. More so, if the government of
East and West takes direct action to initiate the process of long-run
economic growth in these regions. At the initial stage, the government
may take up the role of the entrepreneur in developing processing industries
in East and West. As is well known, it is mostly the lack of industrial
investment and the unfavourable distribution of existing savings, rather than
that of savings as such, which hinder capital accumulation in most less
developed regions such as East and West. Appropriate monetary and commer-
cial policies may be adopted to mobilize the potential productive surplus
in these economies for the purpose of industrial investment by the government.

Direct investment activities by the government, coupled with the induced
increased expenditure on social overhead capital, are likely to create
external economies, dispel uncertainty, and activate the potential entre-
preneurs in hitherto stagnant economies. And once the process is started,
the supply of capital and entrepreneurship is likely to grow in the process
of economic growth itself.[2]

Partly for the reasons discussed above and partly for analytical
convenience, in what follows below we shall regard the supply of capital
and entrepreneurship as autonomous variables.

2.4.2. Consumption-Oriented Adjustments

The Replacement of the Marketing Functions.

The replacement of the marketing functions relates to the adjustment
in the circuit flows in Group I, representing the transit trade of East and
West carried by India before partition. The existence of a ready market in

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[2] All these arguments are too well known to be explained in detail in the
present study. Reference may be made to the following: W. A. Lewis,
Theory of Economic Growth, Allen and Unwin, Ltd., London, 1955. R. Nurkse,
Problems of Capital Formation in Underdeveloped Countries, Oxford, Black-
well, 1953. Albert C. Hirschman, The Strategy of Economic Development,
New York, 1958. W. W. Rostow, The Stages of Economic Growth, Cambridge,
1960. I have analyzed elsewhere how the fiscal and monetary policies can
mobilize potential surplus in the less developed economies for industrial
investment. See my "Impact of Capital Accumulation on Economic Growth",
Pakistan Economic Journal, Dec. 1959, and also "The Effects of Deficit
Financing on Capital Formation and Prices in Underdeveloped Countries
with Surplus Labour", Pakistan Economic Journal, Conference Issue, 1956.

the Foreign region and the little or no requirement for the creation of
new factor supplies (except of marketing services), hence for changes in
the initial pattern of production, would enable East and West to adjust
these flows rapidly.

Note that what is involved here is no more exporting or importing
than occurred previously. Moreover, the same goods are to be exported or
imported. They will, however, be exported to or imported from the Foreign
region rather than India.

Adjustment in these flows requires the creation of certain new
factors in the form of a new trading class, new ports, other transport
facilities, financial and commercial institutions and the like, since trans-
port channels will be changed and credit and other services previously
performed by India must now be provided in East and West, or by the Foreign
region. It is our implicit assumption that East and West will not face
great difficulties in these respects, because it is possible that they
would inherit some sort of transport mechanism and institutional framework
from the past development of the undivided India, as well as some experienced
traders among the migrants from India. Furthermore, it is also believed
that East and West, of necessity, will have to create some of these basic
factors first.

As a result of the replacement of the marketing functions, a new flow
pattern establishing a direct trade relation between East or West and the
Foreign region will appear. This is represented by the circuit flows A and B
in Figure 4.

The Rechannelling of Trade.

The consumption-oriented adjustment in the remaining flows would be possible if East and West could expand market for their raw materials in the Foreign region. Whether or not they will be able to do so will depend upon (a) the competitive position of raw cotton and raw jute in the world market, (b) the extent to which the Foreign region can replace the Indian processing function, and (c) the nature of adjustments made by India. Since (b) partly depends upon (c), we will begin with the discussion of the post-partition problems and processes of adjustment in India.

As a result of partition and isolation there will be a total elimination of that part of India's employment, income, and consumption of domestic and foreign manufactured goods which were due to her prepartition trade relation with East and West. These relations, as we know, were functionally based on the supply of raw jute and cotton by East and West respectively and the consumption of jute and cotton manufactures by the latter regions. The adjustment problems in India would therefore involve the replacement of the raw materials and market supplied by East and West. The former would involve either the production of raw jute and cotton in India or the import of these raw materials from the Foreign region. The latter would in turn involve either the expansion of the domestic market in India or the expansion of the Foreign market.

Since it is not possible, ex hypothesi, for India to produce these raw materials through the horizontal reallocation of factors of production domestically, at least in the short run, India would try to find alternative sources of imports. And this would not be difficult, even if the raw materials

of East and West were monopoly products, because the Foreign region can
accommodate India through the re-export of the raw materials of East and
West. This would lead to the emergence of a new pattern of trade between
the regions involved, where the foreign region would perform certain mar-
keting functions for India, East, and West. One immediate consequence of
such development would be that there would be no problem of finding new
market on the part of East, West, and India for their respective products.
But there will be an increase in the cost of transportation. The latter
will mean lower benefit from trade for West, East, and India after parti-
tion and isolation. And under certain circumstances these regions may
incur further loss of benefit from trade.

For example, it is not necessary that India should import the raw
materials of East and West and that the latter regions should import
Indian jute and cotton manufactures via the Foreign region, unless some of
the products involved happen to be monopoly products. The possibility of
importing similar products from the Foreign region would create certain
problems for these regions. Let us take the case of raw cotton and cotton
manufacture. The elasticity of substitution of these products being high,
India may try to import raw cotton produced in the Foreign region, and East
and West may import cotton manufactures produced in the foreign region.
Two reasons may lead to the development of such preferences on the part of
India, East, and West. First, in view of the ending of the custom prefer-
ences, India might find Foreign raw cotton preferable at the price delivered
in India; and East and West might find Foreign manufactures preferable for
the same reason. In addition to purely economic considerations, such

preferences might develop due to political considerations which, because of the assumption of isolation, would probably become a certainty.

If the foreign region is capable of increasing its output of raw cotton to meet the demand of India, West will face difficulty in selling raw cotton in the Foreign market unless the processing of raw cotton in the Foreign region increases proportionately. If the output of West constitutes only a small fraction of the world output of raw cotton, she can still dispose of her output at the cost of the deterioration of her terms of trade. West's terms of trade will deteriorate more if her raw cotton is inferior in quality. The same consequences will follow if India is able to replace the raw cotton of West through increased domestic production. Similar deterioration is likely to occur in India's terms of trade. The loss of markets in East and West for jute and cotton manufactures would imply that India will now have to compete with the Foreign region. Given the conditions of world demand for these products, India will have to accept a fall in her terms of trade and/or in her employment and output.

Assuming that jute is a monopoly product of East, the situation of East in this respect is likely to be different. Of necessity, India will have to import raw jute indirectly from East. In such a situation, other things being equal, East may be able to turn the terms of trade in her favour by exploiting her monopoly power in the short-run. This will produce further adverse effects on the terms of trade of India.

Thus India may be induced, by the double cost of transportation as well as by the exertion of monopoly power by East, or by her own desire to reduce her economic dependence on East, and/or by her political desire to

retaliate against East for political separation, to make efforts toward

the replacement of East's raw jute by domestic production. Unless both

the market in the Foreign region and the capacity for processing of raw

jute in the Foreign region expand proportionately, the volume of exports

of East will decline together with a movement in the terms of trade against

her. Furthermore, if India is able to produce an exportable surplus of

raw jute, the monopoly of East will be partly broken, even if Indian raw

jute is qualitatively inferior. This would aggravate the adverse effects

on the volume of exports and terms of trade of East.

It seems that the adjustment problems in East, West, and India after

partition and isolation may be solved without the development of the pro-

cessing functions in East and West mainly through the rechannelling of their

external trade. ^{B}ut this will result in the short run in the deterioration

of the terms of trade of East, West, and India, and possibly also in the

fall of employment in India. Other things being equal, the real incomes

in these regions are likely to decline. Note that all three regions would

incur an additional loss of benefit from trade due to the rise in the cost

of transportation.

More important from the standpoint of the present study is the fact

that the consumption-oriented adjustments in East and West cannot lead to

the appearance of direct trade between them.

2.4.3.   Growth-oriented Adjustments

Some of the reasons for the initiation of growth-oriented adjust-

ments in East and West have been pointed out earlier. The above discussion

on the rechannelling of trade by East and West indicates that the short-
run problems would superimpose themselves on the long-run consequences of
the pattern of foreign trade of primary producing regions like East and
West, as pointed up in Chapter 1, in directing their growth efforts toward
the development of manufacturing industries in these regions.

Replacement of Processing Functions.

As we know, adjustments in circuit flows included in Groups II-IV
involve the replacement of the Indian processing functions in East and
West. It is difficult to say which of these flows would be rearranged
first, since East and West are one country and have a common pool of for-
eign exchange, and since the sequence of steps in the more complex circuit
flows will not have to be planned as unity. Rather, such steps may be
negotiated separately; the market may link them together. However, since
the flows in II and III are simpler, we may consider them first.

Adjustment in Raw Cotton-and Raw Jute-Based Flows.

Flow C involves a relation between West and India only. Adjustment
in C is possible through the exploitation of the domestic market in West.
Rearrangement of this flow will establish a new flow pattern involving a change
in the structure of domestic production in West. This is shown in Figure 5A,
which indicates that, because of the creation of new factor supplies, namely
capital and entrepreneurship (H_w C_{mw}), the potential sector (C_{mw}) in West
is activated. The growth of cotton manufacturing in West creates a new
triangular relationship between the households, the sector producing raw
cotton, and the newly activated cotton manufacturing sector. West is now

FIGURE 5

Post-Partition Flow Pattern In West
Due to Adjustment In Flows C to E
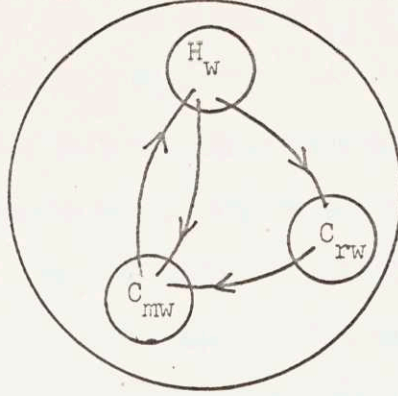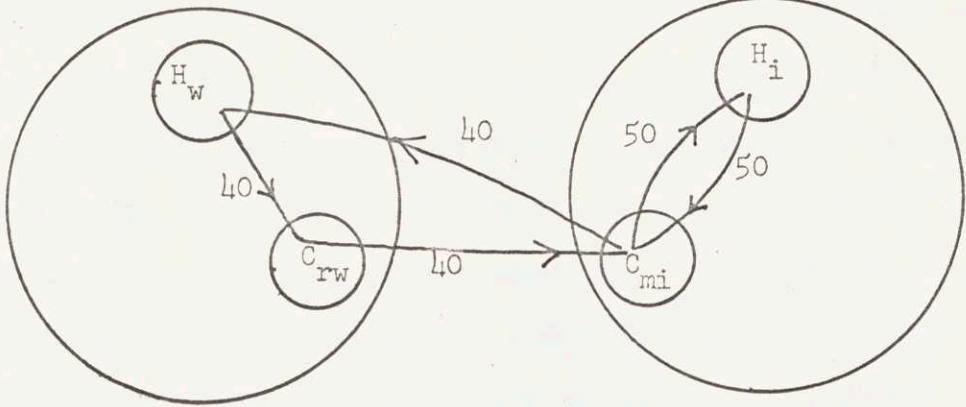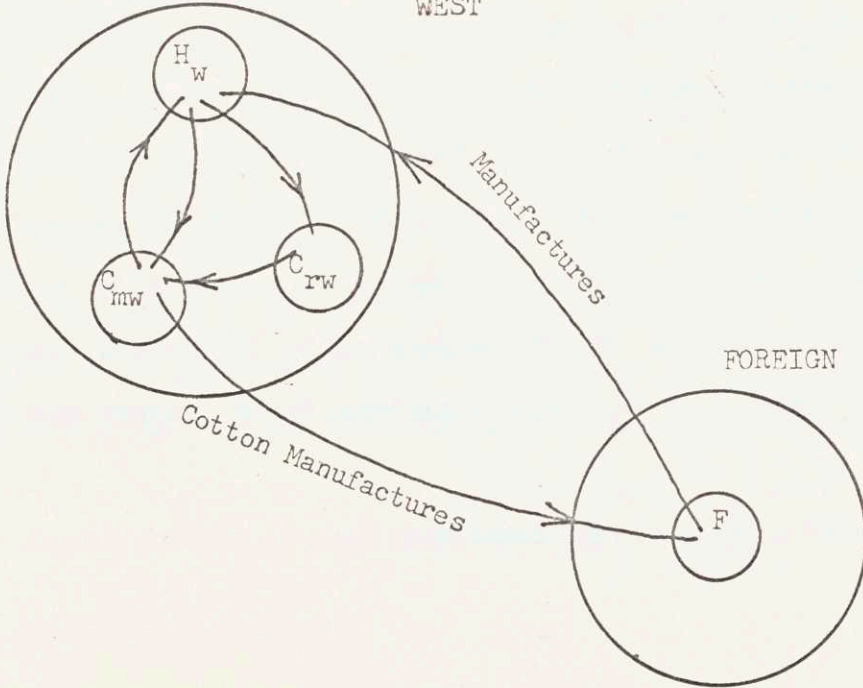
able to absorb a part of her own raw cotton ($C_{rw} C_{mw}$) and satisfy the need for her domestic consumption ($C_{mw} H_w$).

It should be observed that the above rearrangement in West would not provide enough income to enable her to absorb the total amount of raw cotton involved in flow C. For the value of cotton manufactures produced would exceed the value of raw cotton used by the value of factor services required in processing. This is indicated by the hypothetical magnitudes attached to each arrow in Figure 5B. This means that the absorption of the same quantity of raw cotton involved in flow C requires the replacement of the Indian domestic market for cotton manufactures ($C_{mi} H_i$). Thus, unless there occurs an autonomous upward shift in the consumption of cotton manufactures in West (since income elasticity of demand in this respect will not be sufficient[3/]), complete rearrangement of this flow will necessitate the exploitation of existing markets elsewhere, i.e., the Foreign regions and/or East. This would cause the need for the rearrangement of the other flows.

Although flows D and E represent different patterns of relationship involving West, India, and the Foreign region, their rearrangement would create a single pattern of relationships between West and the Foreign region shown in Figure 5C. This flow differs from that represented by Figure 4B in that the new relation is due to changes in the production pattern in West. West will now export cotton manufactures to and import capital goods from the Foreign region, which involves a change in the composition of the

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3/ Ref. the famous example of shoe manufacturing given by R. Nurkse, op. cit., Ch.I.

foreign trade of West. Note that this is a possibility which, if India is able to solve her adjustment problems, will depend upon the competitive capacity of West to create market for her cotton manufactures in the Foreign region. Such capacity for a new region venturing in manufacturing, for well-known reasons, is likely to be highly limited in the short run.

Because of the symmetry between the flow patterns in Groups II and III, the rearrangement of flows F-H would be identical, mutatis mutandis, with the adjustment in the flows described above. Hence, no further discussion of the jute-based flows is necessary.

Adjustment in Mixed Group.

Flows I-K represent an indirect relationship between East and West via the consumption of cotton and jute manufactures in each region. Rearrangement of these flows would partly solve the market problems, discussed above, in the process of replacement of processing functions in these regions, because in addition to their own regional markets for jute and cotton manufactures respectively, they would be able to exploit each other's market for their respective products through trade. And the fact of political integration between them will make the growth of trade between them feasible.

The simplest form of structural relation that would appear between East and West due to the completion of such rearrangement is shown in Figure 6A, where East produces jute manufactures and exports them to West and imports cotton manufactures from West. In this instance, the trade between them may or may not be bilaterally balanced. In case it is not

FIGURE 6

Adjustments in Flows I-K and Growth of East-West Trade

A. B. C. D.
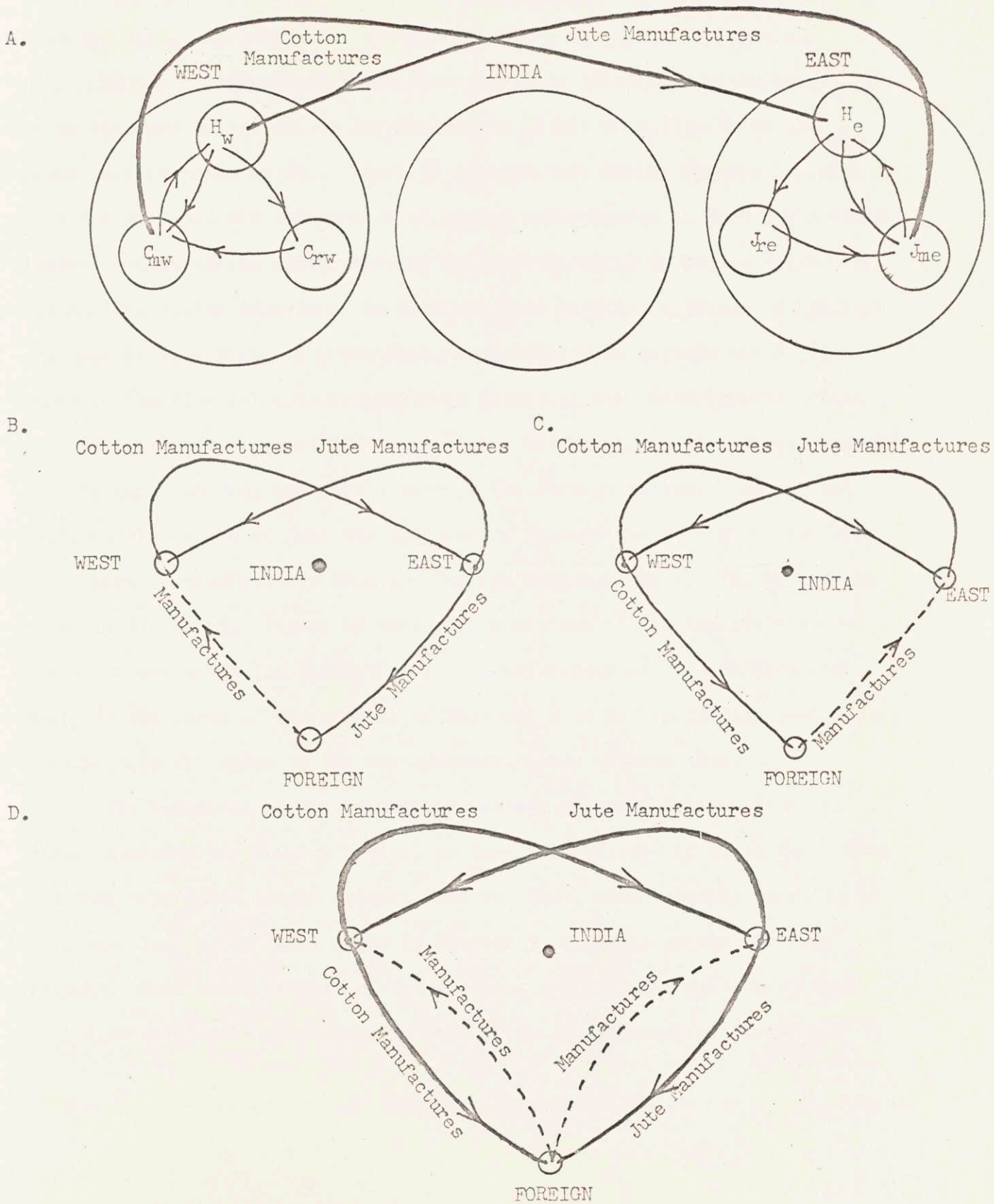
bilaterally balanced, a more complex trade relationship may develop between
East and West, involving the Foreign region.

   We may distinguish between three possible triangular patterns of
trade that may emerge due to the rearrangement of Group IV. These are
shown in Figures 6B to 6D. Figure 6B assumes that during the prepartition
days the value of the consumption of cotton manufactures in East was greater
than the value of the consumption of jute manufactures in West. Therefore,
the post-partition adjustment in East and West involves a triangular pattern
of trade between them, in which East compensates West through the Foreign
region. The flow pattern in diagram 6B indicates that East imports cotton
manufactures from West and East compensates West partly by the direct export
of jute manufactures, and partly through the Foreign region. The latter
includes the export of jute manufactures by East to the Foreign region and
the export of manufactures from the Foreign region to West. The reverse is
shown in Figure 6C. Figure 6D indicates a mixture of the two patterns de-
scribed above after the completion of the adjustment efforts in East and
West, if the value of the exports of East and West to the Foreign region is
greater than the value of the uncompensated trade between them.

   The emergence of the triangular pattern of trade between East and
West, involving the Foreign region, is important because it would facilitate
not only adjustment in and between East and West, with benefits accruing to
all, but also, as we shall argue in Chapter 3, economic growth in these
regions. Note that, because of integration, a triangular pattern of trade
will also develop between East and West if the replacement of processing

functions or economic growth occurs in either region. It is difficult to say, a priori, which region will take the lead. It may be East or West, depending upon the differences in the conditions of growth, i.e., the relative conditions in their regional infra-structure, availability of capital or entrepreneurs, or political circumstances including government policy. Our major argument about the growth of a triangular pattern of trade between East and West does not depend upon which region takes the lead in the development of industries. However, as we shall see in Chapter 3, under certain circumstances it may have different implications for either region in respect to gains derived from trade.

2.4.4.   To the extent that the adjustment efforts in East and West are partly completed through the introduction of processing in East and West, the completion of adjustment efforts would raise the levels of income and consumption in these regions. The levels of income are likely to rise even if the prepartition levels of production of raw jute and raw cotton are not achieved in East and West respectively. This is because creation of additional factors income due to the development of processing is likely to be greater than the fall in income due to the decline in the production of raw materials. Consequently, the levels of consumption in East and West are also likely to rise. Not only will the consumption of foreign goods increase, an increased part of foreign imports would be composed of capital goods. Other things being equal, the same process will also retard the deterioration of the foreign terms of trade of East and West.

The employment effects of the adjustment efforts are not intuitively clear. The development of the processing functions will create new employment

in these regions. But whether this will raise the prepartition levels of employment in East and West would depend upon (a) the volume of, and the labour-output ratios in, the production of raw jute and raw cotton on the one hand, and those in the production of jute and cotton manufactures on the other, and (b) the rate of growth of employment in the manufacturing sectors relative to the rate of growth of labour supply in these regions.

Lastly, mention must be made of the rather unquantifiable, but extremely important, benefit that might accrue to East and West in terms of the initiation of the process of technical change due to the growth of an active class of entrepreneurs, however small that class might be at the initial stages. In this sense, partition produces not only a stimulating effect on the economic growth of East and West, but it also produces what may be called an "earthworm effect" on the growth of East, West, and India. The analogy here is to the fact that when an earthworm is cut in two, two earthworms grow out of it. To the extent that these regions are able to completely solve their adjustment problems in the way described above, they are likely to end up in raising the total outputs of raw jute, raw cotton, and jute and cotton manufactures above the prepartition levels. Note that these results assume that the production of jute and cotton manufacture, outside East and West, do not decline proportionately to the loss of markets for these products in East and West.

2.4.5. It should also be noted that although partition involves a short-term loss of comparative advantage for all the regions involved, from the standpoint of East and West it is likely to be a boon in disguise. For in the first place, the prepartition types of specialization in these regions,

as indicated in Chapter 1, were likely to be governed more by socio-political influences than by economic influences. In the second place, to the extent that partition facilitates economic growth in these regions, the loss of so-called old comparative advantage is likely to be far out-weighed by the gains in terms of economic growth, as well as by the possible growth of new types of comparative advantages due to technical changes in the pattern of production.

2.5.   Two Assumptions Reconsidered

(a)   We have assumed that the partition of India would immediately be followed by complete economic isolation between India and the integrated state of East and West. It is highly possible for political partition to be followed by complete cessation of economic relations between the regions involved, especially in a situation where partition is the result of a long-drawn-out ideological and/or religious conflict between two communities of people. This may happen because of the political desire of the opponents to undo partition by making the newly established state economically non-viable. However, it is not necessary that partition invariably be followed by economic isolation, or that, in case it is, economic isolation be complete.

If partition is not followed by economic isolation, no short-run problems of economic adjustment will arise. And, under our assumptions, there will be little scope for the growth of trade between East and West. In the event of gradual and incomplete isolation, the problems of adjustment in the short-run will be only marginal, hence less drastic, and the adjust-

ment efforts would consequently be more gradual, as would the growth of trade between East and West, if any.

Note that the development of industries in East and/or West, because of integration between them, would lead to the growth of trade between them, which will be equal to partial isolation. For, to the extent that this process leads to the replacement of Indian manufactures by domestic output in East and West, their trade with India would decline. This would start the process of economic isolation between them. But this is the result of, rather than the cause for, adjustment in production patterns in East and West.

(b)   The foregoing analysis has also been specially conditioned by the assumption about the nature of specialization in East and West. In the real world, it could be possible that there existed before partition some trade in primary products, other than raw jute and raw cotton, as well as in handicraft products between East, West, and India. It is also possible that, but for the cost of transportation, some of these products could have been tradable between East and West.

The existence of such flow patterns would create two possibilities in respect to the post-partition adjustment in East and West. First, East and West would be able to make some horizontal readjustment in their production patterns with a view to attaining some sort of self-sufficiency in respect to the commodities involved, since their quantitative importance would probably be quite small. Second, because of integration some trade in such minor commodities would develop between East and West, the cost of transportation notwithstanding. However, trade in such commodities would hardly account for the secular growth of trade with which we are concerned in this study.

CHAPTER 3
Some Effects of the Growth of East-West Trade

3.1.   Introduction

We have seen, in Chapter 2, how a triangular pattern of trade between
East and West and the Foreign region will grow either as a result of growth-
oriented adjustments in prepartition production patterns of East and West,
necessitated by their political separation and economic isolation from India,
or as a result of the development of manufacturing industries in East or
West due to their attempt at initiating long-run economic growth.

In this chapter, we shall analyze the implications of the growth of
trade between East and West for (a) their economic growth, (b) their for-
eign trade, and (c) the interregional balance of payments adjustment between
them.

3.2.   Effects on Economic Growth

3.2.1.   The growth of trade between East and West may expedite the
process of economic growth of either or both the regions through the growth
of economies of scale due to the extension of markets for the products of
the newly established industries in each region.[1/] This argument implicitly

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[1/] Allyn Young, "Increasing Returns and Economic Progress", *Economic Journal*,
Dec. 1928. R. Nurkse, *Op. cit.*, Ch. 1. W. A. Lewis, *op. cit.*, Ch. 6.
Tibor Scitovsky, "Two Concepts of External Economies", *Journal of Political
Economy*, April 1954. Bela Balassa, *op. cit.*, Chs. 5 to 8. Paul N.
Rosenstein-Rodan, "Problems of Industrialization of Eastern and South-
Eastern Europe", *Economic Journal*, June 1943; *Notes on the Theory of the
"Big Push"*, M.I.T., C.I.S., March 1957.

assumes that (a) the size of the market and the growth of productivity are interconnected, (b) the regions involved are sufficiently large, and neither alone is large enough to exhaust the economies of scale; and/or they possess competitive industries, and that (c) the market structure in each region is such that no one firm is able to expand and eliminate all other competing firms so that there exists in each region a number of suboptimal firms producing the similar types of products for the same market.

Notice that the growth of economies of scale in the present context is not the product of competition. Economic integration between two industrially developed regions, producing similar types of goods, creates conditions for free competition between producers of similar goods in both regions. This enables the more efficient producers in one region to drive out of production the less efficient producers in the other, which expands the outputs of the more efficient producers and hence creates conditions for the growth of economies of scale. In our situation, the question of the competition between the producers of similar goods in the two regions does not arise, since no interregional competition exists. (This ignores the possible competitive elimination of the handicraft producers by the manufacturers.) The growth of economies of scale in the context of East and West are likely to be essentially connected with the expansion of the size of manufacturing firms due to the extension of the market.

Aside from the limitations imposed by distance and transport cost, if the level of productivity depends upon the size of the market, a widening of the market through integration will contribute to productivity growth.

Reference is sometimes made to the possible relation between the high productivity and the vast rise of the domestic market in the United States. In making this analogy, one must not forget the difference in the political, social, institutional, and resource structure in the United States and other regions.[2] For, given the resource structure, the simultaneous growth of favourable social, political and institutional conditions is essential for the appropriate exploitation of the opportunities created by the geographical extension of the market.

Empirical evidence on the relation between unit cost and the size of the plants is conflicting. In many manufacturing industries in the United States, cost relations are found to be relatively flat.[3] Since optimum size varies substantially, it is contended that many manufacturing facilities, primarily light manufacturing, are within the market size of quite small less developed countries; and there is no certainty that an increase in the size of the market would result in significant economies.

On the other hand, taking output (and unemployment) as a measure of plant size, some European studies demonstrate that productivity increases with size in many industries.[4] In the case of Britain, it is contended that

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[2] Tibor Scitovsky, Economic Theory and Western European Integration, Stanford University Press, Stanford, California, 1958. Ch. III, pp. 123-130.

[3] J. S. Bain, Barriers to New Competition, Harvard University Press, Cambridge 1956. F. T. Moore, "Economies of Scale: Some Statistical Evidence", The Quarterly Journal of Economics, May 1959. Viner maintains that effects of integration on economies of scale are likely to be negligible. See J. Viner, The Customs Union Issue, New York, 1950, p. 46.

[4] J. Johnston, "Labour Productivity and the Size of Establishment", Bulletin of the Oxford University Institute of Statistics, Nov.-Dec. 1954. J. W. Rowe, "Productivity and Size of Establishment in New Zealand Manufacturing", Productivity Measurement Review, May 1958.

at the present stage of her development, even a market as large as the British does not permit sufficient specialization in a number of industries.[5]

It may be argued that even though cost curves for most plants in industrially developed countries are relatively flat, still some less developed countries tend to operate at the extreme left end of the scale. Integration would push cost down and out into the flat range. It ignores the fact that certain plants may be established only when they can be operated close to the optimum capacity.[6] Moreover, to the extent that most empirical studies do not take into consideration the impact of technological change on productivity; and to the extent that technological progress is partly governed by the size of the market, the dynamic effects of the extension of the size of the market on economic growth may be very important.

3.2.2.   Note that the benefits derived by East and West in terms of economic growth, because of integration and the growth of trade between them, imply a cost, the cost of protection. First, from the standpoint of the world as a whole, this implies, at least in the short run, a less efficient allocation of resources. However, it may be said that this is an unavoidable short-run cost, involved in the process of economic growth of many less developed countries. As such, it cannot be imputed to the growth of trade between them.

In the present instance, the growth of free trade between East and

West is likely to reduce the magnitude of such cost relative to that if

[5] C. F. Carter and B. R. Williams, Industry and Technical Progress, Oxford University Press, London, 1957.

[6] Robert L. Allen, "Integration in Less Developed Countries", Kyklos, Vol. XIV, 1961, Fasc. 3.

the two regions were to develop separately. For, it is likely to facilitate, in the process of their economic growth, more efficient regional location of industries than would be possible if the growth of either East or West were to take place in isolation. Observe that in a situation where economic growth occurs in one region while the other remains stagnant, the growth of free trade between them, via the agglomeration effects, may sometime lead to a less efficient regional location of industries.

Second, the growth of free trade between East and West involves a cost in terms of higher real cost of consumption because of the 'trade-diversion' effects.[7] However, the higher real cost of consumption due to the growth of East-West trade may be an indirect boon to these regions. The argument is related to the indirect effects of import restriction on economic growth.

In a growth atmosphere, import control diverts traders' capital to industrial investment. In the second place, import restriction raises the domestic prices of importables. The new producers of import substitutes are able to sell their products in the domestic market at the prevailing high prices, at least in the initial phases of production. This raises the short-run profit margins of the manufacturers, and hence facilitates the distribution of incremental income in favour of the investing classes. Assuming that the marginal propensity to save and invest of the profit

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[7] It refers to the loss of welfare in terms of consumer satisfaction, the well-known topic in the theory of customs union. See J. E. Meade, The Theory of Customs Union, North-Holland Publishing Company, Amsterdam, 1955. R. G. Lipsey, "The Theory of Customs Union, Trade Diversion and Welfare", Economica, 1957; also his "The Theory of Customs Union: A General Survey", Economic Journal, September 1960.

earners are relatively higher than other classes', the increase in the share
of profits in the national income speeds up the process of capital accumula-
tion.[8/] And capital accumulation in a stagnant economy, as is well known,
involves some sacrifice of present consumption, whether voluntary or
involuntary.

Note that tariffs have a special role to play in less developed
regions like East and West where, because of their resource endowments
and because of the historical patterns of their foreign trade, as indicated
in Chapter 1, economic growth is not only synonymous with the development
of industries but also involves import replacement at the initial phases.
Because of the existence of surplus labour in agriculture, money wages do
not reflect real wages in these regions, and hence the classical theory of
trade does not indicate the correct comparative advantage of production.
Tariff in such a situation helps to initiate the development of industries
for the purpose of import substitution.

The argument is that the money wages to be paid in the newly
established industries would be higher than the prevailing money wages in
agriculture. This would be so because, in the first place, workers would
have to be induced to move out of agriculture and into manufacture; and,
in the second place, because of the imperfection of the market structure,
unemployed or underemployed workers would not be able to compete freely in
the labour market. Thus the private marginal cost of the new employment

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8/ Alvin S. Johnson, "Protection and the Formation of Capital", Political
Science Quarterly, June, 1908. Frank D. Graham, "Some Aspects of Pro-
tection Further Considered", The Quarterly Journal of Economics,
February, 1923.

would be higher than the social marginal cost. Tariff by keeping the relative
domestic prices of importables higher encourages not only the domestic entre-
preneurs to make investment in the manufacturing sector, but also facilitates
the movement of workers from agriculture to manufacture. Because of the
existence of surplus labour in agriculture, the agricultural output would
not fall, and the growth of output of manufactures would increase employment
and income.[2]

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[2] Manoilescu, The Theory of Protection, P. S. King and Staples, Ltd., London,
1931. W. A. Lewis, "Economic Development with Unlimited Supplies of Labour",
The Manchester School, May, 1954; "Unlimited Labour: Further Notes", ibid.,
January, 1958. E. E. Hagen, "An Economic Justification for Protectionism",
The Quarterly Journal of Economics, November, 1958. Tibor Scitovsky, "A
Reconsideration of The Theory of Tariff", Review of Economic Studies,
Summer 1952. (Note that according to Scitovsky, the equalization of
private marginal net productivity to social marginal net productivity
could better be done by paying a subsidy to the producers from taxation
without interfering with the free interplay of market forces in inter-
national trade. In less developed countries where taxable capacity is
low and where the major part of tax revenues come from customs, the
feasibility of a policy of subsidy in this respect seems to be doubtful.)

Note: It should be observed that, where the domestic market is small, pro-
tection in the long run militates against growth by inhibiting efficiency
of production, and more so if the private cost of capital is lower than
the social cost. In most less developed countries, this is likely to be
the case, since the market rate of interest does not reflect the scarcity
value of capital.

It must also be pointed out that, under certain circumstances, protection
may not lead to the desired distribution of income. If the demand for a
country's export is very inelastic, and if the imposition of a tariff
turns the terms of trade greatly in its favour, unless the entire tax
revenue is spent on imports, the internal relative price of exports may
increase. Consequently, the country's scarce factor will suffer instead
of gaining from the tariff. (L. A. Metzler, "Tariffs, The Terms of Trade
and the Distribution of Income", The Journal of Political Economy, Febru-
ary, 1949.) However, Kemp has demonstrated that in countries with under-
employment, a tariff might reduce the relative share of the scarce factor,
if the marginal propensity to spend on the export goods in the tariff-
imposing country is sufficiently large and the marginal propensity to spend
on imports in the other countries is sufficiently small, but the absolute
share of the scarce factor will increase because of increased total

3.3. Effects on Foreign Trade

Since the growth of East-West trade will be mainly governed by the growth of manufacturing industries in these regions, the effects of the growth of trade between them cannot be separated from those of economic growth. In the pre-East-West trade situation, growth-oriented adjustments in East and West will increase the demand for capital goods from the Foreign region. Given the volumes of their exports, and assuming no foreign investment or aid, this will necessitate an equivalent reduction of the import of other manufactured goods in East and West or alteration in their foreign exchange rates. If the demand for their exports and imports is not elastic, the change in exchange rates will render the terms of trade unfavourable without improving the balance of trade. Thus the financing of the import of capital goods, cet. par., will necessitate the imposition of import control. This will change the composition of the imports of East and West from the Foreign region without changing the total volume of their foreign trade.

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domestic spending on both export and import goods. And both price and income effects would normally work in favour of the import-replacing industries. (Murray C. Kemp, "Tariffs, Income, and Distribution", The Quarterly Journal of Economics, February, 1956.) In our situation, the Metzler argument may not be appropriate because first, the external terms of trade effect may not be sufficiently large to turn the internal terms of trade in favour of the export goods. Second, even if it does so, expansion of the export product may not take place since in the pre-tariff situation export goods, ex hypothesi, are not consumed domestically, and since the foreign demand for export goods does not change à la Metzler. Furthermore, in the absence of the expansion of foreign demand for exports, any expansion of the output of export goods would lead, over time, to 'immiserizing' growth, unless the domestic consumption of the export goods increases proportionately due to the growth of industries using the export goods as raw materials.

The replacement of the import of manufactures in East and West by domestic production, and the growth of East-West trade, after the gestation period, other things being equal, would reduce the imports in East and West from the Foreign region. If the income previously spent on them is no longer spent abroad, this will improve the balance and terms of trade of East and West with the Foreign region. Note that capital accumulation in East and West will increase the demand for imports from the Foreign region directly and by increasing income. If the rate of increase in the output of importables is greater than the rate of increase in the demand for imports, the total imports in East and West from the Foreign region will decline. The total volume of their foreign trade will fall; but the balance and terms of trade may turn in their favour.

However, the exports of East and West to the Foreign region may decline partly because of domestic absorption of raw materials (assuming no change in supply) and partly because of the fall of foreign demand following the reduction of output of jute and cotton manufactures in the Foreign region consequent upon import replacement in East and West. Unless matched by a proportionate increase of the export of some other goods, e.g. jute and cotton manufactures, from East and West respectively, to the Foreign region, the total export and hence the total foreign trade of East and West will decline.

If secular increase in the aggregate world demand for raw cotton and jute occurs without a corresponding increase in world supply of these products (i.e., if foreign demand falls by less than the fall in foreign supply due to increased retention of raw jute and cotton in East and West),

their prices in the world market will rise. This will tend to improve the terms of trade of East and West with the Foreign region in the short run. But the ultimate result in this respect will depend upon the relative movement of the prices of raw materials and manufactured goods in the world market. Over time, the rise in the prices may increase the world supply of raw jute and cotton and the terms of trade effects may partly be lessened.

It should be observed that the possible fall of the total foreign trade of East and West does not imply that the total external trade of each region will decline. If the decline in their foreign trade is matched by an equal increase in trade between them, the total volume of their external trade will remain unchanged.

To the extent that the growth of East-West trade facilitates the growth of economies of scale in the production of jute and cotton manufactures in East and West respectively, it might, via the improvement of the efficiency of production, enable East and West to market these products competitively with the producers in the Foreign region.

3.4.   The Problems of Interregional Payments Adjustment Between East and West

3.4.1.   The growth of a triangular pattern of trade between East, West, and the Foreign region, due to integration and economic growth of East and West, as has been indicated in Chapter 2, will create multilateral payments adjustment problems between East and West. Depending upon the nature and the solution of these problems, the relative gains of East and West from trade may vary. In this section we shall examine the processes and consequences of such adjustment under certain assumptions.

Since East-West trade may occur due to economic growth of either region, for the sake of analytical convenience we shall assume that economic growth occurs in West only. It is believed that this assumption will not change the analytical content; the reversal of this assumption will only reverse the implications for individual regions. Since East and West constitute one state, the balance of payments between them will include payments and receipts between them on account of interregional federal expenditure and receipts and interregional services, over and above trade and investment. In what follows below, it will be assumed that all other payments, except those due to trade, between East and West are in balance. Furthermore, we shall assume that the balance of payments of the integrated regions with the Foreign region is in equilibrium.

For the purpose of analysis we may make an _a priori_ distinction between two possible cases of multilateral payments adjustment between East and West: (a) East's deficit with West is equal to West's deficit with the Foreign region; and (b) East's deficit with West is less than West's deficit with the Foreign region. (See Figure 8.)

3.4.2.   Case 1: This refers to a situation in which East incurs a deficit with West which is equivalent to her surplus with the Foreign region; and West incurs a deficit with the Foreign region which equals her surplus with East. In this case, the interregional payments between East and West are multilaterally balanced. And no problems of adjustment between East and West arise. Other things being equal, the relative gains from trade will be the same for East and West.

Under certain circumstances, however, this may involve more benefit for West and less for East. The argument refers to a special case when the currency of the integrated state gets overvalued and is artificially maintained so. For in that case, the entire mechanism would involve an intra-sectoral and interregional transfer of income. This is due to the fact that overvaluation involves a transfer of real income from exporters to importers, and thereby, because of the trade balance assumed, from East's exporters to West's importers.

Furthermore, the overvaluation of currency may lead to a decline of exports from East and West. Ceteris paribus, this will cause a fall of employment and income in East and West. Without claiming any generality of treatment, this particular argument can be substantiated with the help of the familiar technique of Marshallian offer curves, shown in Figure 7.

Figure 7 deals only with the triangular balance described above (corresponding to Figure 8A). In view of the difficulty of showing the general equilibrium of the triangular trade between East, West, and the Foreign region in two-dimensional diagrams, in this figure we simply deal with a situation, corresponding to Figure 8A, where East exports to the Foreign region, West uses the export earnings of East to import machines from the Foreign region, and East buys consumer goods from West (which is not shown in Figure 7). It will be assumed that the import of machines is controlled by the government of the integrated state.

The offer curves used in Figure 7 represent the exchange of goods against money, (i.e. Dollars or Rupees). It will be assumed that the jute producers have a competitively elastic offer curve of jute (the argument

FIGURE 7
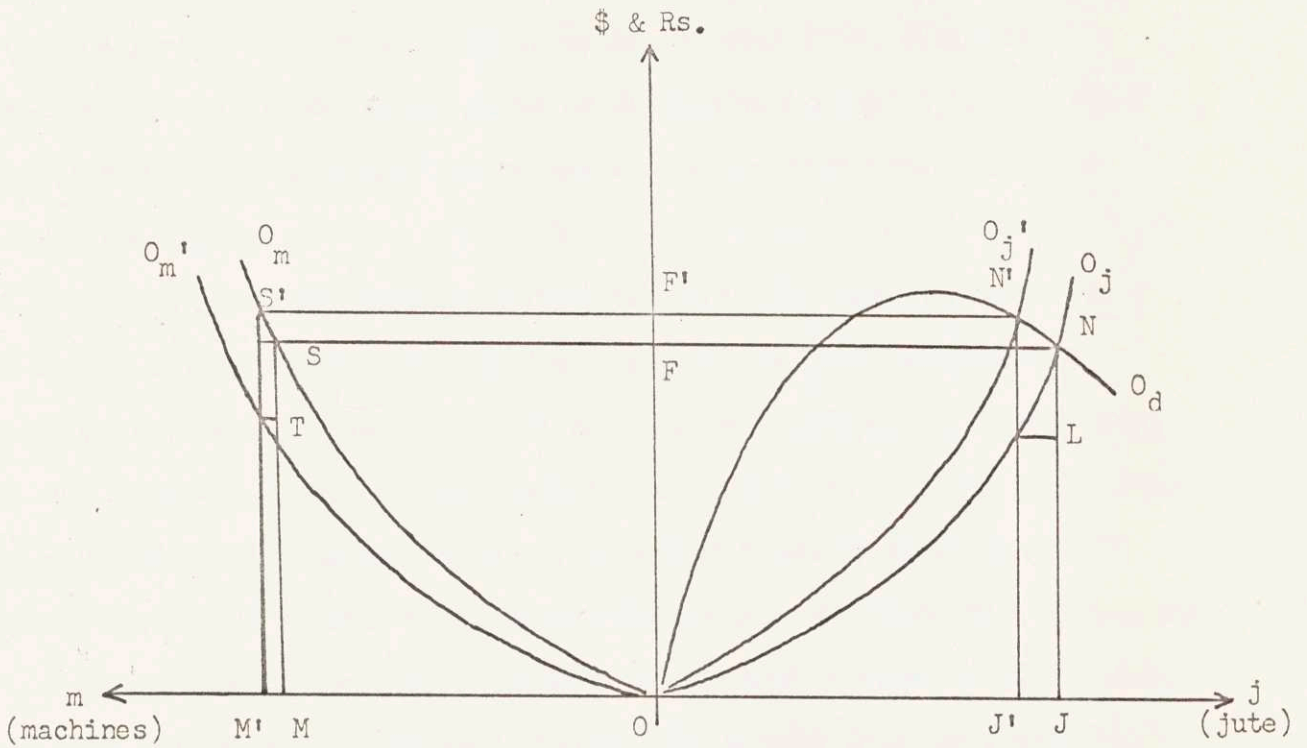
will not change if jute producers are monopoly sellers in the world market),
and the jute buyers abroad have a relatively inelastic but competitive
offer curve of dollars for jute.

O_j and O_j' represent the offer curves of jute for rupees as well
as for dollars at low and high rupee exchange rates (with dollars)
respectively. O_d is the offer curve of dollars for jute. O_m and O_m' are
the offer curves of machines for rupees at low and high rupee exchange
rates respectively.

Suppose that the initial equilibrium is at N, where there exists a
one-to-one relation between dollar and rupee in the world market, and
where the relative prices of jute in terms of dollars are the same in East
and the Foreign region. At this equilibrium point, East exports OJ of Jute
and earns JN = OF dollars. The money income received by producers in
East is also equal to JN. West imports OM machines and pays MS = OF dollars.

Let us assume that the rupee gets overvalued in terms of the dollar.
This will change the initial equilibrium. Since this does not change the
internal situation in the Foreign region, the offer curve of dollar for
jute will remain unchanged. But the offer curve of jute for dollar will
shift up and to the left, because the overvaluation of the rupee implies
that one rupee will now buy more than one dollar or, in other words, the
price of jute in terms of dollar will rise. For similar reasons, the
offer curve of machines for rupees will shift down and to the left. (This
assumes that East and West are small relative to the total world market.)

O_j' is the new offer curve of jute for dollar after the overvaluation
of the rupee; and the new equilibrium is at N'. At N' the export of jute

from East falls by JJ', and her receipts in terms of rupees declined by NL.
Thus employment and money income in East would fall unless full employment
is maintained by diverting the unemployed resources from raw jute produc-
tion to somewhere else. East, however, earns J'N' = OF' dollars by export-
ing OJ' jute, which is greater than JN. West now imports OM' machines for
M'S' = OF' dollars. Because of the shift of O_m to O_m', West now spends ST
less rupees for MM' more machines.

This implies that the government of the integrated state, because
of its policy of exchange control, accumulates a fund equal to N'L, which
is equivalent to a hidden tax upon the exporters in East. This also
involves a relative loss for the consumers in East. This loss relates to
the fact that the portion of East's imports from West which is financed
from foreign exchange earnings is actually transacted at one-to-one rate
of exchange between the rupee and the dollar. In other words, had East
been spending the equivalent amount of rupees on import from the Foreign
region instead of from West, she would have imported more goods in terms
of dollars because of the overvaluation of the rupee.

Similar consequences will befall the producers of export in West.
This relates to the total situation rather than to the partial one depicted
in Figure 7. However, Figure 7 would help in visualizing the argument
if O_j is imagined as the offer curve of raw cotton for dollars as well as
for rupees. The overvaluation of the rupee will lead to a decline in the
export of raw cotton and the proceeds received from it in terms of rupees.
The exporters in West, like those of East, will pay a hidden tax. Employment
in raw cotton production in West will decline unless the appropriate amount

of raw cotton is absorbed by the domestic market. Since the import of machines in West will create employment in the industrial sector (e.g., cotton textiles), and if the funds, accumulated in the process described above, are spent by the government in West, especially on raw cotton, employment and output in West will increase. But the intersectoral terms of trade in West, as in East, will turn in favour of the industrial sector; and there will occur a redistribution of income from farmers to the manufacturers.

Except in the case corresponding to that depicted in Figures 7 and 8A, overvaluation of the rupee must benefit the consumers in East and West since imports from the Foreign region would be cheaper in terms of rupees, unless imports from the Foreign region are subject to duties or other forms of restriction which did not exist before overvaluation.

3.4.3.   Case 2: This case assumes that there does not exist full equilibrium in the total balance of payments of either East or West individually, but the integrated region as a whole is in full equilibrium with the Foreign region. Let us assume that East has a surplus with the Foreign region and a deficit with West, while West has a surplus with East and a deficit with the Foreign region. East's surplus with the Foreign region is equal to West's deficit with that region, but greater than West's surplus with East. Thus, although East and West together are in balance with the Foreign region, West incurs a net deficit with East in the triangular adjustment of balance of payments. This is indicated by the direction of arrows, with certain hypothetical figures attached to each, in Figure 8B. The short-run adjustment between East and West is possible

FIGURE 8

Patterns of Payments Adjustment
Between East and West

A.
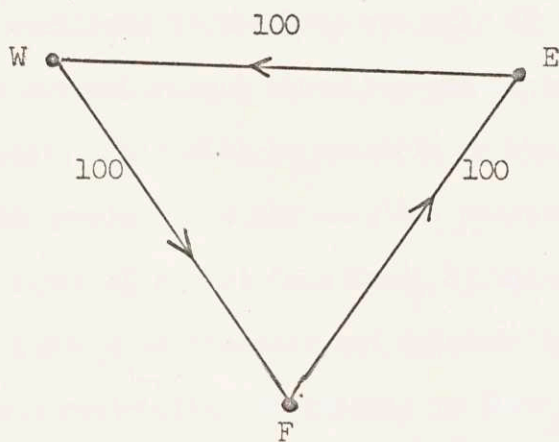
B.
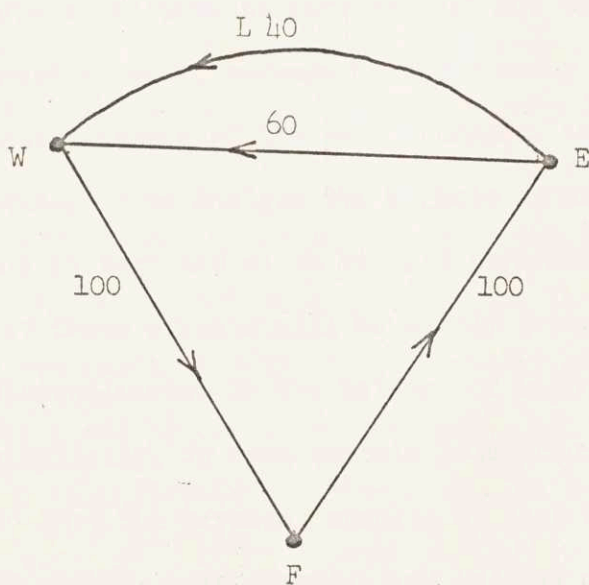
through the 'accommodation' of West by East by way of short-term lending as the arrow (EW) in Figure 8B indicates.

Because of total export surplus in East and total import surplus in West, this type of adjustment implies a real transfer of capital from East to West. It can be continued in the long run only if it is possible for East to maintain her current output above her own aggregate consumption and domestic investment. This will be possible so long as the marginal propensity to save is greater than the marginal propensity to invest in East; or, given the level of export from East, if the government of the integrated state is capable of creating and maintaining an export surplus through the deliberate restriction of imports in East from the Foreign region in order to facilitate overall import surplus in West for the sake of economic growth.

3.4.4.   The Flow of Funds Between East and West

3.4.4.1.   The type of adjustment between East and West described in 3.4.3. has a monetary aspect as well, because real and money transfers are interrelated. The monetary aspect of the real transfer, through an export surplus, will be clear if we analyze the effects of an overall balance of payments surplus in East and of an overall payments deficit in West. Since the nature of these effects will be mostly governed by the circumstances causing disequilibrium in the balance of payments, it is necessary, for the sake of simplicity, to make certain assumptions in this respect. It will be assumed that the payments surplus of East is caused by an autonomous increase of exports over imports, and (b) the payments deficit of West is caused by an excess of domestic investment over domestic savings.

3.4.4.2.   We shall begin our analysis by considering the effects of an export surplus in East and of an import surplus in West on the supply of money (cash plus demand deposits) in these regions. To facilitate analysis we shall assume that the banks in East and West are independent units linked through the central bank of the integrated state. The effects of the removal of this assumption will be considered as we go along.

The export surplus of East will exert expansionary effects on money supply on one or more of three counts:

(a) The primary expansion of money supply will be caused by the sale of foreign exchange by exporters to banks. That is, new deposits created by the banks to buy the foreign exchange will be put in the hands of the exporters in East.

(b) The secondary expansion of money supply in East will occur via the increase in commercial banks' reserves due to the holding of increased foreign exchange, if foreign exchange is considered part of the reserves of the commercial banks, or due to the rise in bankers' deposit with the central bank via the sale of the foreign exchange by the commercial banks to the central bank.

(c) A tertiary expansion of money supply might take place if foreign exchange holdings of the central bank increase and if the central bank operates on a reserve basis, and is preparted to expand money supply through its discount and open market operations policies when it gains reserves or reduces its foreign liabilities.[10] Since there is no change in the total

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[10] F. W. Paish, "Banking Policy and Balance of Payments", Readings in the Theory of International Trade, American Economic Association, Philadelphia,

balance of payments of the integrated state with the Foreign region, the tertiary expansion of money supply may be ignored.

The opposite of (a) and (b) will happen to money supply in West. In other words, assuming that banks and individuals in West are not given accommodating credit by banks and individuals in East, money will flow from West to East. The situation between East and West would closely conform to the classical gold standard. Unless compensating internal monetization occurs in West, the money supply in that region must decline.

The increase in money supply is likely to increase spending in East via the Pigou effect because of (a) and via the fall in the rate of interest because of (b). The opposite of (a) and (b) will raise the rate of interest and reduce spending in West. Consequently, the price level in East will rise (in spite of underemployment, for, because of inelastic supply conditions, employment and output in East will not increase proportionately with the increase in money supply), and the price level in West will fall. East's imports from West and the Foreign region will increase and her exports will tend to decrease. The reverse of these effects will occur in West. And there will be a tendency toward equilibrium in the balance of payments between East and West. Whether or not full equilibrium in the balance of payments will be reached will depend upon, as is well known, the magnitude of the sum of the price elasticity of demand for exports and imports of East and West.

1949. Charles P. Kindleberger, International Economics, Richard D. Irwin, Inc., Homewood, Illinois, 1958, Ch. 17.

3.4.4.2.   The adjustment via income and price effects will not be necessary
if exporters in East buy securities in West or invest in West an amount
equivalent to East's total export surplus. For in that case, the effects
on money supply via (a) and (b) will not occur in East and West and there
will occur no disequilibrium in the balance of payments between East and
West, because East's export surplus with West will be covered by the lending
of investible funds by the former to the latter. In practice, adjustment
through investment by East in West is likely to be highly possible, for,
because of our assumption that growth is occurring in West, the marginal
efficiency of investment is likely to be higher in West than in East. Such
an adjustment will be beneficial to both East and West. The former will
not suffer from price inflation in the short run, and will benefit from
the returns from investment in West in the long run. The latter will benefit
from increased investment, employment and output.

Note that there is a special case in which East may lose from the
flow of capital to West. This is related to the form in which an export
surplus in East is created. If the export surplus in East is due to the
deliberate restrictions of imports in East from the Foreign region, it may
result in an overvaluation of currency of the integrated state which, as
argued in 3.4.2., may lead to a fall in employment and money income in East.

3.4.4.3. Smooth interregional movements of capital funds, among other
things, also depends upon the existence of well-organized and well-integrated
capital markets in the regions involved. The lack of well-developed capital
markets, however, need not limit the movements of capital between East and

West, because the role of the capital market may be accommodatingly performed
by the banking system. And more so, if the banking system in East and West
operates on the lines of branch banking. In that case, the regional branches
of commercial banks can facilitate interregional movements of capital easily
by serving as collecting stations for deposits and loan applications.[11]

Furthermore, when the demand for money expands at different rates
at different regions of the same monetary system, flow of funds from the
stagnant or slow-growing regions to the rapidly expanding ones may sometimes
become necessary, and the existence of branch banking facilities such as
interregional transfer of funds through inter-branch adjustment in reserves
and deposits.

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[11] Tibor Scitovsky, op. cit., Ch. II. Equilibrating capital flows among
regions of the same country are probably one of the important reasons
why one seldom hears of balance of payments difficulties in inter-
regional relations. Hartland has shown that the most important deter-
minant in the maintenance of regional balance of payments equilibrium
in the United States has been the mobility of productive factors,
especially that of capital. (Penelope C. Hartland, "Interregional
Payments Compared With International Payments", The Quarterly Journal
of Economics, Vol. LXIII, 1949). Interregional transfer of funds
through Central Government's interregional receipts and expenditure
is another important determinant in this respect. For the influence
of this on interregional balance of payments adjustment in the United
States, reference may be made to E. J. Kane, The Interregional Flow
of Funds in the United States, 1955-58, M.I.T. Ph.D. Thesis, 1960.
Note that in the present analysis we have assumed away this aspect
of adjustment between East and West.

3.5. Other Effects

The growth of East-West trade may have some other implications for East. There is an argument that, under certain circumstances, the terms of East-West trade may move in favour of East. Over time, the growth of productive efficiency in West due to capital accumulation and technical progress is likely to be manifested in the reduction of the prices of cotton manufactures relative to the prices of handloom products. This is likely to expand the output of cotton textiles industry in West at the cost of the output of the handicraft industry in both East and West. West's export to East will increase. Ceteris paribus, the real terms of trade would move in favour of East. Thus the benefits of the economic growth of West would partly be transmitted to East via East- West trade in the form of higher real income.[12]

Note that the extent of the terms of trade effects on the real income in East will partly depend upon the ratio of East's trade with West to her regional income and partly upon other related factors. If the ratio of East- West trade to the regional income of East happens to be small, the terms of trade effects would be negligible. Among other related factors we should, first of all, note the relative movement in the terms of foreign trade of East. Deterioration in her terms of foreign trade will far outweigh the benefits derived from East-West trade in this respect. Unless the

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[12] This mechanism is the heart of the thesis presented by D. M. Bensusan-Butt in his "A Model of Trade and Capital Accumulation", American Economic Review, Sept. 1954. Since what he describes as 'toy economics' represents a fundamentally different situation than ours, neither his analysis nor his conclusions can be fully applicable to the present case.

deterioration in East's terms of foreign trade is caused by the growth of
East-West trade, the favourable movement of the terms of East-West trade
would be a net benefit to East. If the handicraft industry in East declines
because of the growth of manufacturing in West, other things being equal,
the decline in handicraft production might offset the terms of trade
effects by increasing the volume of unemployment in East.

East will derive further benefit if the economic growth of West and
the growth of East-West trade facilitates migration of labour from East to
West. In spite of the fact that East and West are two regions of the same
country, the freedom of the mobility of labour between them may be limited
by the cost of transportation as well as by linguistic and climatic
differences between them, not to mention the traditional inertia among
people to cling to the same places and surroundings. However, given these
factors, the most important determinant of the geographical mobility of
labour is interregional differences in the levels of real wages. Since
West is, ex hypothesi, a region with surplus labour and growing population,
she may experience a higher rate of growth without experiencing a propor-
tionately higher rate of growth of real wages.[13] Under the circumstances,
the movement of labour between East and West is likely to be marginal, if
at all, in the short run. And to the extent that the short-run movement
of labour involves mostly the migration of skilled and otherwise well-off
labour, the conditions of economic growth in East may be adversely affected.

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[13] George H. Bortz, "Equalization of Returns", American Economic Review,
June 1960.

Thus, under the existing circumstances, this mechanism of the transmission of benefits of the economic growth of the growing region to the stagnant one would not operate in the case of East and West for a long time to come. The absence of growth conditions in East would not allow the movement of capital and enterprise from West to East for a considerable period of time. For the locational advantage would continue to be high in West due to the agglomeration effects of the initial growth in West, and due to the partial nullification of the influence of transport cost on the comparative interregional locational advantage because of prohibitive import restrictions in the integrated region.

The situation with respect to flow of capital and enterprise from West to East, over time, would be different if growth is initiated in East as well. In that case, given the appropriate rate of growth in West, private capital and enterprise might be induced by the market conditions to move to East. This may be for the sake of developing certain raw materials for export to West and the Foreign region. It may also be for the development of certain light manufacturing in East. Locational consideration may play an important role in this respect. But on the whole it may be said that in order for capital and enterprise to move from West to East through market mechanism, conditions must develop in East and West so that the relative marginal efficiency of investment will be higher in East. Other things being equal, the development of those conditions might take a very long time, for reasons which lie outside the scope of this study.

CHAPTER 4

The Growth and Development of Interwing Trade

in Pakistan, 1948-49 to 1958-59

4.1. Introduction

This chapter aims at explaining the growth of interwing trade between
East and West Pakistan during the last decade, in the light of the model
developed in Chapter 2. It may be recalled that the basic hypotheses of the
model relate the growth of interwing trade to the effects of the partition
of India, the formation of the integrated state of Pakistan, and the initia-
tion of long-run economic growth in Pakistan. Not only is the model too
simplified to approximate the complex realities; but the inadequacy of the
relevant data makes the exact testing of the model difficult. Nonetheless,
the following analysis attempts to discern the influence of the above-
mentioned factors on the growth of interwing trade as far as possible.

To facilitate analysis, Section 4.2 will be devoted to the discussion
of the course of the development of interwing trade. However, we shall start
this section with a brief summary of the findings which, it is hoped, will be
helpful to the reader. In Section 4.3 will be presented a factual descrip-
tion of the volume and composition of interwing trade from 1948-49 to 1958-59.
And the analysis of the causes of the growth of interwing trade will be
undertaken in Section 4.4.

4.2. The Course of Development

4.2.1.   A Summary of Findings

The total volume of interwing trade recorded a six-fold increase
over a period of eleven years. Interwing trade in both directions has shown a
considerable upward trend at current as well as constant prices, in spite of
fluctuation in the levels in particular years. Over the period under study,
the composition of interwing trade underwent important changes. The relative

share of Food, Drink, and Tobacco declined and the relative share of Raw
Materials and Manufactures increased. However, this hides the important
fact that the absolute volume of all the commodity groups in interwing
trade increased over time.

The analysis of interwing trade in terms of individual commodities
shows that a few commodities have dominated the export of each wing.
Important in the exports from East to West Pakistan are tea, spices,
betel nuts, unmanufactured tobacco, seeds, leather, wood and timber, jute
manufactures, matches, and paper. The exports from West to East Pakistan
are dominated by a few commodities like rice, wheat, pulses, grains, edible
oils, manufactured tobacco, raw cotton, seeds, cotton yarns and twist,
cotton manufactures, boots and shoes, soaps and chemicals.

From 1948-49 to 1951-52 the exports of one wing to the other were
dominated by primary products which before partition were traded with the
adjacent regions of India. The establishment of Pakistan with the distant
East and West Pakistan as constitutent regions, consequent upon the divi-
sion of India in 1947, and the introduction of tariffs on Indo-Pakistan
trade under conditions of free trade between East and West Pakistan, pro-
duced the first trade diversion impact on the opening of trade between
the latter regions. The deadlock over Indo-Pakistan trade, following the
devaluation of the Indian rupee in September 1949, produced the first major
impact on the growth of interwing trade in primary products. Even after
the resumption of Indo-Pakistan trade, the interwing trade was facilitated
by the intensification of economic isolation between Indian and Pakistan,
and by the rigorous policy of import restriction in Pakistan. The latter

factors, together with the demand and supply conditions in and the growth of transport facilities between, East and West Pakistan have contributed to the secular growth of interwing trade in Food, Drink, and Tobacco from 1952-53 to 1958-59.

The growth of the export of Raw Materials and Manufactures from one wing to the other from 1952-53 to 1958-59 was due to the growth of manufacturing in East and West Pakistan under heavy tariff protection. Two factors have contributed to the growth of industries in Pakistan: First, the adjustment in the production and distribution of raw jute in East Pakistan and of raw cotton in West Pakistan owing to the intensification of economic isolation from India. Second, the emergence of a vigorous entrepreneurial class in West Pakistan and the conscious efforts for initiating long-run economic growth in Pakistan. These two factors coincided, and it is difficult to separate one from the other.

The heavy growth of the cotton textiles industry in Pakistan increased the domestic consumption of raw cotton to more than 60 percent of the total output of raw cotton in Pakistan during the second half of the decade under study. This reduced the export earnings of West Pakistan drastically. In 1958-59 the exports of West Pakistan fell to one-half of the 1950-51 level. On the other hand, the rapid economic growth in West Pakistan increased her import requirements. The gap in the earnings and spending of foreign exchange of West Pakistan has partly been bridged by the utilization of the foreign exchange earned by East Pakistan. East Pakistan has partly been compensated by the export of domestic goods from West Pakistan via interwing trade. Thus has developed what we have described in Chapter 2, a triangular pattern of trade between East and West Pakistan and the Foreign region.

4.2.2.   The Course of Development

In spite of the considerable upward trend in the value and
quantum of interwing trade during the last decade, there have been year-
to-year fluctuations in the level of exports of one wing to the other. A
proper understanding of the reasons for the growth of interwing trade
necessitates some discussion of the course of development of interwing
trade over the years under consideration. For the purpose of such dis-
cussion, the entire period under study may be divided into a few sub-periods.

The years between August 1947 and September 1949 may be designated
as the first of these periods. It falls between the date of the partition
of the Indian sub-continent and the Post-World-War-II devaluation of the
British Pound Sterling. This initial period was of particular significance
for two reasons. The first was the fact of the partition itself, and the
second was the liberal trade between India and Pakistan.

The absence of data for the initial year from August 1947 to June 1948
prevents us from having a precise idea about the actual growth of interwing
trade in 1948-49. However, it is possible that the change in the level of
interwing trade in the latter year was not very significant for certain
important reasons. First, the prepartition trade relations of East and
West Pakistan with India were yet unchanged. Second, the development of
shipping services between East and West Pakistan was insufficient. Third,
the year 1948-49 saw the liberal relaxation of the war-inherited import
controls in Pakistan with the introduction of the Open General Licence (OGL)
for imports.

The years between October 1949 and June 1952 may be considered as the second period of the development of interwing trade. 1949-50 was one of the most significant years in the development of interwing trade. With the devaluation of the Indian rupee and the non-devaluation of the Pakistani rupee, in September 1949, there occurred a complete deadlock over Indo-Pakistan trade for eight months until April 1950. The non-devaluation of the Pakistani rupee was followed by the tightening of import policy in Pakistan. For example, the OGL for imports from the Sterling and soft currency areas (which included about 600 items) was suspended, although the same amount of foreign exchange as in July 1948 to June 1949 was made available for imports.

Although Pakistan's trade with India in 1948-49 accounted for about 70 percent of her total foreign trade, what we have described in Chapter 1 as the partition effects tended to exert their influence from May 1948 on. For in May 1948 the Stand Still Agreement of 1947 was abrogated and the first Inter-Dominion Trade Agreement between India and Pakistan was signed. This was revised in June 1949. Duties on important items of exports and imports had been introduced by both countries immediately after partition; the rates and coverage of duties were increased from November 1947 to September 1949. The second Inter-Dominion Trade Agreement in June 1949 failed to specify maximum or minimum prices for goods entering into Indo-Pakistan trade. Moreover, no agreement on tariff rates was reached. As a result, Indian cloth began to become dearer in Pakistan as compared with cloth imported from other countries. Likewise, the price of Pakistani cotton became higher than the price of cotton imported in India from other countries. This led to some decline in the volume of export from Pakistan to India.

With the deadlock over Indo-Pakistan trade in September 1949 the
'partition effect' took the form of complete economic isolation of Paki-
stan from India. Although the period of complete isolation had lasted for
eight months only, the resumption of Indo-Pakistan trade from April 1950
could not reduce the intensity of economic isolation between the two
countries. For the Indo-Pakistan Trade Agreement of April 21, 1950, lasted
for only three months, and whereas it included a few important commodities
such as jute of Pakistan, jute manufactures, cotton textiles and yarns,
mustard oil, tobacco, steel sheets, and cement from India, important commo-
dities such as raw cotton from Pakistan and coal from India were excluded.
Since India refused to accept the official exchange rate of the Pakistani
rupee, the Trade Agreement was based on a principle of "balanced exchange
of commodities expressed in monetary terms". Partly because of the vagueness
involved in the principle underlying the Agreement and partly because of
political sentiment, neither party was able to honour the Agreement fully.
In spite of subsequent trade agreements between India and Pakistan, the
trade diversion process became intensified over the period under study and,
as we shall see below, not only did the volume of official trade between
India and Pakistan continue to dwindle, but its share in the foreign trade
of Pakistan recorded progressive decline. The deadlock over Indo-Pakistan
trade produced a short-run expansionary effect on interwing trade. However,
as will be seen from the discussion in Section 4.4, it also produced a far-
reaching change, not only in the channel of Pakistan's foreign trade, but
also in her prepartition production pattern. And, among other things, the
latter created the conditions for the long-run growth of interwing trade.

The years 1950-51 and 1951-52 saw the periods of the Korean boom and depression. These were also the years of the greatest liberalization of the foreign trade policy in Pakistan. Not only was the OGL expanded to the maximum in its scope during the Korean boom, but the quotas for export to the United States were also removed. [Yet the total interwing trade and the value of the exports, both at current and constant prices, from East to West Pakistan increased in 1950-51, despite the great increase in the exports of East Pakistan to and some increase in the imports of West Pakistan from abroad (Table 4.3).]

The third period of the development of interwing trade comprises the years between July 1952 and June 1955. In 1952-53 the total interwing trade increased; but more significant was the increase of exports from East to West Pakistan. This was another crucial year in which the basis for the rapid growth of interwing trade in the subsequent years was laid. This year marked the turning point not only in the commercial policy but also in the general economic policy of the Government of Pakistan. With the virtual suspension of the OGL for imports, Pakistan entered upon a policy of the tightest possible import control in 1952-53. And with the establishment of the Pakistan Industrial Development Corporation (PIDC) and the Planning Board (now the Planning Commission), departing from a laissez-faire policy Pakistan entered for the first time into the arena of conscious efforts for the promotion of long-run economic growth. Furthermore, this was also the year of the development of the Pakistan Merchant Navy which, as we shall see, had its effects on the growth of interwing trade. Thus it may be said

that from the year 1952-53 was started what we have called in Chapter 2 the growth-oriented adjustment in the prepartition patterns of production in East and West Pakistan.

There were years of intermittent relaxation of import control in Pakistan after 1952-53, but never again did it reach the level of the liberalization that had existed during the pre-1952-53 years. Therefore, in the year 1952-53 the second important trade diversion impact after that of 1949-50 coincided with the initiation of the efforts for long-run economic growth in Pakistan. Together, these two factors seem to have conditioned the growth of the volume and the changes in the composition of interwing trade in the subsequent period.

The years from July 1955 to June 1959 can be described as the fourth period of the development of interwing trade. In a sense it was rather the continuation of the third period described above. But because of the devaluation of the Pakistani rupee on July 31, 1955, and the implementation of the First Five-Year Plan, this period deserves to be mentioned separately. The industrial development of West Pakistan practically began from the year 1950-51, while that of East Pakistan began from 1952-53. However, the level of industrial output increased significantly both in East and West Pakistan during the period between 1955 and 1959.

Although we have distinguished between four sub-periods of the development of interwing trade, broadly speaking the entire period can be more conveniently divided into two major phases of the growth of interwing trade. The first phase would include the years between 1948-49 and 1951-52 inclusive, and the second the years between 1952-53 and 1958-59. We have

noted that the trade diversion effects of the commercial policy and the trade creation effects of the initiation of long-run economic growth in Pakistan have been operating simultaneously in influencing the growth of interwing trade in both of the above-mentioned phases. Yet it may not be inappropriate to say that in its first period of growth interwing trade was mainly influenced by the trade diversion effects of the progressive economic isolation of Pakistan from India, i.e. the partition effects, while in its second phase the growth of interwing trade was mainly influenced by the development of industries in Pakistan, i.e. the growth effects.

4.3.   The Volume and Composition of Interwing Trade

4.3.1.   Preliminary Observations on Data

Most data used in the following analysis represent the values of interwing trade at current prices. However, Table 4.2 shows the quantum indices of the exports of one wing to the other. The quantum indices are constructed on the basis of the procedure of the fixed-based index numbers for the exports of each wing, representing the values of 14 important commodities, each from the list of the exports of East and West Pakistan respectively, at the average of their prices (unit values) from 1949-50 to 1952-53. These commodities account for a coverage which varies from 90 percent (in the earlier years) to 60 percent (in the later years) of the total exports of each wing.[1]

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[1] The sources and nature of data, including the methods of computation, are discussed in the Statistical Appendix.

The values of interwing trade, as compiled by the Central Statistical Office (CSO) of Pakistan include costs, insurance, and freight charges. This means that the values of the exports of one wing really represent the values of the imports of the other in interwing trade. It was not possible for us to recompute the f.o.b. values of interwing trade.

The values of interwing trade in the present study refer only to the coastal trade between East and West Pakistan. A very small portion of interwing trade is airborne, which, because of the absence of data regarding the values of goods involved, could not be included in this study.

A further point to be noted is that from January 1957 on, the values of interwing trade include trade on government account. Since the trade on government account is likely to be relatively insignificant, its noninclusion in the value of trade up to December 1956 need not matter much in the analysis of the growth of interwing trade.

4.3.2.   The Values of Interwing Trade

The Total Values.

Table 4.1 presents data for total interwing trade and the exports of one wing to the other. Total interwing trade, i.e. the sum of the exports of the two wings, increased from Rs.15.96 crores (Rs.159.6 millions) in 1948-49 to Rs.95.16 crores (or Rs.951.6 millions) in 1958-59 — almost a six-fold increase over a period of eleven years. The quantitative significance of the growth of interwing trade can be realized from the fact that from 1.5 percent of the national income of Pakistan in 1949-50, it rose to 4.4 percent in 1958-59.

TABLE 4.1

The Total Values of Interwing Trade[*]

1948-49 to 1958-59

(In Crores of Rupees)

YEARS	EXPORTS OF EAST PAKISTAN			EXPORTS OF WEST PAKISTAN			TOTAL INTERWING TRADE		
	TOTAL (1)	DOMESTIC GOODS (2)	FOREIGN GOODS (3)	TOTAL (4)	DOMESTIC GOODS (5)	FOREIGN GOODS (6)	TOTAL (1)+(4)= (7)	DOMESTIC GOODS (2)+(5)= (8)	FOREIGN GOODS (3)+(6)= (9)
1948-49	1.84	1.75	0.9	14.12	13.85	0.27	15.95	15.60	0.36
1949-50	4.94	3.12	1.81	23.54	22.90	0.64	28.48	26.03	2.45
1950-51	6.27	4.59	1.68	27.22	21.05	6.17	33.48	25.63	7.85
1951-52	6.64	3.63	2.99	24.93	15.66	9.27	31.57	19.30	12.27
1952-53	14.70	9.91	4.79	21.62	17.47	4.15	36.32	27.38	8.94
1953-54	15.02	12.94	2.08	37.96	36.19	1.77	52.98	49.14	3.84
1954-55	19.65	17.93	1.72	30.34	29.13	1.21	49.99	47.06	2.93
1955-56	23.73	22.21	1.52	34.56	33.16	1.40	58.29	55.37	2.92
1956-57	23.92	22.83	1.09	53.21	50.90	2.31	77.13	73.73	3.40
1957-58	26.96	26.41	0.55	70.24	69.02	1.22	97.20	95.43	1.77
1958-59	27.33	26.41	0.92	67.83	64.70	3.13	95.16	91.11	4.05

[*] Includes costs, insurance and freight, slight discrepancies in figures because of rounding.

Source: Government of Pakistan, Central Statistical Office, Bulletins, Karachi.

As can be seen from Table 4.1, the rise in the total interwing trade was not continuous from year to year. However, the small declines in the total values of trade during the years 1951-52, 1954-55, and 1958-59 were only minor oscillations around the general upward trend showing the secular growth of interwing trade.

A minor portion of interwing trade was composed of the reimports of foreign goods by one wing from the other. However, apart from early 1950, the values of foreign goods transhipped in interwing trade were not significant. In most of the analysis below, the trade in foreign goods is excluded.

The Exports of East Pakistan.

It can be seen from Column 1 of Table 4.1 that the total values of the exports from East to West Pakistan, which were Rs.1.84 crores in 1948-49, rose to almost 15 times that amount in 1958-59. The decline in the export of domestic goods in 1951-52 was more than outweighed by an increase in the export of foreign goods from East to West Pakistan.

The exports of domestic goods from East to West Pakistan, both at current and constant prices (Table 4.2) show a significant upward trend.

The Exports of West Pakistan.

The total values of the exports from West to East Pakistan, which were already Rs.1412 in 1948-49, more than quadrupled by 1958-59. West Pakistan's total exports of domestic goods to East Pakistan increased by 1957-58 to five times their 1948-49 value, then fell in 1958-59. Up to 1957-58, the value of re-exports, except during the period between July 1950 and June 1953, was Rs.2.3. crores. It went up to Rs.3.13 crores in 1958-59.

TABLE 4.2

The Volume Indices of Interwing Trade
1948-49 to 1958-59

(Average of 1949-50 to 1952-53 = 100)

YEARS	EXPORTS OF EAST PAKISTAN (1)	EXPORTS OF WEST PAKISTAN (2)
1948-49	41.18	71.31
1949-50	63.07	125.13
1950-51	89.56	92.91
1951-52	79.20	86.78
1952-53	168.17	95.28
1953-54	198.47	170.54
1954-55	198.55	145.77
1955-56	251.31	182.26
1956-57	243.04	242.03
1957-58	234.28	451.46
1958-59	289.33	350.44

TABLE 4.3

Values of Foreign Trade of Pakistan

1948-49 to 1958-59

(In Crores of Rupees)

| YEARS | EAST PAKISTAN | | WEST PAKISTAN | |
	EXPORTS (1)	IMPORTS (2)	EXPORTS (3)	IMPORTS (4)
1948-49	43.00	27.00	52.00	117.00
1949-50	62.00	39.00	56.00	91.00
1950-51	121.00	45.00	134.00	116.00
1951-52	108.00	76.00	92.00	147.00
1952-53	64.00	36.00	75.00	101.00
1953-54	68.00	29.00	63.00	87.00
1954-55	73.00	32.00	44.00	78.00
1955-56	93.00	36.00	65.00	96.00
1956-57	91.00	59.00	69.00	150.00
1957-58	102.00	68.00	43.00	139.00
1958-59	88.00	55.00	45.00	102.00

Source: C.S.O.

Both at current and constant prices (Table 4.2), West Pakistan's export of domestic goods to East Pakistan shows a considerable upward trend.

Note that over the entire period from 1948-49 to 1958-59, the exports from East to West Pakistan, both at current and constant prices, show a greater rise than those from West to East Pakistan. In 1948-49, exports of West to East Pakistan were almost eight times as great in value as those in the opposite direction. In 1958-59, their value was only two-and-one-half times as great. However, beginning in 1952-53 the exports of West Pakistan, at constant prices, show a higher trend than those of East Pakistan in interwing trade.

4.3.2.   The Composition of Interwing Trade

Preliminary Observations.

The classification of trade by commodity groups creates certain difficulties in any analysis of the composition of trade. One can have his own classification to suit his own purpose; and no classification would be perfectly scientific. Nowadays the Standard International Trade Classification (SITC) is widely followed for the purpose of the analysis of the composition of trade. Most countries follow this classification in the compilation and publication of trade statistics. The interwing trade statistics in Pakistan are published in an unclassified manner. Table 4.4 shows the composition of interwing trade on the procedure of the SITC. But because of the less varied number of articles entering into interwing trade, such a classification does not appear to be very helpful in the analysis of the composition of interwing trade, including the change therein, from the standpoint of the explanation of the growth of interwing trade over the last decade.

TABLE 4.4

The Composition of Interwing Trade
Individual Groups of Commodities as Percentage of Total
(Domestic Goods)

1948-49 to 1958-59

YEARS	FOOD, DRINK AND TOBACCO (1)	RAW MATERIALS (2)	TEXTILES (3)	CHEMICALS (4)	METALS (5)	MACHINERY (6)	OTHER INDUS- TRIAL GOODS (7)	UNSPE- CIFIED (8)
EXPORTS OF EAST PAKISTAN (In Percent)								
1948-49	79.42	9.14	9.15	--	--	--	0.57	1.71
1949-50	97.11	1.60	0.64	--	--	--	--	0.64
1950-51	93.87	3.05	0.43	--	--	--	0.43	2.17
1951-52	82.17	7.39	5.75	--	--	--	1.36	3.28
1952-53	55.49	3.73	24.62	--	--	--	0.21	15.94
1953-54	46.94	7.33	38.02	--	--	--	5.33	2.31
1954-55	41.23	7.63	29.44	--	--	--	16.62	5.01
1955-56	46.39	5.76	32.50	--	--	--	11.07	4.23
1956-57	37.93	8.06	31.19	0.18	--	--	20.32	2.19
1957-58	41.58	8.16	26.99	0.23	--	--	17.30	5.11
1958-59	42.62	10.53	25.10	0.38	--	--	16.05	5.30
EXPORTS OF WEST PAKISTAN (In Percent)								
1948-49	45.27	26.71	2.67	3.46	1.15	--	3.97	16.75
1949-50	67.75	19.88	0.91	1.00	0.56	--	2.75	6.98
1950-51	37.29	35.91	9.59	2.56	1.23	--	3.56	9.83
1951-52	56.61	39.94	0.25	0.95	--	--	2.55	1.59
1952-53	52.28	31.97	2.91	1.25	0.97	--	7.44	3.09
1953-54	35.96	36.93	10.99	1.24	0.93	0.77	10.22	2.84
1954-55	25.79	51.48	6.48	2.30	0.27	0.61	7.07	5.90
1955-56	29.44	49.13	9.49	2.98	0.63	1.41	3.67	3.16
1956-57	29.54	40.04	14.81	2.23	1.25	2.43	7.17	2.31
1957-58	25.40	43.85	14.48	1.44	1.27	3.76	7.22	2.22
1958-59	38.04	32.81	11.68	2.88	0.56	2.26	10.08	1.69

For the purpose of the present study, therefore, we have considered it more useful to combine the SITC groups represented by columns 3-8 of Table 4.4 into one and classify interwing trade, following the Brussels Classification of 1913, into three major groups of commodities, namely: (1) Food, Drink and Tobacco, (2) Raw Materials, and (3) Manufactures. This is shown in Tables 4.5 and 4.7.

Note that this classification, like the SITC, also suffers from certain limitations. For example, the commodity group of Food, Drink and Tobacco includes certain commodities, e.g. provisions and cigarettes, which really belong to the group of Manufactures. Similarly, Raw Materials include commodities like cotton twist and yarns which are, in a sense, manufactures.

Furthermore, in manufactures we have included certain items recorded by the (Pakistan) Central Statistical Office as "all other articles". In Table 4.4 we have described this item as unspecified. Probably these articles refer to parcel post and the like which, in international trade analysis, are sometimes considered as manufactures. Some of these "all other articles" may include semi-manufactured goods. It can be noticed from Table 4.4 that the item of unspecified commodities has shown certain erratic behavior up to June 1953, which is difficult to explain.

The Composition of the Export of Domestic Goods from East Pakistan.

East Pakistan's exports to West Pakistan are composed mainly of Food, Drink and Tobacco, and Manufactures. The relative importance of Raw Materials is less, but not insignificant. Over the decade under study, the

relative proportions of different commodity groups have varied considerably. The major characteristic of this change has been the growth of the share of Manufactures.

It can be seen from Table 4.5 that during the period between 1948-49 and 1951-52, Food, Drink and Tobacco accounted for 88.14 percent of the total export of East Pakistan. The same figure declined to 44.60 percent during the next period from 1952-53 to 1958-59. The share of Manufacture rose from 6.54 percent during the first period to 48.08 percent in the second. The share of Raw Materials remained comparatively stable. Note that these averages hide the significant fact that the absolute shares of both Food, Drink and Tobacco and Raw Materials have shown increasing trends throughout the decade under study.

Food, Drink and Tobacco.

The absolute values of the exports of this commodity group increased in every year except 1956-57, and since 1952-53, in spite of the decline in its relative share, it still accounts for more than one-third of the total exports from East Pakistan. Broadly, ten commodities are included in this group, out of which, as Table 4.6 indicates, four commodities accounted for about 97 percent of the total values of this group, during the eleven-year period under study.

Of these commodities, tea alone accounted for about 78 percent of the total values in this group. The export of tea increased almost continually (exceptions: 1951-52, 1956-57, and 1958-59). Betel nuts, spices including chillies, turmeric and ginger, and unmanufactured tobacco are the other important items in this group.

TABLE 4.5

The Composition of the Exports of East to West Pakistan
(Domestic Goods)

A. Major Groups
1948-49 to 1958-59

(Values in Crores of Rupees)

YEARS	FOOD, DRINK AND TOBACCO (1)		RAW MATERIALS (2)		MANUFACTURES (3)		TOTAL (4)
	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value
1948-49	1.39	79.42	0.16	9.14	0.20	11.43	1.75
1949-50	3.03	97.11	0.05	1.60	0.04	1.28	3.12
1950-51	4.31	93.87	0.14	3.05	0.14	3.05	4.59
1951-52	3.00	82.17	0.27	7.39	0.38	10.41	3.65
1952-53	5.50	55.49	0.37	3.73	4.04	40.76	9.91
1953-54	6.08	46.94	0.95	7.33	5.91	45.63	12.94
1954-55	7.40	41.23	1.37	7.63	9.16	51.02	17.93
1955-56	10.31	46.39	1.28	5.76	10.62	47.79	22.21
1956-57	8.66	37.93	1.84	8.06	12.33	54.01	22.83
1957-58	10.98	41.58	2.16	8.16	13.27	50.16	26.41
1958-59	11.36	42.64	2.78	10.53	12.37	46.83	26.41

TABLE 4.6

The Composition of the Exports of East to West Pakistan

B. The Importance of Individual Commodities in Each Group

1948-49 to 1958-59

(Values in Crores of Rupees)

YEARS	TEA (1)		BETELNUTS (2)		SPICES (3)		TOBACCO UNMFG'D. (4)		TOTAL[1] (5)	
					FOOD, DRINK, TOBACCO					
	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share[2] Pct.
1948-49	1.06	76.26	a*	---	0.30	21.58	0.02	1.44	1.38	99.28
1949-50	2.54	83.83	0.27	8.91	0.81	5.94	0.02	0.66	3.01	99.34
1950-51	3.87	89.79	0.30	6.96	0.09	2.09	0.02	0.46	4.28	99.30
1951-52	2.37	79.00	0.47	15.67	0.04	1.33	0.09	3.00	2.97	99.00
1952-53	3.41	62.00	0.62	11.27	0.81	14.73	0.20	3.64	5.04	91.64
1953-54	4.67	76.81	0.50	8.22	0.37	6.09	0.22	3.62	5.76	94.74
1954-55	5.63	76.08	0.80	10.81	0.31	4.19	0.42	5.68	7.16	96.76
1955-56	8.68	84.19	0.50	4.85	0.54	5.24	0.18	1.75	9.90	96.03
1956-57	6.00	69.28	1.32	15.24	1.00	11.55	0.15	1.73	8.47	97.80
1957-58	8.77	79.87	0.88	8.01	0.84	7.65	0.16	1.46	10.65	96.99
1958-59	8.30	73.70	1.20	10.66	0.95	8.44	0.32	2.84	10.77	95.64

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TABLE 4.6 (continued)

The Composition of the Exports of East to West Pakistan

B. The Importance of Individual Commodities in Each Group

1948-49 to 1958-59

(Values in Crores of Rupees)

| | RAW MATERIALS | | | | | | | |
| | SEEDS (6) | | LEATHER (7) | | WOOD AND TIMBER (8) | | TOTAL[1] (9) | |
	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share[2] Pct.
1948-49	0.12	75.00	0.01	6.25	--	--	0.13	81.25
1949-50	--	--	0.01	20.00	--	--	0.01	20.00
1950-51	0.04	28.57	0.02	14.29	--	--	0.06	42.86
1951-52	0.01	3.70	0.15	55.56	--	--	0.16	59.26
1952-53	0.07	18.92	0.27	72.97	--	--	0.34	91.89
1953-54	0.01	11.58	0.46	48.42	0.32	33.68	0.89	93.68
1954-55	0.15	10.95	0.81	59.12	0.31	22.63	1.27	92.70
1955-56	0.18	14.06	0.78	60.94	0.22	17.19	1.18	92.19
1956-57	0.14	7.61	1.27	69.02	0.26	14.13	1.67	90.76
1957-58	0.24	11.11	1.33	61.57	0.41	18.98	1.98	91.66
1958-59	0.39	14.03	1.98	71.22	0.31	11.55	2.68	96.40

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TABLE 4.6 (continued)

The Composition of the Exports of East to West Pakistan

B. The Importance of Individual Commodities in Each Group

1948-49 to 1958-59

(Values in Crores of Rupees)

| YEARS | MANUFACTURES | | | | | | | | | |
| | JUTE MANUFACTURES (10) | | ROPE AND TWINE (11) | | MATCHES (12) | | PAPER AND PASTE BOARD (13) | | TOTAL[1] (14) | |
	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.[2]
1948-49	0.02	10.00	--	--	0.01	5.00	--	--	0.03	15.00
1949-50	--	--	--	--	--	--	--	--	--	--
1950-51	--	--	0.02	14.29	0.01	7.15	--	--	0.03	21.44
1951-52	0.10	26.32	0.11	28.95	0.03	7.89	--	--	0.24	63.16
1952-53	2.05	50.74	0.37	9.16	--	--	--	--	2.42	59.90
1953-54	4.28	72.42	0.34	5.75	0.06	1.02	0.60	10.20	5.28	89.39
1954-55	4.51	49.24	0.36	3.93	0.25	2.72	2.74	29.91	7.86	85.80
1955-56	5.01	47.17	0.39	3.67	0.91	8.57	1.51	14.22	7.82	73.63
1956-57	6.61	53.61	0.38	3.08	1.10	8.92	3.36	27.25	11.45	92.86
1957-58	6.10	45.96	0.78	5.88	1.36	10.25	3.07	23.13	11.31	85.22
1958-59	5.74	46.40	0.87	7.03	1.01	8.16	2.85	23.04	10.47	84.63

* a = insignificant

[1] Of items listed.

[2] Of the commodity group total.

Raw Materials.

Raw Materials constitute a relatively small proportion of the total exports from East to West Pakistan. Of the six commodities, namely, seeds, hides, and skins, wood and timber, wool, dyeing and tanning substances, and leather, only three (e.g. seeds, leather, and wood and timber) accounted for more than 90 percent of the whole group since 1952-53. Leather is the most important item. It alone had a share of about 62 percent in the whole group during the years from 1952-53 and 1958-59. Note that the absolute importance of leather also increased almost continuously over the entire period. Wood and timber appeared in the export of East Pakistan from 1953-54.

Manufactures.

Exports of Manufactures from East to West Pakistan increased continually throughout the decade under study, both in absolute and in relative magnitudes. The sharp increase in the share of Manufactures occurred from 1952-53. From 1954-55, as an individual group, it had the largest share in the exports from East to West Pakistan.

The entire group of Manufactures is dominated by a few commodities like jute goods, rope and twine, matches, paper and pasteboard. During the second half of the period under consideration, these commodities accounted for about 85.38 percent of the total export of Manufactures. Jute manufactures happen to be the most important item of export in this group. Paper and pasteboard are the second important items in this group.

The Composition of the Export of Domestic Goods from West Pakistan.

As in the case of the exports from East Pakistan, the share of differ-ent commodity groups in the exports of West Pakistan has varied considerably from year to year. Up to 1951-52, Food, Drink and Tobacco had the largest share in the total export from West to East Pakistan. Raw Materials was the second important commodity group during this period. From 1952-53, however, the relative share of Food, Drink and Tobacco declined and the absolute and relative shares of Raw Materials and Manufactures increased.

Table 4.7 indicates that although the relative share of Food, Drink and Tobacco showed the tendency to decline after 1952-53, its absolute values showed the tendency to increase. The change in the share of this group had been erratic up to 1953-54, because of the erratic behavior of rice, as we shall soon see. The share of Raw Materials rose from 30.61 percent during the period between 1948-49 to 1951-52 to 43.44 percent during the following period. But more significant was the increase in the absolute values of the Raw Materials exports from West to East Pakistan, especially after 1953-54. The share of Manufactures rose from 18.09 percent in the first period to 26.74 percent during the second. As in the case of Raw Materials, the values of the export of Manufactures from West Pakistan increased significantly between 1954-55 and 1958-59.

Food, Drink and Tobacco.

Of the fifteen commodities included, nine accounted for an average share of 78.32 percent of the total value of this group. The share of most commo-dities in this group has fluctuated widely from year to year.

It can be seen from Table 4.8 that rice is the most important item in this group. But the fluctuations in the exports of rice, which ranged

TABLE 4.7

The Composition of the Exports of West to East Pakistan
(Domestic Goods)

A. Major Groups

1948-49 to 1958-59

(Values in Crores of Rupees)

YEARS	FOOD, DRINK AND TOBACCO (1)		RAW MATERIALS (2)		MANUFACTURES (3)		TOTAL (4)
	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value
1948-49	6.27	45.27	3.70	26.71	3.88	28.01	13.85
1949-50	15.54	67.75	4.56	19.88	2.80	12.21	22.90
1950-51	7.85	37.29	7.56	35.91	5.64	26.79	21.05
1951-52	8.56	56.61	6.26	39.94	0.84	5.36	15.66
1952-53	9.14	52.28	5.59	31.97	2.74	15.67	17.47
1953-54	13.03	35.96	13.38	36.93	9.78	26.99	36.19
1954-55	7.52	25.79	15.01	51.48	6.60	22.64	29.13
1955-56	9.78	29.44	16.29	49.03	7.09	21.34	33.16
1956-57	15.08	29.56	20.43	40.04	15.39	30.16	50.90
1957-58	17.64	25.40	30.45	43.85	20.93	30.14	69.02
1958-59	24.54	38.04	21.23	32.81	18.93	29.15	64.70

TABLE 4.8

The Composition of The Exports of West to East Pakistan

B. The Importance of Individual Commodities in Each Group

1948-49 to 1958-59

(Values in Crores of Rupees)

YEARS	RICE (1)		WHEAT AND FLOUR (2)		PULSE, GRAINS AND GRAMS (3)		GHEE AND EDIBLE OILS (4)		TOBACCO MANUFACTURED (5)		TOTAL[1] (6)	
	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.[2]
1948-49	3.90	62.17	0.09	1.43	0.07	1.12	0.77	12.27	0.01	0.16	4.84	77.15
1949-50	6.46	41.54	5.51	35.43	0.52	3.34	1.43	9.19	0.03	0.19	13.95	89.69
1950-51	1.66	21.13	0.89	11.33	0.70	8.91	2.74	34.88	0.60	7.64	6.59	83.89
1951-52	2.72	31.77	0.65	7.59	0.55	6.42	2.11	24.64	0.58	6.77	6.61	77.19
1952-53	3.96	43.32	0.40	4.38	0.26	2.85	2.80	30.63	0.43	4.70	7.85	85.88
1953-54	2.22	17.03	0.39	2.99	0.60	4.60	4.95	37.97	3.73	28.61	11.89	91.20
1954-55	0.07	0.93	0.23	3.06	0.11	1.46	2.10	27.91	2.67	35.48	5.18	68.84
1955-56	1.20	12.26	1.28	13.08	0.20	2.04	1.62	16.56	2.13	21.77	6.43	65.71
1956-57	0.15	0.99	1.74	11.54	2.10	13.92	5.44	36.07	2.34	15.51	11.77	78.03
1957-58	6.90	39.05	0.99	5.60	1.41	7.93	4.74	26.83	1.09	6.17	15.13	85.63
1958-59	13.41	34.63	0.45	1.83	0.36	1.74	4.59	20.17	1.99	8.11	21.16	86.21

FOOD, DRINK AND TOBACCO

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TABLE 4.8 (continued)

The Composition of the Exports of West to East Pakistan

B. The Importance of Individual Commodities in Each Group

1948-49 to 1958-59

(Values in Crores of Rupees)

YEARS	RAW MATERIALS							
	COTTON TWIST AND YARN (7)		RAPE AND MUSTARD SEEDS (8)		RAW COTTON (9)		TOTAL [1] (10)	
	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.[2]
1948-49	0.89	24.05	1.87	50.53	0.66	17.83	3.42	92.41
1949-50	0.46	10.08	3.10	67.95	0.58	12.72	4.14	90.75
1950-51	1.38	18.24	4.18	55.26	1.36	17.98	6.92	91.48
1951-52	--	--	3.86	61.66	2.01	32.10	5.87	93.76
1952-53	0.92	16.45	2.73	48.81	1.27	22.71	4.92	87.97
1953-54	4.54	33.91	5.03	37.57	1.93	14.42	11.50	85.90
1954-55	9.40	62.60	2.83	18.85	1.87	12.45	14.10	93.90
1955-56	10.95	67.12	2.76	16.92	1.90	11.65	15.61	95.69
1956-57	10.58	51.74	5.31	25.97	3.86	18.88	19.75	96.59
1957-58	17.50	57.40	6.62	21.71	5.67	18.60	29.79	97.71
1958-59	10.78	50.77	5.82	27.41	4.16	19.60	20.76	97.78

TABLE 4.8 (continued)

The Composition of the Exports of West to East Pakistan

B. The Importance of Individual Commodities in Each Group

1948-49 to 1958-59

(Values in Crores of Rupees)

	MANUFACTURES													TOTAL[1]	
	COTTON MANUFACTURES* (11)		BOOTS AND SHOES (12)		HARDWARE AND CUTLERY (13)		SUGAR AND MOLASSES (14)		SOAP (15)		CHEMICALS (16)		METALS (17)		(18)	
YEARS	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.[2]
1948-49	0.37	9.53	n**	--	0.14	3.61	--	--	0.01	0.26	0.48	12.37	0.16	4.12	1.16	29.89
1949-50	0.21	7.50	0.02	0.71	0.09	3.21	--	--	0.01	0.36	0.23	8.21	0.13	4.64	0.69	24.63
1950-51	2.02	35.81	0.19	3.37	0.09	1.60	--	--	0.01	0.18	0.54	9.57	0.26	4.61	3.11	55.14
1951-52	0.04	4.76	0.29	34.52	0.08	9.52	--	--	n**	--	0.15	17.86	--	--	0.56	66.66
1952-53	0.51	18.61	0.20	7.30	0.26	9.49	--	--	0.01	0.36	0.22	8.03	0.17	6.20	1.37	49.99
1953-54	3.68	40.68	0.70	7.50	0.19	1.94	0.40	4.09	0.29	2.96	0.45	4.60	0.34	3.47	6.35	64.89
1954-55	1.89	28.63	0.52	7.88	0.70	10.61	0.43	6.51	0.26	3.94	0.57	10.15	0.08	1.21	4.55	68.93
1955-56	3.15	44.42	0.15	2.12	0.48	6.77	0.03	0.42	0.41	5.78	0.99	13.96	0.21	2.96	5.42	76.43
1956-57	7.52	48.80	0.49	3.18	0.66	4.28	0.25	1.62	0.97	6.30	1.14	7.40	0.64	4.15	11.67	75.73
1957-58	10.00	47.70	0.49	2.34	0.51	2.43	0.82	3.91	1.13	5.39	1.00	4.77	0.88	4.20	14.83	70.74
1958-59	7.60	40.14	0.59	3.12	0.25	1.32	2.07	10.93	0.31	1.64	1.92	10.14	0.36	1.90	13.10	69.19

* Cotton manufactures here mean cotton piece goods.

** n = Rs. 9000/-

[1] Of items listed.

[2] Of the commodity group total.

between Rs.0.07 crores in 1954-55 and Rs.13.41 crores in 1958-59, were also the most violent. Wheat, flour, pulse, grains and grams, ghee and edible oils, and manufactured tobacco are the other important items in this group.

Raw Materials.

The importance of raw materials became the greatest during the second period under consideration. Raw Materials include six commodities of which three, i.e. cotton twist and yarns, raw cotton, rape and mustard seeds, accounted for more than 92.61 percent of the total value in this group. Cotton twist and yarns is the most important item. The export of this item has shown certain erratic variation up to 1951-52, and thereafter its value rose almost continually until 1957-58. Despite the year-to-year fluctuation, seeds and raw cotton showed a rising trend during the period under study.

Manufactures.

The export of Manufactures from West to East Pakistan is composed of 23 commodities. Of these, ten commodities accounted for about 39.28 percent of the total value of exports in this group during the first half and for about 70.00 percent during the second half of the period under consideration.

The export of cotton manufactures, which include cotton piece goods and other textiles, has become the most important item in this group since 1953-54. The share of this item in this group increased from 15.24 percent in the first half to 43.00 percent during the second half of the last decade. Table 4.8 shows that the absolute value of the export of cotton manufactures from West to East Pakistan recorded year-to-year variation up to 1953-54. However, it rose continuously between 1954-55 and 1957-58. Other important

items of export in this group are chemicals, sugar and molasses, boots and shoes, hardware and cutlery, soap, and metals. After cotton manufactures, chemicals are the next important item of export in this group from West to East Pakistan. The export of chemicals has shown a considerable rising trend from 1952-53 on.

4.3.3.   The Composition of Foreign Goods Entering into Interwing Trade

Table 4.9 shows the composition of re-export of foreign goods from one wing to the other. Excluding the few years in the first half of the period under study, the re-import of foreign goods in one wing from the other constituted a minor proportion of the total imports. The pattern of re-imports in each wing is so similar that it hardly needs a detailed discussion. One interesting point to note is that interwing trade in foreign goods is more balanced than in domestic goods. The balance was in favour of East Pakistan in five out of eleven years. On the average the re-export from East to West Pakistan amounted to Rs.1.01 crores, while the same figure for West Pakistan was Rs.2.81.crores. The average surplus of Rs.1.01 crores for West Pakistan was due to the comparatively larger volume of re-exports from West Pakistan in the years 1950-52.

The unusually large volume of the re-export of foreign goods from West to East Pakistan in these years needs to be explained. This phenomenon can be attributed to two factors: the progressive economic isolation of East and West Pakistan from India and the OGL imports from the rest of the world. In the year 1948-49 East Pakistan's trade with India accounted for about 88 percent of her foreign trade. The same figure for West Pakistan was about

TABLE 4.9

Composition of Interwing Trade, Foreign Goods

1948-49 to 1958-59

(Values in Crores of Rupees)

YEARS	FOOD, DRINK AND TOBACCO (1)	RAW MATERIALS (2)	TEXTILES (3)	CHEMICALS (4)	METALS (5)	MACHINERY (6)	OTHER INDUS- TRIAL GOODS (7)	UNSPE- CIFIED (8)	TOTAL (9)
				EXPORTS OF EAST PAKISTAN					
1948-49	0.01	0.0001	0.01	0.003	----	0.003	0.03	0.03	0.09
1949-50	0.05	0.02	1.46	0.03	0.005	0.04	0.16	0.04	1.81
1950-51	0.14	0.10	1.02	0.04	0.007	0.06	0.21	0.10	1.68
1951-52	0.08	0.09	1.99	0.05	0.009	0.06	0.59	0.12	2.99
1952-53	0.12	0.27	3.25	0.11	0.04	0.15	0.58	0.27	4.79
1953-54	0.22	0.0009	0.60	0.02	0.16	0.27	0.68	0.20	2.08
1954-55	0.17	0.004	0.18	0.05	0.16	0.20	0.73	0.23	1.72
1955-56	0.17	----	0.038	0.04	0.25	0.29	0.59	0.15	1.52
1956-57	0.03	----	0.28	0.02	0.02	0.09	0.48	0.17	1.09
1957-58	0.04	0.003	0.003	0.09	0.009	0.10	0.16	0.15	0.55
1958-59	0.07	0.11	0.13	0.19	0.02	0.16	0.08	0.16	0.92
				EXPORTS OF WEST PAKISTAN					
1948-49	0.0008	0.03	0.18	0.009	0.008	0.002	0.008	0.04	0.27
1949-50	0.11	0.23	0.07	0.03	0.02	0.02	0.02	0.14	0.64
1950-51	0.21	3.33	1.66	0.11	0.09	0.02	0.06	0.69	6.17
1951-52	0.37	2.10	3.84	0.71	0.14	0.53	0.54	1.04	9.27
1952-53	0.09	1.05	1.76	0.41	0.03	0.26	0.39	6.43	4.15
1953-54	0.05	0.09	0.50	0.09	0.07	0.26	0.32	0.39	1.77
1954-55	0.008	0.05	0.04	0.12	0.008	0.20	0.14	0.65	1.21
1955-56	0.23	0.06	0.01	0.13	0.02	0.27	0.04	0.64	1.40
1956-57	0.07	0.07	0.05	0.27	0.07	0.39	0.04	1.35	3.31
1957-58	0.07	0.13	0.008	0.07	0.005	0.09	0.03	0.82	1.22
1958-59	0.006	0.02	0.01	0.03	0.08	1.47	0.02	1.50	3.13

50 percent. It means that East Pakistan was having a larger share of her trade with India before the isolation from India began in September 1949. The deadlock over trade with India meant that East Pakistan had to import from somewhere else the goods previously imported from India. Trade diversion is a time-consuming process. The rapidity with which trade diversion would take place would depend upon the existence of a well-experienced trading class and other trading facilities, including the trade policy of the government concerned.

The fact that the migration of the Hindu traders to India after partition dislocated the trading mechanism in East Pakistan has been noted above. Not only had no local Muslim trading class developed in East Pakistan by the year 1951-52, but also she did not receive an adequate compensating immigration of Muslim business classes from India. Mostly they migrated to West Pakistan. Under the circumstances, it was not unlikely that, especially in a situation of OGL, the import of foreign goods in West Pakistan would be far greater than that in East Pakistan. And the favourable demand and price situation in East Pakistan, other things being equal, might have induced the re-export of foreign goods from West to East Pakistan. The fact that such re-exports during these two years were dominated by Food, Drink and Tobacco and Raw Materials appears to support the above hypothesis.

A small volume of re-imports in interregional trade is not unusual. Except in the years 1950-53, the re-exports from East Pakistan showed the tendency to decline. While the re-exports from West Pakistan increased in the years 1956-57 and 1958-59, the value of re-exports from West Pakistan in each of these years amounted only to slightly more than Rs.3 crores. In

a country like Pakistan, interregional re-imports may be caused by discrimi-
nation in the regional distribution of import licenses and/or by the existence
of importers catering to the needs of both wings. The pattern and the compo-
sition of re-exports in interwing trade, by themselves, do not suggest the
existence of discrimination in the regional distribution of import licenses,
even if such discrimination had existed in practice.

However, the existence of certain firms conducting foreign trade on an
All-Pakistan basis might partly explain the phenomenon of re-exports in inter-
wing trade, especially the increase of re-exports from West Pakistan from
1956-57. Investment activities in East Pakistan were very much speeded up
after 1956, gathering momentum during the 1957-59 period. In October 1958
import licenses were frozen in East Pakistan for a couple of months. In
the face of increasing investment activities, the freezing of import li-
censes might have forced investors in East Pakistan to re-import Rs.1.47
crores-worth of machinery in 1958-59[2] from the stock of their counterparts
in West Pakistan. Or it might be that West Pakistani investors in East Paki-
stan imported in West Pakistan a portion of their capital goods to be used
in East Pakistan. The increase of re-export from West Pakistan in 1956-57
was caused by the sudden rise in the value of the 'unspecified' item which
is difficult to explain.

Although re-exports in interregional trade are not unusual, the cost
of transportation involved should arouse special interest in the interwing
movement of foreign goods in a country like Pakistan.

[2] It can be seen from Table 5.8 in Chapter 5 that the foreign import of
industrial goods decreased in East Pakistan and increased in West Paki-
stan in 1958-59.

4.4.   The Analysis of the Growth of Interwing Trade

The foregoing discussion indicates the difficulty of the analysis of
the growth of interwing trade strictly in accordance with the model developed
in Chapter 2. In the first place, the partition of India and the formation
of Pakistan had not immediately been followed by economic isolation between
them. In the second place, the effects of partition and economic growth
can hardly be separated from one another. Thirdly, and this is in a sense
more important, relevant data on the prepartition interregional flow of
goods and services in undivided India are not available. However, in what
follows below, we shall try to keep as close to the model as possible.

Although the partition effects and growth effects are inseparable,
we shall analyze them separately in 4.4.1 and 4.4.2 respectively. Further-
more, in analyzing the effects of partition on the growth of interwing
trade, we shall treat separately the growth of interwing trade in certain
types of primary products which mainly resemble the classical type of
adjustment merely through the diversion of trade and the growth of inter-
wing trade in cotton and jute manufactures, which conforms to the growth-
oriented adjustment in raw jute and raw cotton flows in 'East' and 'West'
as analyzed in Chapter 2, after the partition of India.

4.4.1.   The Effects of Partition and Integration

4.4.1.1.   The Growth of Direct Trade Between East and West Pakistan in
Primary Products

It has been indicated in Section 2.5 that, given the differential
resource endowments in East and West Pakistan, their integration after the
partition of India would facilitate the opening up of direct trade between

them in certain primary products. The following discussion aims at explaining the course of the growth of interwing trade in such products.

Primary products are included in the commodity groups of Food, Drink and Tobacco and Raw Materials. Note that certain commodities included in these groups are of the nature of industrial products. However, the analysis of the growth of interwing trade in raw materials will be postponed for the time being, because import of these items in a region is a function of the growth of industries.

We have seen above that in spite of the decrease of the relative share of Food, Drink and Tobacco in interwing trade over the period under study, its absolute values increased considerably. The reasons for this increase can be appreciated from further commodity analysis of interwing trade in this group. The important primary products involved in this group are tea, betel nuts, spices and tobacco from East to West Pakistan, and rice, wheat and wheat flour, pulses and grains from West to East Pakistan. It is highly probable that both East and West Pakistan, because of the cost of transportation involved, traded most of these commodities with the adjacent regions of India before partition. The same would hold true in respect to the manufactured commodities such as edible oils and cigarettes included in this group. This leads us to search for the reasons for the diversion of the prepartition pattern of trade in these goods toward the trade between East and West Pakistan after partition. One reason for trade diversion in these commodities appears to be the progressive economic isolation of Pakistan from India following the deadlock over Indo-Pakistan trade in 1949. The other is the commercial policy of the Government of Pakistan.

Take, for example, the export of tea from East to West Pakistan. The import of tea from abroad has been banned in Pakistan since partition. Tea is not grown in West Pakistan. Thus the prohibition of the foreign import of tea produced the major trade diversion impact on the increase in the export of tea from East to West Pakistan. This can be seen from the fact that the interwing trade in tea doubled over a period of one year in 1949-50. But this does not explain the secular growth of the physical volume of tea imported in West Pakistan over the past decade in spite of rising unit values of tea in interwing trade. (Indices of the unit values of important commodities are shown in Table 4.10.) One reason for this is the re-export of tea abroad from West Pakistan. However, since the re-export of tea from West Pakistan varied from Rs. 2 to Rs. 4 million during the second half of the last decade, it accounts only for a small fraction of the increased import of tea in West Pakistan. The increase of population, per capita real income, and the change in the consumption pattern, consequent upon industrialization and urbanization, must have caused a secular increase in the consumption of tea in West Pakistan during recent years. Given the restriction of the import of tea in Pakistan from abroad, secular growth of the exports of tea from East to West Pakistan is not unusual.

Since tea is an important item in the export of East Pakistan to the rest of the world, the growth of interwing trade in tea had two types of trade diversion aspects. First, to the extent that East Pakistan had faced a declining demand for tea in the outside world, the growth of inter-wing trade facilitated the short-run adjustment problems in respect to tea in East Pakistan. Second, given the supply of tea in East Pakistan and the

TABLE 4.10

Indices of Unit Values of Selected Commodities
in Interwing Trade

1948-49 to 1958-59

(Average of 1949-50 to 1952-53 = 100)

| YEARS | EXPORTS FROM EAST PAKISTAN | | | | | | | |
	TEA (1)	BETELNUTS (2)	CHILLIES (3)	GINGER (4)	UNMANU-FACTURED TOBACCO (5)	SEEDS (6)	LEATHER (7)	JUTE MANU-FACTURES (8)
1948-49	92.9	118.2	84.9	74.1	37.5	88.3	64.7	68.0
1949-50	107.1	98.6	144.3	97.7	62.5	69.2	47.5	120.9
1950-51	100.0	88.4	75.0	104.7	100.0	118.3	125.2	105.8
1951-52	100.0	95.7	85.8	91.6	125.0	91.7	36.0	105.3
1952-53	92.9	117.3	95.9	107.2	112.5	120.8	191.4	68.0
1953-54	128.6	120.4	119.9	197.1	125.0	78.1	135.9	69.2
1954-55	171.4	150.9	96.6	158.8	137.5	41.7	98.5	84.6
1955-56	178.6	129.3	74.3	196.8	162.5	57.8	175.6	84.6
1956-57	150.0	211.45	202.9	162.4	100.0	108.4	139.3	84.6
1957-58	185.7	224.5	147.2	106.7	125.0	78.9	107.5	105.2
1958-59	157.1	189.1	128.8	86.5	137.5	41.5	118.7	84.6

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TABLE 4.10 (continued)

Indices of Unit Values of Selected Commodities
in Interwing Trade
1948-49 to 1958-59

(Average of 1949-50 to 1952-53 = 100)

| | EXPORTS FROM WEST PAKISTAN | | | | | | |
	RICE (9)	WHEAT AND FLOUR (10)	GHEE (11)	SEEDS (12)	RAW COTTON (13)	COTTON YARNS AND TWIST (14)	COTTON MANU- FACTURES (15)
1948-49	87.1	46.9	159.8	92.3	109.9	86.4	128.6
1949-50	104.3	92.0	94.1	98.9	110.3	86.5	135.7
1950-51	111.4	127.4	102.9	113.7	106.6	113.6	100.0
1951-52	70.7	88.2	104.9	104.2	105.2	90.9	107.1
1952-53	113.6	92.4	98.4	83.2	78.9	118.1	57.2
1953-54	86.5	157.9	77.3	117.4	57.7	99.5	107.1
1954-55	65.8	102.9	101.8	104.9	74.6	104.5	92.9
1955-56	90.5	107.0	55.2	99.7	79.5	90.9	78.7
1956-57	102.5	115.0	69.7	117.4	80.1	104.6	85.7
1957-58	99.6	120.3	60.6	149.4	45.2	100.0	57.7
1958-59	90.6	109.3	64.4	150.2	64.3	104.5	50.0

demand for tea abroad, the interwing trade in tea, in the absence of the control of the export of tea abroad, would be affected by the variation in the export of tea from East Pakistan to the rest of the world.

In fact, not only was half of the increased export of domestic goods from East to West Pakistan up to 1951-52 accounted for by tea, but the decline of the total export from East Pakistan in 1951-52 was also due to the fall in the export of tea from East to West Pakistan. For example, in 1951-52, the interwing export of East Pakistan declined by Rs.0.96 crores, while that of tea fell by Rs.1.50 crores. The decline in the export of tea from East to West Pakistan in 1956-57 and 1958-59 might have been due to the increased export abroad. The export of tea abroad increased by Rs.2.1 crores in 1956-57 and by Rs.0.50 crores in 1958-59. The former might have been partly influenced by the devaluation of the Pakistani rupee in September 1955, and the latter by the introduction of the Export Bonus Scheme in November 1958.

Like tea, betel nuts are not grown in West Pakistan. Chillies, ginger and tobacco are grown in West Pakistan. The exports of spices and unmanufactured tobacco from East to West Pakistan have not shown a secular trend. The imports of betel nuts and certain spices from abroad were banned in Pakistan after 1947. The impact of the deadlock over Indo-Pakistan trade is visible on the interwing import of spices in West Pakistan in 1949-50. The variation in the levels of its export from East Pakistan in the subsequent years was possibly influenced by the changing supply conditions in West Pakistan. The increased import of betel nuts in West Pakistan may be partly explained by the increased population and partly by the probable

increase in the industrial use of betel nuts in West Pakistan with the growth of certain chemical industries.

The rising import of unmanufactured tobacco into West from East Pakistan up to 1954-55 can be explained by the development of tobacco manufacturing in West Pakistan. The production of manufactured tobacco in West Pakistan doubled in 1954-55. The decline in the interwing export of unmanufactured tobacco from East Pakistan after 1954-55 was caused by the growth of cigarette manufacturing and by the fall of output of unmanu- factured tobacco in East Pakistan, as well as by the increase in the pro- duction of unmanufactured tobacco in West Pakistan.

Cigarette manufacturing started in East Pakistan from 1954-55. From 382 million in 1954-55, the output of cigarettes increased to 1,103 million in 1959-60, while the production of unmanufactured tobacco in East Pakistan fell from 110 million pounds in 1954-55 to 77 million pounds in 1958-59. On the other hand, the output of unmanufactured tobacco increased in West Pakistan from 83 million pounds in 1954-55 to 124 million pounds in 1958-59. As a result, East Pakistan imported far more unmanufactured tobacco from West Pakistan after 1954-55 than she exported.

The exact reason for the fall in the production of unmanufactured tobacco in East Pakistan during 1955-59 is not known to us. Variation in weather conditions, as is well known, might have been an important factor. However, it might have been partly due to interwing trade itself. A better variety of Virginia tobacco is grown in larger quantity in West Pakistan. The growth of demand for a better variety of tobacco in East Pakistan, con- sequent upon the growth of cigarette manufacturing, along with the increased

supply of the same in West Pakistan, might have reduced the demand for, and hence the output of East Pakistani tobacco.

Excluding tobacco, the import from abroad of most of the items in the group of Food, Drink and Tobacco exported from West to East Pakistan has been formally banned since 1947. Even the import of tobacco, including cigarettes, was under rigorous control. However, there have been substantial imports of food grains, i.e. rice and wheat, on Government account from 1956 to 1958-59. As noted earlier, not only is rice the major food crop, but it is also the major staple food in East Pakistan. West Pakistan produces a far lower quantity of rice relatively; and rice is also a secondary item of food in that region. Under the circumstances, given the import control policy of Pakistan and transport facilities between the wings, the shortage of supply of rice in East Pakistan in a particular year would induce increased imports from West Pakistan. This, as Table 4.11 partly indicates, would explain the erratic nature of the fluctuations in the interwing export of rice from West Pakistan (assuming a given level of production of rice in West Pakistan).

Note that, since West Pakistan does not have a relatively large supply of rice, shortages and ample supply in East Pakistan will be reflected mainly in imports from abroad. More so, if the domestic supply of rice in West Pakistan moves in the same direction as that in East Pakistan, or if the export of rice abroad from West Pakistan increases. This would explain the lack of correlation between production in either wing and interwing trade in rice in particular years.

Wheat is both a minor crop and a minor item of food in East Pakistan. The production of wheat in East and West Pakistan increased slightly over

TABLE 4.11

Production of Rice in East and West Pakistan

and Interwing Trade in Rice

1948-49 to 1958-59

(In Thousand Tons)

YEARS	PRODUCTION OF RICE IN EAST PAKISTAN (1)	IMPORTS IN EAST PAKISTAN FROM WEST PAKISTAN (2)	PRODUCTION IN WEST PAKISTAN (3)
1948-49	7673	86	---
1949-50	7377	119	---
1950-51	7342	29	---
1951-52	7034	74	718
1952-53	7335	67	819
1953-54	8245	49	906
1954-55	7589	2	825
1955-56	6384	12	828
1956-57	8184	3	831
1957-58	7589	134	863
1958-59	6921	287	970

Source: C.S.O.; Ministries of Agriculture, Governments of East and West Pakistan.

the last decade. It is possible that the consumption of wheat increased
in East Pakistan after partition owing to the migration of wheat-eating
people from India and the change in consumption habits of certain sections
of the people in East Pakistan. The production of rice and wheat together
in East Pakistan increased by about 6 percent[3/] over the decade, while
population increased by about 18 percent. There has usually been a
deficiency of food supply in East Pakistan which has occasionally been
accentuated by the failure of crops in a particular year necessitating
a sharp increase of imports in that year.

It should be observed that in certain years changes in the levels
of the exports of domestic goods from West to East Pakistan were governed
by the variation in the export of rice and wheat. Particularly in 1949-50,
the entire increase in the interwing export of West Pakistan was governed
by the increase in the export of rice and wheat. Likewise, the decline in
the level of interwing export from West Pakistan in 1950-51 was due to the
fall of the export of rice and wheat. The decline in the export of rice
from West to East Pakistan in 1954-55 accounted for nearly one-third of
the decline in the value of West Pakistan's interwing exports. In 1957-59
again the export of rice alone accounted for almost the entire increase in
the Food, Raw Materials and Tobacco exports from West to East Pakistan.

Rape and mustard oils are widely consumed in East or West Pakistan.
The quantity of the production of these items in East Pakistan is not known.
However, it is known that a major portion of these items consumed in East
Pakistan at the time of the partition of India used to be imported from
West Bengal (India). For example, according to the Indo-Pakistan Trade

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[3/] This has been estimated by a straight line trend fitted to the data
regarding the production of rice and wheat in East Pakistan.

Agreement of April 21, 1950, Pakistan contracted to import 700 tons of mustard oil from India. For reasons discussed earlier, this amount is likely to be far less than the prepartition level of import. It appears that the declining trade with West Bengal and the ban on the foreign imports of these items in Pakistan led to their import in East from West Pakistan. And the rising import of these items, as we shall see, was possible because of the growth of production of these items in West Pakistan.

It was stressed earlier that, other things being equal, the increased facilities of communication between East and West Pakistan would, over time, influence the growth of interwing trade due to the development of marketing facilities, including transportation. There is no transportation by land between East and West Pakistan. The development of freight transport by air is very insignificant and is likely to remain so in the near future. The bulk of interwing trade is carried through sea transport. And there has been considerable development of coastal facilities between the two wings of Pakistan during the second half of the last decade.

It has already been pointed out that the development of the Pakistan Merchant Navy coincided with the sharp swing in the growth of interwing trade after 1952-53. At the time of the independence, there were only four ships in the Pakistan Merchant Navy with a capacity of 19,277 dead weight tons. In 1952 the number of Pakistani shipping companies increased from three to nine and the number of ocean-going ships increased to 22. The tonnage capacity went up to 192,878 dead weight tons. At the end of 1958 the number of ships had risen to 28, and the tonnage capacity to 234,147 dead weight tons. The coastal freight rates were virtually fixed at Rs.61 per

freight ton until June 1956, when the Government of Pakistan fixed a new reduced rate at Rs.51 per freight ton.

The interwing transhipments are mainly carried by Pakistani shipping companies. However, foreign ships had to be chartered occasionally for sudden movement of certain cargoes. Exact information about the proportion of the coastal cargoes handled by foreign ships could not be obtained except for the year 1957. In that year, as many as 25 voyage charters had to be engaged. These transported a total of 0.18 million tons of cargoes as against 0.44 million tons by the Pakistani ships. The engagement of foreign ships in 1957 might have been caused by the removal of 12 Pakistani ships from active services for repair at a time when the demand for interwing shipping services was on the increase.

From the above analysis it appears that the partition of India, the formation of the state of Pakistan, and the deadlock over Indo-Pakistan trade not only created the conditions for, but also gave the first push to, the growth of interwing trade in primary products. And given the commercial policy of Pakistan and the growth of transport facilities between East and West Pakistan, the change in the level of interwing trade in primary products was governed by changes in the supply and demand conditions of the goods involved in each region. The coefficient of correlation between the export of primary products from East to West Pakistan and the output of major crops in East Pakistan, during the eleven years under consideration, is 0.61 and the comparable figure for West Pakistan is 0.86.

More than two-thirds of interwing trade during the second phase of its development was composed of Raw Materials and Manufactures. As has

been indicated, this was due to the development of industries in East and
West Pakistan. It was our contention in the preceding chapters that the
development of industries in Pakistan would be conditioned by the short-
run efforts for adjustment in production patterns, consequent upon the
economic isolation of East and West Pakistan from India, and by the ini-
tiation of long-run economic growth in these regions. At this stage,
therefore, we shall turn to the examination of the problems and processes
of economic adjustments faced by East and West Pakistan after their poli-
tical separation from India.

4.4.1.2.   The Post-Partition Adjustments in East and West Pakistan

It was argued in Chapter 2 that the prepartition pattern of
interregional economic relationship between the regions of East Pakistan,
West Pakistan, and India could be described in terms of certain individual
'circuit flows' and that the partition of India, if followed by complete
economic isolation, would create the problems of the rearrangement of
these flows in each of the regions. In the case of East and West Pakistan
such rearrangements would involve the problems and processes of the re-
placement of marketing and processing functions previously performed by
India. It should be observed that the replacement of marketing functions,
that is, the direct handling of foreign trade, by Pakistan after partition
would have taken place irrespective of the post-partition economic relation-
ship between India and Pakistan because of the political sentiment involved
in guiding and conducting the internal and external economic activities by
an independent state.

Although the political separation was not immediately followed by complete economic isolation between Pakistan and India, we have indicated above how economic isolation tended to begin right from the time of partition and how, following the deadlock over Indo-Pakistan trade in September 1949, the economic isolation between the two countries became progressively intensified over the past decade. In 1948-49 trade with India accounted for more than 50 percent of the total foreign trade of West Pakistan and for about 80 percent of the total foreign trade of East Pakistan on private account. It accounted for hardly 3 percent of Pakistan's total foreign trade in 1951. In 1957 the share of Indo-Pakistan trade in the total foreign trade of Pakistan declined to 6 percent. The importance of Indo-Pakistan trade since 1950 relative to Pakistan's total foreign trade can be seen from Table 4.12. The rise of Pakistan's exports to India in the years 1955 and 1956 indicates the immediate effects of the devaluation of the Pakistani rupee in 1955.

That the progressive economic isolation between Pakistan and India has played an important role in initiating adjustments in trade and production in East and West Pakistan cannot be denied. The absence of data relating to what we have described as the prepartition interregional 'circuit flows' makes it difficult for us to analyze the problems and processes of adjustments in East and West Pakistan in terms of all possible types of 'circuit flows' involved.

In Chapter 2 we have indicated eleven hypothetical 'circuit flows' involving raw jute and raw cotton. The lack of specific data required makes it difficult for us to analyze the adjustment process in these flows strictly

TABLE 4.12

The Trade of Pakistan With India as Percentage
of Pakistan's Total Foreign Trade

1950 to 1959

CALENDAR YEAR	EXPORTS Pct. (1)	IMPORTS Pct. (2)
1950	3	4
1951	2	3
1952	2	3
1953	3	1
1954	9	5
1955	13	8
1956	11	2
1957	7	4
1958	3	5
1959	4	4

in terms of the hypothetical flows described in Chapter 2. However, it has been possible for us to procure sufficiently reliable data about the flows involving the pre- and post-partition production and distribution of raw jute and raw cotton in the Indo-Pakistan subcontinent. The following analysis, therefore, will be concentrated on the nature and consequences of adjustment in these two flows only. Since these two flows accounted for about 64.51 percent of Pakistan's total exports to India in 1949, the adjustment problems involving these flows were important in the total post-partition adjustment processes in East and West Pakistan.

Adjustments in the Flow of Raw Jute.

Table 4.13 shows the production and distribution of raw jute in the Indo-Pakistan subcontinent from 1936 to 1959. A few points regarding Table 4.13 have to be noted. First, the average figures for the period between 1939 and 1945 conceal certain erratic changes which were due to the effects of World War II. Second, the figures for the years from 1936 to 1946 do not take into account changes in inventories. This implies that the figures for consumption of raw jute in India shown in Column 5 for these years are for consumption plus increasing inventories. Third, the figures for the years from 1948-49 on are net of changes in inventories. Columns 1 and 2 represent actual production in East Pakistan and India respectively. Since the figures showing the distribution of raw jute from 1948 on are net of accumulation or decumulation of inventories, there is a discrepancy between production and distribution in individual years. An excess of Column 5 over Column 2 plus Column 4 presumably represents a decrease in inventories in India, and an excess of Column 2 plus Column 4 an increase.

TABLE 4.13

The Production and Distribution of Raw Jute

1936 to 1959

(Quantities in million bales of 400 lbs. each)

YEARS	PRODUCTION		DISTRIBUTION				RATIO OF COL. 4 to 1 Pct.	RATIO OF COL. 6 to 1 Pct.	RATIO OF COL. 2 to 5 Pct.	RATIO OF COL. 4 to 5 Pct.	RATIO OF COL. 3 to 1 Pct.
	EAST PAKISTAN	INDIA	EXPORT TO REST OF WORLD	EXPORT TO INDIA	CONSUMPTION IN INDIA	CONSUMPTION IN E.Pak.					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Average of 1936–39	6.36	2.00	4.18	2.18	4.18	--	34.28	----	47.85	52.15	67.72
Average of 1939–45	6.63	1.82	1.53	5.10	6.92	--	76.91	----	26.31	73.69	23.09
1945–46	6.24	1.57	2.19	4.05	5.62	--	64.91	----	27.94	72.06	35.09
1948–49	6.20	2.06	3.00	3.00	6.20	0.30	48.39	4.84	33.23	48.39	48.39
1949–50	6.50	3.09	2.50	2.70	4.90	0.30	41.54	4.62	63.06	55.10	38.46
1950–51	7.00	3.28	4.40	3.00	5.30	0.30	42.85	4.28	61.89	56.60	62.85
1951–52	7.50	4.68	3.00	2.60	5.60	0.40	34.65	5.33	83.57	46.92	40.00
1952–53	8.00	4.61	4.00	2.00	5.30	0.50	25.00	6.25	86.98	37.73	50.00
1953–54	4.50	3.09	3.70	2.00	5.40	0.70	44.44	15.55	57.22	37.04	82.22
1954–55	5.30	2.93	3.90	1.80	6.00	0.80	33.96	15.09	48.83	30.00	73.58
1955–56	6.80	4.20	4.40	1.60	6.30	1.00	23.53	14.70	66.66	25.30	64.70
1956–57	6.50	4.29	4.00	1.00	6.20	1.20	15.38	18.42	69.19	16.13	61.53
1957–58	6.20	4.05	3.90	0.90	6.10	1.20	14.52	19.35	66.39	14.75	62.90
1958–59	6.30	5.18	4.20	0.20	6.04	1.40	3.17	22.22	85.76	3.31	66.66

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Sources: Compiled from (1) Statistics released by the Director of Commercial Intelligence and Statistics, Calcutta; (2) Pakistan Jute Mills Association, Monthly Summary of Jute Goods Statistics, No. 48, June 1960, Dacca; (3) Government of India, Monthly Abstract of Statistics, March and Dec. 1959.

Likewise, an excess of Column 1 over the sum of Columns 3, 4, and 6 repre-
sents an increase of inventories in East Pakistan and conversely. Fourth,
it is assumed that up to 1946 there was no consumption of raw jute in East
Pakistan. This rather arbitrary assumption has to be made because of the
absence of the relevant data. It is believed that such an assumption will
not vitiate the following analysis much since the consumption of raw jute
in East Pakistan before partition was likely to be marginal.

For the purpose of the present analysis the production and distribu-
tion of raw jute in 1945-46 will be regarded as the representative pre-
partition flow pattern for raw jute. At the time of partition the region
of East Pakistan produced about 70 percent of the total output of raw jute
in undivided India. About 65 percent of East Pakistan's production was
consumed in India and the rest was exported abroad. About 72 percent of
the total consumption of raw jute in India used to be satisfied by import
from East Pakistan.

With the partition of India in 1947 the situation changed. The
export of raw jute from East Pakistan to India dropped to 48.39 percent of
the total production of East Pakistan, while export to other countries
rose to 48.39 percent. Two things seem to be obvious: one, what we have
described as the replacement of the 'marketing functions' seems to have been
undertaken in Pakistan immediately after partition; two, the export of raw
jute from East Pakistan to India began to decline soon after partition.

The decline in the export of raw jute from East Pakistan to India
immediately after partition can be regarded as the consequence of the

partition itself. The possible effects of the introduction of tariff on inter-dominion trade, after the establishment of Pakistan, have been pointed out earlier. Politically, the division of India and the establishment of Pakistan, as is well known, was the result of a long-drawn-out conflict between the two dominant religious communities in the subcontinent. Thus, born out of mutual conflict, it was only natural for the two states to harbour a feeling of mutual distrust for each other, if not a feeling of mutual enmity.

In the realm of economic relationship, such a feeling would naturally result in efforts in both countries to reduce the extent of their economic interdependence. This view is supported by the fact that from 1947 onward, the foreign trade policy of Pakistan was guided by a conscious attempt at the diversification of the channels of her exports and imports. As the first manifestation of similar efforts in India, one could cite the with-drawal of the Jute Regulation Act of 1940 immediately after partition. This withdrawal encouraged the cultivation of raw jute in India right from 1947. As a result, the production of raw jute in India increased from 1.5 million bales in 1945-46 to 2.06 million bales in 1948-49.

This process was obviously accentuated by the deadlock over Indo-Pakistan trade in September 1949. The consequences of the cessation of Indo-Pakistan trade were severe, because the resumption of trade between Pakistan and India after eight months, as we have observed before, was of a limited nature. A large number of jute mills in India remained closed[4]

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[4] The exact number of mills involved could not be ascertained. However, that the statement is true can be seen from the fact that the output of

for months, while money income of the jute growers in East Pakistan fell
drastically owing to the decline of the price and the volume of sale of
raw jute. The index of the unit values of raw jute fell from 100 in April
1948 to March 1949 to 71.3 between April and September 1950. More will be
said about this in Chapter 5. The important point here is that the tempo-
rary cessation of Indo-Pakistan trade, in spite of the favorable effects of
the Korean boom in 1950-51, produced a cumulative long-run effect on the
prepartition pattern of interregional flow of raw jute.

The process of the replacement of the import of raw jute from East
Pakistan by domestic production in India became intensified over time. The
horizontal reallocation of resources in a less developed region being a
time-consuming process, the replacement process in India seems to have been
spread over the decade under consideration. That by 1958-59 this process
was almost complete can be seen from Table 4.13. In 1958-59 India produced
5.18 million bales of raw jute as against 6.30 million bales produced by
East Pakistan. And 85.76 percent of the total consumption of raw jute in
India was met by domestic output. The export of raw jute from East Pakistan
to India declined to 3.17 percent of the total output of the former. The
adjustment process in India obviously involved a real cost in terms of
cereals because of the transfer of land from the production of cereal to
that of jute.[5/]

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jute manufactures in India declined from 1,040 thousand tons in 1948-49 to
824 thousand tons in 1949-50 and remained much below 900 thousand tons
(excepting 1951-52) till 1952-53. See Jute and Gunny Review, 5th Annual
Number, April 1954, Calcutta, p. 118.

[5/] Although interesting and in certain respects significant, the comparative
costs involved in the decline of Indo-Pakistan trade will not be estimated
here. However, reference may be made to an interesting study by George K.

The adjustment process in East Pakistan took the forms of: (i) the diversification of the channels of exports, (ii) the restriction of domestic output through the control of land under cultivation of jute, and (iii) the processing of raw jute in East Pakistan.

(i) First of all, East Pakistan tried to exploit the existing markets for raw jute in countries other than India. This, however, does not explain the increasing export of raw jute from East Pakistan to the Foreign region. The expansion of export to the rest of the world can be explained by two factors.

First, the recovery of industrial activity as well as the surge of long-run growth in industrial countries during the last decade: this is visible from the increase in the export of raw jute to countries like the U.K., West Germany, Belgium and Japan. The distribution of the export of raw jute by countries can be seen from Table 4.14.

Second, the industrialization of the less developed countries: this is of particular significance because, to the extent that this is true, it means in the light of our model the development somewhere else of services previously performed by India. That this factor has played an important role can be seen from the fact that there has been consistent increase in the export of raw jute to what we have shown in Table 4.14 as the "other countries". These other countries include Turkey, Iran, Iraq, Syria, Lebanon and Egypt. These countries have developed jute industries during

Chacko, namely International Trade Aspect of Indian Burlap, An Econometric Study, Bookman Associates, New York, 1961, where the alternative costs of raw jute cultivation in India are estimated to be one pound of cereals for 293 pounds of raw jute, p. 75.

TABLE 4.14

The Distribution By Countries Of The Export of
Raw Jute From East Pakistan, 1949-59

(Values in Crores of Rupees)

YEARS	1949		1950		1951		1952		1953		1954	
	(1)		(2)		(3)		(4)		(5)		(6)	
COUNTRIES	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.
1. Argentina	0.32	0.63	1.13	1.50	1.13	0.97	0.50	0.72	0.44	0.77	0.96	1.76
2. Belgium	3.58	7.04	4.49	5.95	7.42	6.38	5.13	7.38	4.57	8.00	5.60	10.26
3. China	0.10	0.20	0.49	0.65	0.39	0.34	0.10	0.15	--	---	--	---
4. France	3.76	7.41	7.41	9.81	11.99	10.30	5.73	8.24	5.25	9.18	5.16	9.46
5. W. Germany	3.38	6.66	6.60	8.74	7.91	6.80	6.04	8.67	6.20	10.86	6.40	11.74
6. India	17.49	34.41	20.07	26.57	44.93	38.64	16.08	23.10	7.74	13.55	7.05	12.93
7. Italy	1.79	3.53	4.72	6.25	6.56	5.63	6.47	9.30	3.63	6.36	3.22	5.90
8. Japan	0.54	1.05	0.97	1.29	2.68	2.31	1.95	2.80	1.99	3.50	1.64	3.02
9. Netherlands	0.58	1.10	1.31	1.73	1.57	1.35	1.15	1.66	0.88	1.55	1.09	1.99
10. Poland	0.99	1.90	0.68	0.91	1.67	1.44	0.73	1.06	0.94	1.64	0.95	1.74
11. South Africa	--	--	0.12	0.66	1.38	1.19	0.88	1.26	0.71	1.24	1.05	1.92
12. U.K.	8.21	16.15	11.51	15.24	11.46	9.86	10.42	14.97	11.95	20.92	10.49	19.24
13. U.S.A.	5.05	9.94	9.32	12.33	6.78	5.83	4.10	5.89	6.20	10.86	3.96	7.26
14. Others	5.04	9.93	6.70	8.87	10.41	8.96	10.30	14.80	6.61	11.57	6.97	12.78

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TABLE 4.14 (continued)

The Distribution By Countries Of The Export Of
Raw Jute From East Pakistan, 1949-59

(Values in Crores of Rupees)

YEARS	1955 (7)		1956 (8)		1957 (9)		1958 (10)		1959 (11)	
COUNTRIES	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.
1. Argentina	0.93	1.33	0.91	1.22	1.41	1.80	0.79	0.80	0.74	1.09
2. Belgium	6.90	10.02	7.59	10.11	7.37	9.43	7.23	7.26	5.77	8.49
3. China	1.89	2.72	2.83	3.77	1.20	1.54	0.62	0.62	0.25	0.37
4. France	5.81	8.34	6.64	8.84	6.68	8.54	8.72	8.75	5.81	8.54
5. W. Germany	7.20	10.33	8.79	11.70	8.62	11.02	11.09	11.13	7.00	10.30
6. India	13.86	19.89	11.48	15.29	6.75	8.63	2.56	2.57	1.41	2.07
7. Italy	3.51	5.05	5.02	6.69	4.58	5.85	4.28	4.30	4.01	5.89
8. Japan	2.52	3.63	2.78	3.71	3.38	4.33	3.06	3.08	3.35	4.92
9. Netherlands	1.44	2.08	1.51	2.01	1.59	2.04	1.02	1.03	1.53	2.25
10. Poland	1.56	2.23	1.61	2.15	2.33	2.98	1.61	1.62	1.76	2.58
11. South Africa	1.52	2.18	1.38	1.84	1.88	2.40	1.53	1.53	1.88	2.77
12. U.K.	10.81	15.51	10.83	14.43	15.65	20.02	19.77	19.85	15.77	23.19
13. U.S.A.	4.55	6.53	5.68	7.56	5.47	6.99	8.24	8.27	5.39	7.94
14. Others	7.08	10.16	8.02	10.68	11.28	14.43	29.07	29.19	13.33	19.60

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the last decade; and since 1952 the Pakistan Industrial Development
Corporation has played a significant role in promoting as well as sharing
capital investment in jute industries in these countries.

Mention has already been made of the fall in the unit values of jute
exports since 1949. Although the relationship between the rate of change in
quantities and unit values of the export of raw jute does not indicate the
price elasticity of the demand for raw jute, the replacement of Indian
market for raw jute by selling more abroad might have been partly facilitated
by the fall in the prices of jute.

(ii) The efforts for domestic adjustment in East Pakistan in the
form of the restriction of jute output did not succeed. In 1947-48 the area
licensed for jute cultivation amounted to 2.2 million acres in East Pakistan.
The same figure for 1958-59 was 1.1 million acres. But the output of raw
jute in East Pakistan remained more or less unchanged throughout the period
under study. This can be explained by the improvement of productivity of
land under jute and/or the failure of the executive restriction on the area
under cultivation. That the executive restriction of the area under cultiva-
tion of jute was not very effective can be seen from the fact that the area
reported to be actually cropped in 1958-59 was 1.5 million acres. Since the
output of raw jute in 1958-59 was almost equal to that of 1948-49, this
implies a rise in the productivity of land under jute.

In view of the fact that the increase in the efficiency of agricul-
ture in East Pakistan has been negligible, if any, during the period under
study, it is difficult to believe that there has been significant increase
in the productivity of land under jute. (Table 5.16 in Chapter 5 shows that

the output per acre of major crops in East Pakistan fell up to 1955-56 and thereafter it tended to rise slightly.)

It appears that the failure of the restriction of jute output in East Pakistan was mainly governed by the ineffective execution of control on the area under cultivation. This view is strengthened by the fact that the administrative estimation of the area under cultivation is defective and that growers in a region like East Pakistan are likely to underestimate the actual area under cultivation in their returns to the loosely organized Jute Regulation Offices in the rural areas.

(iii) The major efforts for domestic adjustment took the form of the development of jute industries in East Pakistan, especially after 1952. This is evident from the fact that the domestic consumption of raw jute in East Pakistan increased from 0.40 million bales in 1951-52 to 1.40 million bales in 1958-59. In other words, the domestic consumption of raw jute in East Pakistan increased from 5.33 percent in 1951-52 to 22.22 percent of her total output in 1958-59. The total investment in jute industry in East Pakistan by the PIDC amounted to Rs.205.0 million up to 1958-59. Investment by other agents is not large and figures for them are not available. The output of jute manufactures (see Table 4.19) increased from 9.7 million yards 1952 to 264.7 million yards in 1960.

It must be observed that because of the coincidence of the desire and efforts for long-run growth in Pakistan with the partition of India, it is difficult to delineate the effects of the former from those of the latter in explaining the growth of jute industries in East Pakistan. Nevertheless,

it is evident that the growth of the jute industry in East Pakistan has played a significant role in the growth of the export from East to West Pakistan in interwing trade. We have seen in Section 4.2.3 that the export of manufactured goods from East to West Pakistan increased rapidly after 1952-53, and jute manufactures accounted for more than 50 percent of the total export of manufactures from East Pakistan.

The total consumption of jute manufactures in Pakistan at the time of partition is not known. However, the relevant figures show that a decade later not only was East Pakistan able to satisfy the domestic consumption requirement of jute manufactures in Pakistan as a whole, but she was also able to export jute manufactures abroad. For example, in 1948-49 Pakistan imported Rs.55.1 million-worth of jute manufactures from India, while in 1958-59 East Pakistan exported Rs.57.4 million-worth of jute manufactures to West Pakistan alone. The export of jute manufactures to the rest of the world from East Pakistan amounted to Rs.84.5 million in 1956, Rs.84.5 million in 1957, and Rs.140.8 million in 1959.

Adjustment in the Flow of Raw Cotton.

The data on the production and distribution of raw cotton in the Indo-Pakistan subcontinent are shown in Table 4.15. The observations made on the figures in Table 4.13 above hold also for the figures in Table 4.15, except that the figures for the years 1939 to 1947 in Table 4.15, unlike those of Table 4.13, are net of changes in inventories. This explains the discrepancy between production and distribution in particular years.

TABLE 4.15

The Production of Raw Cotton in West Pakistan and India and its Distribution

September 1939 to August 1959

(Quantities are in million bales of 392 lbs. each)

YEARS	PRODUCTION		DISTRIBUTION						RATIO OF COL. 4 to 1 Pct.	RATIO OF COL. 5 to 6 Pct.	RATIO OF COL. 3 to 1 Pct.
	WEST PAKISTAN	INDIA	CONSUMP-TION IN PAKISTAN	EXPORT FROM W.P. ABROAD	EXPORT FROM W.P. TO INDIA	CONSUMP-TION IN INDIA	EXP. FROM INDIA ABROAD	IMPORT IN INDIA FROM WORLD			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1939-40	1.27	3.36	---	0.09	1.18	3.05	2.25	0.58	7.08	38.68	----
Average of 1940-46	1.60	3.30	---	0.32	1.28	4.02	0.50	0.60	20.00	31.84	----
1946-47	1.60	2.14	---	0.58	1.02	3.22	0.45	0.71	36.25	31.68	---
1948-49	0.96	2.27	0.15	0.34	0.41	4.57	0.31	1.02	35.41	8.87	15.62
1949-50	1.31	2.97	0.15	0.98	0.23	3.99	0.25	1.16	74.80	5.75	11.45
1950-51	1.56	3.38	0.18	1.30	0.02	3.84	0.18	0.97	83.33	0.52	11.54
1951-52	1.77	3.89	0.27	1.24	---	4.29	0.15	1.24	70.05	---	15.25
1952-53	1.91	3.66	0.40	1.63	---	4.73	0.36	0.69	85.34	---	20.10
1953-54	1.41	4.60	0.49	1.01	---	4.78	0.13	0.69	71.63	---	31.75
1954-55	1.55	5.40	0.76	0.87	---	5.02	0.27	0.60	56.12	---	49.03
1955-56	1.86	4.73	0.93	0.90	---	5.22	0.68	0.64	48.39	---	50.00
1956-57	1.60	5.10	0.97	0.67	---	5.52	0.31	0.70	41.88	---	60.62
1957-58	1.67	5.40	1.04	0.58	---	5.31	0.52	0.40	34.73	---	62.28
1958-59	1.61	---	1.15	0.57	---	---	---	---	35.40	---	71.43

Sources: (1) Government of India, Ministry of Commerce and Industry, Report of the Working Party for Cotton Textile Industry, April 1952; (2) Government of Pakistan, Central Statistical Office, Karachi; (3) Karachi Cotton Association; (4) Reports of the Mill Owners' Association, The Commercial Printing Press, Ltd., Bombay, India, 1956, 1957, 1958.

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The process of post-partition adjustment in the flow of raw cotton
followed more or less the same pattern as that of raw jute described above.
Up to 1946 from 90 to 80 percent of the total raw cotton produced in West
Pakistan was consumed in India. More than 31 percent of the raw cotton
consumed in India came from West Pakistan. The situation changed imme-
diately after partition. In 1948-49 the export of raw cotton from West
Pakistan to India declined to 42.78 percent of West Pakistan's production,
which accounted for only 8.8 percent of the total consumption of raw cotton
in India.

Obviously, for reasons discussed above, the partition effects came
into operation with the establishment of Pakistan. And it was only natural
that this should have been so, since the political effects of partition, in
a certain sense, were more immediate and more severe in West Pakistan than
in East Pakistan. Partition was followed by one of the worst communal
riots ever recorded in history in the western regions of India, especially
in the old province of the Punjab, and by mass migration of Hindus from West
Pakistan and of Muslims from the northwestern regions of India. That this
had a drastic effect on the economy of the region of West Pakistan is shown
by the fact that the output of raw cotton in West Pakistan declined from
1.60 million bales in 1946-47 to 0.96 million bales in 1948-49. The dead-
lock over Indo-Pakistan trade in September 1949 only added fuel to the fire.
By 1950-51 the Indo-Pakistan trade in raw cotton had totally stopped.

As a result, India lost not only the major sources of import of raw
cotton, but also an important market for cotton manufactures, for the

export of cotton manufactures from India to Pakistan in 1948-49 amounted to Rs.211.00 million. The production of cotton manufactures in India declined from 4319 million yards in 1948 to 3667 million yards in 1950. As can be seen from Table 4.15, the adjustment efforts in India took the form of increased domestic production and import from other sources up to the year 1952. By 1958 India had completely replaced the loss of West Pakistani raw cotton by domestic production.

In West Pakistan the adjustment efforts were directed toward the replacement of the Indian market by creating new channels of exports as well as by replacing Indian processing functions in Pakistan. The former played the most important role up to 1953, although the development of the cotton textiles industry in West Pakistan began in 1951-52. As in the case of raw jute, the cessation of the Indo-Pakistan trade in 1949 caused a fall in the price of raw cotton in West Pakistan, but the percentage drop in the prices of raw cotton was less than that in the prices of raw jute. Moreover, the Korean boom brought a far greater rise in the prices of raw cotton than in the prices of raw jute. For example, from 100 in April 1948 to March 1949, the index of the unit values of raw cotton dropped to 98.7 in the second half of 1950, while it climbed to 194.3 during April and June of 1951.

The Korean boom did play a significant role in enabling West Pakistan to expand the export of raw cotton in the immediate short run. The impact of the Korean depression on raw cotton was averted by the bulk buying of China and Japan in 1952. Up to the year 1953-54, West Pakistan had been able to maintain the volume of the export of raw cotton more or less at the

prepartition level. Four countries, namely Japan, China, Hongkong, and France, appeared to be the most important importers of Pakistani cotton. Japan remained by far the biggest consumer of raw cotton from West Pakistan throughout the decade under discussion. From 1953-54 on, the export of raw cotton declined. However, as we shall see presently, this was due to the increased consumption of raw cotton in Pakistan; less was available for export.

The planned development of industries in West Pakistan began in 1952 with the establishment of the PIDC. Not only is cotton manufacturing the leading industry in West Pakistan; it was also the first industry to be started. It began to develop a year or two earlier than the PIDC. The Korean depression in the second half of 1951 saw a burst of cotton manufacturing in West Pakistan. The rigorous import restriction following the Korean depression created a good sheltered market for cotton textiles in Pakistan. The situation was aptly exploited by the experienced and enterprising class of business men who migrated from India to West Pakistan with enough capital. The Korean boom had enabled some of these business people to amass large profit. The import restriction policy of Pakistan, though rigorous, had a relatively liberal provision for the import of capital goods. This helped to divert the traders' capital in West Pakistan to industrial investment.

These factors, together with the fairly well-developed transport and power facilities, enable West Pakistan to take the lead over East Pakistan in the development of cotton textiles industry, even though at the time of partition East Pakistan had a larger number of cotton manufacturing firms,

TABLE 4.16

The Distribution By Countries of the Export of
Raw Cotton From West Pakistan, 1949-59

(Values in Crores of Rupees)

YEARS	1949 (1)		1950 (2)		1951 (3)		1952 (4)		1953 (5)		1954 (6)	
COUNTRIES	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.
1. Argentina	0.35	0.82	1.80	3.48	3.66	3.80	1.18	1.36	1.51	2.39	1.52	4.73
2. Belgium	1.38	3.27	0.20	0.38	0.63	0.65	0.21	0.25	1.43	2.27	0.66	1.89
3. China	1.29	3.05	2.09	4.03	14.61	15.19	27.24	31.53	2.40	3.81	8.62	24.42
4. France	2.36	5.59	3.92	7.56	8.91	9.26	5.37	6.23	4.55	7.21	2.36	6.77
5. W. Germany	0.72	1.70	1.34	2.58	4.16	4.33	2.41	2.79	3.52	5.59	1.24	3.56
6. Hongkong	3.12	7.40	11.29	21.75	11.21	11.65	4.16	4.82	6.12	9.68	3.95	11.32
7. Hungary	---	---	---	---	---	---	---	---	---	---	---	---
8. Italy	0.48	1.15	3.76	7.25	7.86	8.17	2.81	3.25	3.77	5.97	2.18	6.26
9. Japan	4.87	11.53	11.53	22.22	22.05	22.93	26.94	31.18	25.75	40.82	8.30	23.81
10. U.K.	4.65	11.03	3.42	6.59	8.43	8.77	5.82	6.73	6.97	11.05	3.32	9.52
11. U.S.A.	0.62	1.46	0.14	0.27	0.15	0.15	0.11	0.13	0.33	0.52	0.86	2.46
12. U.S.S.R.	---	---	---	---	---	---	---	---	---	---	---	---
13. Others	22.38	53.00	12.40	23.89	14.52	15.10	10.13	11.73	6.74	10.69	1.85	5.32

TABLE 4.16 (continued)

The Distribution By Countries Of The Export Of
Raw Cotton From West Pakistan, 1949-59

(Values in Crores of Rupees)

YEARS	1955 (7)		1956 (8)		1957 (9)		1958 (10)		1959 (11)	
COUNTRIES	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.	Value	Share Pct.
1. Argentina	1.59	3.95	0.41	1.14	0.11	0.35	0.04	0.17	--	--
2. Belgium	1.15	2.85	0.59	1.62	0.05	0.14	0.16	0.67	--	--
3. China	8.75	21.71	4.75	13.05	3.31	9.97	2.95	12.78	--	--
4. France	2.78	6.91	4.69	12.90	5.83	17.57	4.74	19.73	0.29	2.47
5. W. Germany	1.61	3.99	1.17	3.21	0.95	2.87	0.54	2.26	0.09	0.75
6. Hongkong	2.31	5.74	3.11	8.54	2.46	7.41	2.01	8.39	1.24	10.28
7. Hungary	--	--	--	--	--	--	--	--	0.55	4.56
8. Italy	2.37	5.88	1.10	3.04	0.09	0.30	0.06	0.26	--	--
9. Japan	14.11	35.02	16.53	45.42	16.89	50.92	10.55	43.89	7.91	65.51
10. U.K.	3.25	8.06	2.79	7.66	0.65	1.97	0.85	3.53	0.66	5.51
11. U.S.A.	1.09	2.72	0.37	1.02	1.69	5.04	0.43	1.81	0.34	2.86
12. U.S.S.R.	--	--	--	--	--	--	0.52	2.19	--	--
13. Others	1.28	3.17	0.87	2.40	1.13	3.41	1.16	4.82	0.97	8.07

not to speak of the historical talent of the East Pakistanis in the manu-
facture of high quality fabric like muslin. Although during the First Plan
Period there has been some growth of the textile industry in East Pakistan,
the incidence of an early start (and the availability of raw cotton) led
to a rather phenomenal growth of the cotton industry in West Pakistan.

In 1960 -- that is, at the end of the First Plan Period -- West
Pakistan had 1.58 million spindles, 2700 looms and an output of 566 million
yards of cloth. As against these, East Pakistan had 0.36 million spindles,
300 looms and an output of 62.71 million yards of cloth.

The important point, however, is that both the effects of partition
and the planned efforts for economic growth coincided in carrying out the
post-partition adjustment with respect to the raw cotton flow in West
Pakistan. The domestic consumption of raw cotton increased continuously
from 0.15 million bales in 1948-49 to 1.15 million bales in 1958-59. As a
ratio to total output the domestic consumption of raw cotton rose from
15.62 percent in 1948-49 to 71.43 percent in 1958-59. And this has played
a leading role in governing the growth and character of interwing trade.
From 1948 to 1952, raw cotton and cotton manufactures were 28.04 percent
of total exports of West to East Pakistan. The same figure rose to 45.30
percent during the following period up to 1959. It can be seen from Table
4.8 that the total value of the export of raw cotton, cotton yarn and twist,
and cotton manufactures from West to East Pakistan increased from Rs.2.05 crores
in 1951-52 to Rs.33.17 crores in 1957-58. It declined to Rs.22.54 crores in
1958-59. The increased export of cotton yarns and twist from West Pakistan
was facilitated by the growth of cotton manufacturing in East Pakistan.

As in the case of jute manufactures, the total consumption of cotton manufactures at the time of partition is not known. However, in 1948-49 the import of cotton yarns and manufactures from India to Pakistan amounted to Rs.21.1 crores. The development of cotton textiles industry in Pakistan not only solved the adjustment problem in raw cotton, but also virtually replaced the import of cotton manufactures in Pakistan. Furthermore, from 1955-56 on, West Pakistan was able to export a notable amount of cotton manufactures. This can be seen from Table 4.17.

The growth of the cotton textile industry in Pakistan is also mainly responsible for what we described in the earlier chapters as the growth of the triangular pattern of trade between East and West Pakistan and the rest of the world over the past decade. It can be seen from Table 4.15 that the output of raw cotton in West Pakistan remained more or less the same through-out the period under consideration, while the domestic consumption of raw cotton increased rapidly. This led to the decline in the foreign export of raw cotton from West Pakistan. On the other hand, industrial development of West Pakistan increased the foreign imports of that region. This gap was bridged by the utilization of the foreign exchange earnings of East Pakistan, partly in the exchange of domestic goods from West Pakistan via interwing trade.

The above analysis of the post-partition adjustment in raw jute and raw cotton flows in East and West Pakistan confirms what we called in Chapter 2 the "earthworm effects" of partition on growth, since the total outputs of raw jute, raw cotton, and jute and cotton manufactures in the Indo-Pakistan subcontinent recorded a multiple increase over their prepartition levels.

TABLE 4.17

Foreign Trade in Cotton Manufactures in Pakistan

July 1954 to June 1959

(Values are in Crores of Rupees)

| YEARS | WEST PAKISTAN | | EAST PAKISTAN |
	EXPORT (1)	IMPORT (2)	IMPORT (3)
1954-55	0.12	2.99	3.86
1955-56	3.27	0.73	3.13
1956-57	9.37	4.99	1.26
1957-58	3.48	1.43	0.43
1958-59	5.36	0.08	0.28

4.4.2.   Further Analysis of The Effects of Economic Growth

4.4.2.1.   The foregoing analysis has partly indicated the relation be-
tween economic growth, i.e. the development of industries in East and West
Pakistan, and the growth of interwing trade. Here we intend to undertake
further analysis of this relationship. But it may not be out of place, at
this stage, to describe the basic elements which governed the process of
growth in Pakistan after partition, especially the relationship between
partition and economic growth.

Partition has influenced the pattern and the process of growth in
Pakistan in several respects. First (it is perhaps, in a sense, debatable,
but nevertheless important to assert that), an undivided India probably would
not have encouraged the extensive growth of cotton and jute manufacturing in
the regions now called East and West Pakistan.

Second, to the extent that the partition of India, and the intensi-
fication of economic isolation between India and Pakistan after partition,
created the need for growth-oriented adjustment in raw cotton and raw jute
flows, the effects of partition on the growth of cotton and jute industries
in Pakistan cannot be ignored.

Third, and this is in a sense the most important, the partition of
India led to the displacement of a large section of Muslim traders from
India. They in fact substituted for the migrant Hindu traders from
Pakistan. The Korean boom, as stated earlier, helped them to amass a
large short-run profit from trade in Pakistan. The Korean depression and
the accompanying tightening of import control in Pakistan reduced the scope
for profit from trade; it also created a sheltered market for the creation

of light manufacturing in Pakistan. With rising prices of manufactured
commodities and falling prices of agricultural products, the domestic
market provided enough incentive to the traders to direct their investment
toward manufacturing. This incentive was further strengthened by the
policies of the Government of Pakistan to encourage the growth of industries
in Pakistan, which took the form of liberal provision for the import of
capital goods, tax allowances, and increased expenditure on social overheads.
This situation was aptly utilized by the traders in West Pakistan; and from
1951 investment in textiles, manufacturing began to take place in West
Pakistan.

Besides these measures, the Government of Pakistan undertook other
important measures which helped the growth of a vigorous entrepreneurial
class in Pakistan, especially in West Pakistan. The first of these mea-
sures included the creation of the PIDC in June 1952.

The PIDC is a semi-government organization. Its purpose was to plan
and organize manufacturing industries in Pakistan individually and/or in
cooperation with private individuals. Over the period under study, the
PIDC has made a total investment of Rs.156 crores, divided almost equally
between East and West Pakistan. About 87 percent of the PIDC capital was
contributed by the Government of Pakistan. It developed a range of manu-
facturing including cotton and jute industries, woolen textiles, sugar,
paper, pasteboard and newsprint, cement, chemicals, fertilizers, ship building,
natural gas, and iron and steel. Although we do not have the data, it is
known that in West Pakistan the amount of private investment in manufacturing
was greater than the amount of PIDC investment. However, the PIDC has played

an important indirect role in the growth of an active entrepreneurial class
in Pakistan, especially in West Pakistan.

First, the fairly wide range of industrial activities of the PIDC has
produced what may be called the Young-Rodan-Nurkse effect on the domestic
market of Pakistan. This dispelled uncertainty, increased profitability,
and hence encouraged potential entrepreneurs to enter into the realm of
industrial investment in Pakistan. Second, by adopting the Japanese model
of development, the PIDC, through the sale of its establishments to private
undertakers, directly helped the growth of industrial investment and entre-
preneurs. This procedure helped the PIDC to mobilize available savings for
further investment and to activate potential entrepreneurs who otherwise,
perhaps, would not have come into the sphere of industrial investment.[6]

In this connection mention should be made of the financial institu-
tions created by the government after partition. In a sense the Korean
depression contributed much in this respect. The fall of external demand
for raw jute and raw cotton created in early 1952 a glut in the raw jute
and raw cotton markets in Pakistan. To aid growers, the Government of Paki-
stan embarked on an ambitious scheme of buying raw jute and cotton,
especially the former, from the growers. Partly in order to finance this,
the National Bank of Pakistan was created overnight. From the start, the
National Bank departed from the traditional British commercial banking
principle; and over the entire period under consideration about 60 percent
of the National Bank investment has gone into the industrial sector. Men-
tion may also be made of the establishment of the Agricultural Development

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[6] It may be noted that by 1960 the private entrepreneurs in West Pakistan
requested the Government of Pakistan to shift the entire PIDC investment
to East Pakistan in the Second Plan period.

Finance Corporation in March 1953. With the formalization of the planning mechanism from 1955 on, and with the growth of the demand for industrial finance, the Pakistan Investment Corporation came into existence in 1958 to facilitate investment in the industrial sector.

As a result, the total development expenditure in Pakistan during the First Plan Period amounted to over Rs.900 crores, of which about Rs.700 crores were spent in West Pakistan. And half of the development expenditure in West Pakistan was incurred by the private sector.

The above discussion indicates that a host of factors have contributed to the growth of entrepreneurship in Pakistan. But the fact remains that a great majority of the entrepreneurs came from among the migrant trading classes from India. A recent sample survey of manufacturing industries in Karachi shows that about 74 percent of the entrepreneurs in the Karachi industries came from among the migrants from India.[7] It is doubtful if these potential entrepreneurs would have been activated in the absence of partition, for probably they would not have derived competitive advantages such as they did in Pakistan in terms of foreign exchange allocations, sheltered market, and paternal help from the government. Furthermore, it could also be questioned whether they would have gone into the same industries and at the same places to which they have actually gone in Pakistan, had there been no partition. To these must be added the role played by

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[7] Conducted by the Institute of Development Economics, Karachi, 1958-59. Similar results are shown by a survey of industries in Pakistan made by Gustav F. Papanek of Harvard University. For an interesting thesis on the growth of the entrepreneurial class in Pakistan, based on this survey, see the paper "The Development of Entrepreneurship" by Dr. Papanek, read at the Annual Meeting of the American Economic Association, Dec. 27, 1961.

the sense of reactive nationalism, to use a Rostovian term, in the activa-
tion of some of the entrepreneurs in Pakistan.

4.4.2.2.   One way of studying the relationship between economic growth
and interregional trade is to examine the correlation between the annual
rates of capital investment in the trading regions and the annual rates of
growth of trade between them. Estimates of the annual rates of capital
investment in East and West Pakistan have not yet been made. However, some
idea about the growth of industrial assets in Pakistan can be obtained from
Table 4.18. According to another estimate, the gross investment from
July 1950 to June 1955 amounted to Rs.39 crores in East Pakistan and Rs.95
crores in West Pakistan.[8/] The figures of the PIDC investment cited
above, as well as the data on the growth of industrial assets in Pakistan,
would indicate that these figures underestimate the amount of gross invest-
ment in Pakistan.

However, the lack of reliable estimates on capital accumulation in
East and West Pakistan need not prevent us from establishing the relation
between economic growth and interwing trade. In the first place, as is
well known, it is the nature rather than the level of investment which is
important in the explanation of trade. In the second place, the correlation
between the change in industrial output in East and West Pakistan and the
change in the composition of interwing trade serves as a good indicator in
this respect.

[8/] Mahbubul Haq, The Strategy of Economic Planning (forthcoming), Oxford
University Press, 1962.

TABLE 4.18

The Growth of Industrial Assets in Pakistan

YEARS	VALUES IN CRORES OF RUPEES (1)	INDEX (2)
1947	58	17
1949	82	23
1951	128	36
1953	203	57
1955	351	100
1957	436	124
1959	502	143

Source: G. F. Papanek, op. cit.. Note that the above figures actually understate the rate of growth of industrial assets in 1951, for the total includes the assets owned by Hindus in East Pakistan, which were far greater than industrial assets in West Pakistan between 1947 and 1951.

Some idea of the growth of industrial output in Pakistan, in general, and in each of the constituent regions, in particular, can be formed from Table 4.19. And Table 4.20 shows the covariation between the annual rates of change in industrial output and the export of manufactures in interwing trade. Since cotton twist and yarns are shown separately in Table 4.8, Table 4.20 actually underemphasizes the extent of covariation between the annual rates of change in manufactures in interwing trade and those of the total manufacturing output. Moreover, the growth of interwing trade in raw material itself was primarily the function of the rate of growth of the industrial output in each region.

We can get a clearer idea about the relationship between the growth of interwing trade and the growth of industries in East and West Pakistan from the magnitude of the correlation between the important related variables. The coefficient of correlation between the industrial output in and the export of industrial goods from East Pakistan during the entire period under consideration is 0.98. And the coefficient of correlation between the annual percentage rates of change in these two variables for East Pakistan is 0.89. The similar coefficients for West Pakistan are 0.83 and 0.77 respectively. The coefficient of correlation between the annual percentage rates of change of industrial output in Pakistan and those of total interwing trade in manufactures is 0.88. Likewise, the correlation coefficient between the annual rates of change of industrial output and those of the import of raw materials in East Pakistan is 0.95. The same figure for West Pakistan is 0.96.

TABLE 4.19

Industrial Production in Pakistan

YEARS	INDEX OF MFG. IN PAKISTAN 1954=100 (1)(a)	PRODUCTION OF CLOTH In Million Yards(b) PAKISTAN (2)	EAST PAK. (3)	WEST PAK. (4)	PRODUCTION OF JUTE GOODS (In Mill.Yds.) (5)(c)	TOTAL INDUSTRIAL OUTPUT – In Crores of Rupees(d)					
						EAST PAKISTAN			WEST PAKISTAN		
					YEARS	TOTAL (6)	LARGE SCALE (7)	SMALL SCALE (8)	TOTAL (9)	LARGE SCALE (10)	SMALL SCALE (11)
1950	37.7	106.3	24.2	72.1	---	1949–50	32.0	3.8	28.20	87.10	21.20	65.90
1951	46.6	127.7	35.7	92.0	---	1950–51	33.7	4.7	29.00	94.20	26.60	67.60
1952	58.6	174.2	42.7	131.5	9.7	1951–52	35.4	5.9	25.50	102.00	33.20	68.80
1953	76.3	251.6	53.1	198.5	44.1	1952–53	37.5	7.5	30.00	112.50	42.50	70.00
1954	100.0	345.2	59.1	286.1	53.3	1953–54	44.5	13.9	30.50	130.60	59.50	71.10
1955	126.9	453.2	65.5	387.7	103.2	1954–55	47.0	16.0	31.00	145.30	73.00	72.30
1956	143.9	500.4	60.4	440.0	142.4	1955–56	61.1	27.7	31.40	157.80	84.50	73.30
1957	152.4	527.0	65.5	471.5	148.8	1956–57	60.7	33.4	27.30	174.00	95.20	78.80
1958	162.4	576.2	65.2	511.0	172.1	1957–58	63.0	35.4	27.60	180.80	100.80	80.00
1959	181.9	618.5	60.3	558.2	232.6							
1960	204.7	628.8	62.7	566.1	264.7							

(a) C.S.O.
(b) Estimated from data supplied by the Central Board of Revenue.
(c) C.S.O.
(d) Estimated.

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TABLE 4.20

Annual Rates of Change in Industrial Output and Interwing Trade in Manufactures (1950-1958)

(In Percentages)

YEARS	INDUSTRIAL OUTPUT IN PAKISTAN (1)	TOTAL INTERWING TRADE IN MANUFACTURES (2)	INDUSTRIAL OUTPUT IN WEST PAKISTAN (3)	EXPORTS OF MANUFACTURES TO EAST PAKISTAN (4)	INDUSTRIAL OUTPUT IN EAST PAKISTAN (5)	EXPORTS OF MANUFACTURES TO WEST PAKISTAN (6)
1950-51	---	103.5	8.2	101.4	5.3	250.0
1951-52	22.0	- 78.9	8.3	- 85.1	5.0	171.4
1952-53	25.4	455.7	10.3	226.2	5.0	963.2
1953-54	28.8	131.4	16.1	256.9	18.4	46.3
1954-55	28.4	0.4	11.3	- 32.5	5.9	55.0
1955-56	25.7	12.4	8.6	7.4	30.0	15.9
1956-57	12.9	56.5	10.3	117.1	- 0.7	16.1
1957-58	5.6	23.4	3.9	36.0	3.8	7.6

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In fact the growth of interwing trade in manufactures has taken the following pattern: the growth of manufacturing of a particular product in one region accompanied by the control of import of similar commodities from abroad leads to the export of the same to the other; and if the product concerned uses the raw materials in the other region, it also leads to the growth of interregional trade in raw materials. This will become evident from further commodity-wise analysis of interwing trade.

The import of certain types of seeds has been prohibited in Pakistan. The production of rape and mustard seeds in West Pakistan increased from 125 thousand tons in 1953-54 to 227 thousand tons in 1958-59. But the production of hydrogenized oils increased at a greater rate. With the average of 1949-50 as 100, the index of the production of hydrogenized oils rose continuously from 48.81 in 1948-49 to 247.54 in 1957. On the other hand, the imports of seeds from abroad in West Pakistan declined. For example, from 100 in 1954 the index of the imports of seeds from abroad in West Pakistan declined to 28.5 in 1958-59. These explain the growth of the exports of seeds from East to West Pakistan. Notice, however, that East Pakistan imported larger quantities of rape and mustard seeds from West Pakistan, although the rise in the import of these items in East Pakistan was not uniform.

The increase in the import of seeds in East Pakistan in 1949-51 was partly due to the cessation of imports from West Bengal (India). However, the growth of import of seeds from West Pakistan, over time, was also governed by the increased output of mustard and other types of oils in East Pakistan (data about the output of oils in East Pakistan could not be

procured), and partly by the variations in the production of seeds in East Pakistan, especially after 1955-56. The output of these seeds in East Pakistan declined from 105 thousand tons in 1955-56 to 67 thousand tons in 1958-59. The decline of the output of seeds in East Pakistan partly reflects the total deterioration of conditions of agriculture in East Pakistan during this period because of almost continuous unfavourable weather conditions. Although the types of seeds traded between East and West Pakistan are not specified, it seems obvious that the seeds shipped in the two directions in interwing trade were of different varieties.

The import of wood and timber from abroad in Pakistan has not been prohibited. In fact, the imports of timber from abroad in West Pakistan increased substantially after 1954. The index of the value of wood and timber imported from abroad by West Pakistan rose from 100 in 1954-55 to 250 in 1958-59. It is well known that industrial development causes an increased demand for wood and timber in a region.

The relationship between the growth of cotton and jute industries in Pakistan, the prohibition of the imports of jute and cotton manufactures from abroad, and the growth of interwing trade in these commodities has already been explained. The same relationship holds in the case of other manufactured goods entering into interwing trade. For example, although the import of paper in Pakistan was not totally banned, that the restriction on such imports was very severe can be seen from the fact that the import of this item from the rest of the world has not risen since 1953. The growth of the paper industry in East Pakistan and the growing demand for paper in West Pakistan explain the rise in the export of paper from East to West

Pakistan. The production of paper in East Pakistan was 5680 tons in 1953-54. It rose to 24,142 tons in 1958-59.

The import of matches in Pakistan was banned from 1951. The export of matches from East to West Pakistan increased with the increase of match manufacturing in the former region. The production index of matches in East Pakistan rose from 44.95 in 1949 to 4606.30 in 1957 (with average of 1949-52 as 100). The ban on the import of boots and shoes and washing soaps, together with the increase of the production of these items in West Pakistan, explain the rise of the export of these products from West to East Pakistan.

The change in the composition of interwing trade has shown that raw materials and manufactures have played a relatively more important role in the growth of interwing trade since 1953-54. And this, as we have seen, was obviously due to the growth of a variety of light manufacturing in East and West Pakistan during the second half of the decade under study. In fact, important items like paper, gunny bags, hardware and cutlery entered into the export of East Pakistan only from 1953-54 on. Likewise, a number of products like sugar, leather, machinery and instruments, mineral oils, tallow and stearine appeared in the export of West Pakistan from 1953-54 on. Rubber manufactures appeared in the export of West Pakistan from 1956-57 on. Some of the industrial goods, e.g. sports goods, art silk, and the like, which are exported from West to East Pakistan by air are not included in this study. It is also important to note that growth of some sort of regional self-sufficiency stopped interwing trade in a few unimportant (in terms of values of export involved) products.

And sometimes the direction of interwing export in such products was reversed. Examples of these are the disappearance of soap from the export of East Pakistan and of dyeing and tanning substances from the export of West Pakistan after 1952-53. In fact, East Pakistan began to export the latter to West Pakistan and West Pakistan the former to East Pakistan after 1953-54.

Besides the effects of erratic changes in the export of rice from West to East Pakistan, the changes in the output of industrial products in East and West Pakistan have governed the changes in the levels of export from West Pakistan since 1953-54. For example, the sharp jump in the export of West to East Pakistan in 1956-57 was mainly due to the increased export of hydrogenized oils, rape and mustard seeds, raw cotton, and cotton manufactures. Increased export of cotton yarns and twist and cloth was the main cause of the growth of West Pakistan's export to East Pakistan in 1957-58. This was undoubtedly facilitated by the increased production in West Pakistan. The increased import of cotton cloth in 1956-57 was caused by the decline of both the domestic output and the import of cloth from abroad in East Pakistan. Likewise, the recovery of production of cloth in East Pakistan in 1957-58 increased the import of cotton yarns and twist from West Pakistan. And the decline in the import of cloth from abroad was matched by increased import of the same from West Pakistan in the same year. The decrease of the output of cloth in East Pakistan partly explains the fall in the import of cotton yarns and twist from West Pakistan in 1958-59.

The reasons for the fluctuations in the production of cloth in East Pakistan are difficult to explain. One might have been the difficulty of

obtaining spare parts and the like. That this could be the main reason

for the decline of output in 1958-59 might be borne out by the fact of

the freezing of import licenses in late 1958. In fact, the total import

of East Pakistan from the rest of the world fell in 1958-59.

One implication of the changes in the composition of interwing

exports of both East and West Pakistan is worth noting. Because of the

introduction of the Export Bonus Scheme in November 1958, the export of

cotton and jute manufactures to the rest of the world increased (Tables

5.6 and 5.7) and interwing export of these commodities decreased. This

indicates, but does not prove, the possibility of the trade diversion

effects of interwing trade in manufactures on the export of these goods

from East and West Pakistan to the rest of the world.

CHAPTER 5

The Consequences of Interwing Trade

5.1. Introduction

In the light of our discussion in Chapter 3, an attempt will be
made in this chapter to examine the consequences of the growth of trade
between East and West Pakistan upon their economic growth, foreign trade,
and interregional balance of payments. This is not an easy task. First,
some of the relevant data are not available. This will become evident as
we go along. Second, as is indicated in the foregoing chapters, the
relation between the growth of interwing trade, economic growth, and the
changes in the foreign trade of East and West Pakistan is that of mutual
interdependence. A similar relationship holds between these factors and
the problems of interregional payments between East and West Pakistan.
It is indeed a tricky problem to discern a clear-cut cause-and-effect
relationship between these variables.

With these limitations in mind, we shall investigate below the
effects of the growth of interwing trade on (1) the economic growth of
Pakistan in general and of East and West Pakistan in particular, (2) the
foreign trade of East and West Pakistan, and (3) the interregional pay-
ments between East and West Pakistan.

5.2. The Effects on Economic Growth

One important impact of the growth of interwing trade on the economic
growth of East and West Pakistan may be via economies of scale in the newly

established industries due to the widening of the extent of their regional markets. The appropriate testing of this proposition requires the assessment of the returns to scale in the relevant industries in East and West Pakistan. This is almost a formidable task because of the lack of necessary data. A recent study of four selected industries in Karachi by G. Ranis[1] discloses certain interesting results in this respect. On testing a hypothetical Cobb-Douglas production function it is found that the textiles and light engineering industries in Karachi operate under constant returns to scale while plastics and leather and leather goods industries operate under diminishing returns to scale.

Since the cotton textiles industry has played a significant role in the growth of interwing trade in Pakistan, these findings tend to reduce the importance of the latter in extending the scope for the growth of economies of scale in the former. However, in accepting the results of the Karachi study, one should not overlook the familiar pitfalls involved in the application of the Cobb-Douglas production function. Besides the implicit assumption of the absence of excess capacity, the Cobb-Douglas production function fails to isolate the effects of technical progress on output from those of capital accumulation. Moreover, it assumes what has to be statistically proved. The imperfection of the market structure in

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[1] Gustav Ranis, Industrial Efficiency, Production Functions and Economic Growth, A Case Study of Industries in Karachi; Monograph of the Institute of Development Economics, Karachi, 1961.

The results are obtained by estimating the unknown parameters of a Cobb-Douglas production function of the type $O = AK^{a_1} L_u^{a_2}$ where the values a_1 and a_2 are found to be 0.3682 and 0.6382 in textiles, 0.1812 and 0.8429 in light engineering, 0.3674 and 0.4180 in plastics and 0.3166 and 0.5518 in leather and leather goods industries, on the basis of standard regression technique (Table 10).

which these industries operate in Karachi and the consequent under-valuation and over-valuation of labour in small and large scale industries respectively reduce the reliability of such findings. Note that these imperfections are confirmed in the same study.

Even if it is true that constant returns to scale exists in the textiles industry in Karachi, the contention that economies of scale were experienced in this industry may not be invalidated. For the Karachi study refers to the situation in the textiles industry as it was found in 1958. It might be that in the earlier years the same industry was operating on the declining part of the average cost curve; and with the growth of scale, over time, it has reached the relatively flat part of the same cost curve. And in this movement along the average cost curve the interwing trade might have played some important role.

It can be seen from Columns 4 to 9 of Table 5.1 that a substantial part of the expansion of the output of the textiles industry in West Pakistan has been facilitated by the growth of exports to East Pakistan. The exports of cotton manufactures from West to East Pakistan have varied considerably from year to year, but they show a rising trend. Likewise, despite considerable annual variations, the export of cotton yarns and twists from West Pakistan showed a considerable increasing trend between 1952-53 and 1957-58. The textiles firms are heavily concentrated in Karachi and the old province of the Punjab. Textiles to be shipped from the Punjab to East Pakistan would go by way of Karachi. Because of the distance of about one thousand miles between Karachi and the Punjab and, therefore,

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TABLE 5.1

Selected Manufactured Commodities; Production in and Export from West to East Pakistan

1948-49 to 1958-59

YEARS	TOTAL OUTPUT OF INDUSTRIAL GOODS In crores of rupees	EXPORTS OF MANUFACTURES TO EAST PAKISTAN In crores of rupees	RATIO OF 1 TO 2 PERCENT	OUTPUT OF CLOTHS In million yards	EXPORTS OF CLOTHS TO EAST PAKISTAN In million yards	RATIO OF 4 TO 5 PERCENT	OUTPUT OF YARNS In million pounds	EXPORTS OF YARNS TO EAST PAKISTAN In million pounds	RATIO OF 7 TO 8 PERCENT	OUTPUT OF CIGARETTES In million numbers	EXPORTS OF CIGARETTES TO EAST PAKISTAN In million numbers	RATIO OF 10 to 11 PERCENT
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1948-49							20.8	4.5	21.6			
1949-50	87.10	3.29	3.7	72.1	5.7	6.5	25.4	2.5	9.8			
1950-51	94.20	7.68	8.1	92.0	13.7	14.7	34.2	5.4	15.7			
1951-52	102.00	1.44	1.4	131.5	(a)	---	40.0	(a)	---	2764	182	6.7
1952-53	112.50	4.09	3.6	198.5	4.8	2.4	50.1	3.4	6.8	3725	134	3.6
1953-54	130.60	18.05	13.8	286.1	21.9	7.7	107.0	21.3	19.7	4206	1140	27.1
1954-55	145.30	18.67	12.8	387.7	13.6	3.5	178.2	42.2	23.7	4364	814	18.6
1955-56	157.80	20.17	12.8	440.0	26.9	6.1	259.3	56.0	21.6	4627	724	15.6
1956-57	174.00	28.31	16.3	471.5	60.2	12.8	282.8	47.6	16.8	5425	635	11.7
1957-58	180.80	39.52	21.8	511.0	120.6	23.6	299.5	80.8	26.9	6190	356	5.8
1958-59	----	----	----	558.2	100.6	18.0	----	----	----	7242	724	9.9

(a) Negligible

because of the cost of transportation involved, it is likely that Karachi was the major supplier of cloth to East Pakistan.

Notice that the ratio of the export of cloth from West to East Pakistan to the total production of West Pakistan increased substantially from 1955-56; and between 1956 and 1959 it surpassed the total output of cloth in East Pakistan. In view of the fact that East Pakistan has also been exporting a small amount of cloth to West Pakistan, this partly indicates the competitive effects of interwing trade on the interregional development of the cotton textiles industry in Pakistan.

Column 12 of Table 5.1 shows the ratios of the exports of cigarettes from West to East Pakistan to West Pakistan's total outputs. The proportion of the exports of cigarettes has tended to decline over time. And, as we have seen before, this decline was due to the growth of cigarette manufacturing in East Pakistan in the second half of the period under consideration. Nevertheless, between 1953-54 and 1956-57 the proportions of the exports of cigarettes from West Pakistan was quite significant.

The ratios of the total export of manufactures from West to East Pakistan to the total output of industrial goods in West Pakistan can be seen from Column 3 in Table 5.1. The figures in Column 2 of this table include the exports of cotton yarns and twists and other manufactures included in the commodity groups of Raw Materials, Food, Drink and Tobacco. The ratios of the exports of manufactures from West Pakistan to her total industrial output fluctuated considerably till 1952-53, after which it showed a considerable increasing trend. Despite the decline in the ratios

from 1953-54 to 1954-55 and 1955-56, the exports of manufactures in absolute amounts increased. From 1953-54 the exports of manufactures from West to East Pakistan amounted to slightly more than one-half of the total industrial output of East Pakistan.

Table 5.2 discloses heavy dependence of the expansion of output of jute and paper manufacturing in East Pakistan on her exports to West Pakistan. Columns 6 and 9 of this table indicate the ratios of the exports of gunny bags and hessian cloth from East to West Pakistan to their respective outputs in East Pakistan. Note that the absolute amount of the export of hessian cloth from East to West Pakistan continued to increase at a significant rate although its ratio to the total output of East Pakistan tended to decline over the period under discussion. In the case of paper, Column 12 of Table 5.2 indicates that the ratio of the export of paper from East to West Pakistan to the total output of paper in East Pakistan varied between 56.5 percent and 75.3 percent during the period between 1953-54 and 1958-59.

As can be seen from Column 3 of Table 5.2, the export of manufactures from East to West Pakistan as a percentage of her total industrial output increased almost continuously from 10.6 in 1952-53 to 21.1 in 1957-58. Only in 1955-56 did it drop, but even in this year the absolute amount of export of industrial goods from East to West Pakistan increased.

It may be noted that the expansionary effects on the growth of certain industries in the regions involved are not the only benefits from inter-regional trade from the standpoint of economic growth. As is well-known, in an open economy, depending upon its magnitude as a proportion of income,

TABLE 5.2

Selected Manufactured Commodities; Production in and Export from East to West Pakistan

1948-49 to 1958-59

YEARS	TOTAL OUTPUT OF INDUSTRIAL GOODS In crores of rupees (1)	EXPORTS OF MANUFACTURES TO WEST PAKISTAN In crores of rupees (2)	RATIO OF 1 TO 2 PERCENT (3)	OUTPUT OF GUNNY BAGS In million numbers (4)	EXPORTS TO WEST PAKISTAN In million nos. (5)	RATIO OF 4 TO 5 PERCENT (6)	OUTPUT OF HESSIAN CLOTH In million yards (7)	EXPORT TO WEST PAKISTAN In million yards (8)	RATIO OF 7 TO 8 PERCENT (9)	OUTPUT OF PAPER In thousand tons (10)	EXPORT TO WEST PAKISTAN In thousand tons (11)	RATIO OF 10 TO 11 PERCENT (12)
1948-49												
1949-50	32.0	0.04	0.13									
1950-51	33.7	0.14	0.42									
1951-52	35.4	0.38	1.1				4.6	2.4	52.2			
1952-53	37.5	4.04	10.6	40.1	21.1	52.6	24.1	8.3	34.4			
1953-54	44.5	5.91	13.3	45.3	38.0	83.9	26.4	9.2	34.8	19.7	14.4	73.1
1954-55	47.0	9.16	19.5	99.9	31.9	33.6	81.4	14.1	17.3	21.6	12.6	58.3
1955-56	61.1	10.62	17.4	105.3	35.8	33.9	113.8	19.2	16.9	24.4	15.2	62.3
1956-57	60.7	12.33	20.3	110.2	47.5	42.1	143.4	27.5	19.2	23.7	13.4	56.5
1957-58	63.0	13.27	21.1	140.8	36.4	25.8	194.1	25.4	13.1	24.1	18.2	75.5
1958-59				178.9	30.7	19.9	247.8	9.2	3.7	17.8	13.4	75.3

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the volume of interregional trade plays an important role in governing the level and rate of growth of regional income. In fact, the balance of trade, in its wider sense, is a component of regional or national income. And the balance of trade and the regional and/or national income are mutually interdependent. The balance of trade via the open economy multiplier affects the income propagation process in a region or a country. The nature and the rate of growth of real income, in turn, governs the pattern and the balance of trade to a great extent.

This implies that one way of assessing the importance of interwing trade in the economic growth of East and West Pakistan is to estimate the relative magnitude of interwing trade as a percentage of their regional incomes. The absence of the regional breakdown of the national income of Pakistan prevents us from following this procedure. However, as can be seen from Column 1 of Table 5.3, the total interwing trade (i.e., the sum of the interwing exports of East and West Pakistan) grew almost continually from 1.5 percent of Pakistan's national income in 1949-50 to 4.4 percent in 1958-59. Certain non-official estimates of regional incomes in Pakistan indicate that West Pakistan's regional income in 1955-56, 1956-57 and 1957-58 was a little higher than that of East Pakistan. Therefore, the ratio of East Pakistan's total interwing trade to her regional income was slightly higher than the same ratio for West Pakistan. However, the ratio of interwing exports from West Pakistan to her regional income was much higher than the same ratio for East Pakistan.[2] Per capita export from

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[2] According to S. Laursen's estimate the regional income was Rs.969.5 crores in East Pakistan and Rs.1048.5 crores in West Pakistan in 1955-56. (From an unpublished document on An Estimate of National Income Produced in

TABLE 5.3

Interwing Trade Per Capita and As a Ratio of
Pakistan's National Income

1948-49 to 1958-59

YEARS	THE RATIO OF TOTAL INTERWING* TRADE TO NATIONAL INCOME OF PAKISTAN IN PERCENT (1)	TOTAL INTERWING TRADE* PER CAPITA (In Rupees)			PER CAPITA EXPORT OF DOMESTIC GOODS (In Rupees)	
		East Pak. (2)	West Pak. (3)	Pakistan (4)	From East to West Pak. (5)	From West to East Pak. (6)
1948-49	----	0.38	0.48	0.21	0.04	0.42
1949-50	1.5	0.62	0.78	0.35	0.07	0.68
1950-51	1.4	0.60	0.75	0.33	0.12	0.61
1951-52	1.1	0.44	0.55	0.24	0.08	0.45
1952-53	1.5	0.61	0.77	0.35	0.22	0.49
1953-54	2.5	1.09	1.36	0.60	0.29	1.00
1954-55	2.4	1.03	1.28	0.57	0.39	0.79
1955-56	2.8	1.19	1.49	0.67	0.48	0.89
1956-57	3.5	1.57	1.95	0.87	0.49	1.35
1957-58	4.5	1.99	2.48	1.11	0.56	1.79
1958-59	4.4	1.88	2.33	1.04	0.55	1.66

*Sum of exports of the two wings to each other.

West to East Pakistan was higher than that from East to West Pakistan.
East Pakistan's exports to West Pakistan per head of people in East
Pakistan rose almost continually from Rs.0.04 in 1948-49 to Rs.0.55 in
1958-59. The same figure for West Pakistan, with some annual variations
in the earlier years, rose from Rs.0.42 in 1948-49 to Rs.1.66 in 1958-59.

The smallness of the above magnitudes might lead one to underesti-
mate the importance of interwing trade to the regional economies of East
and West Pakistan. As a precaution against this, we may note the relative
importance of interwing trade vis-à-vis that of the foreign trade of
Pakistan. The total foreign trade of Pakistan, over the period under
discussion, excepting the years of Korean crisis, has varied between 15
and 17 percent of Pakistan's national income. And, as can be seen from
Table 5.4, the total interwing trade as a percentage of the total foreign

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East and West Pakistan, submitted by S. Laursen to the Planning Commission
of Pakistan on April 1, 1957.) On this estimate the ratios of total
interwing trade to the regional incomes of East and West Pakistan in
1955-56 were 5.71 percent and 5.28 percent respectively.

According to an unpublished estimate of the CSO, the regional incomes of
East and West Pakistan were Rs.1019.4 crores and Rs.1120.3 crores
respectively in 1956-57; Rs.1001.7 crores and Rs.1149.8 crores in
1957-58. These indicate that the ratios of total interwing trade to
the regional income of East Pakistan rose to 7.22 percent in 1956-57
and to 9.52 percent in 1957-58. The ratios of East Pakistan's export
to West Pakistan to East Pakistan's regional income were 2.24 percent
in 1956-57 and 2.64 percent in 1957-58.

The ratios of total interwing trade to the regional income of West
Pakistan rose to 6.57 percent in 1956-57 and to 8.29 percent in 1957-58.
The ratio of the exports from West to East Pakistan to the regional
income of West Pakistan rose from 4.54 percent in 1956-57 to 6.00
percent in 1957-58.

TABLE 5.4

Interwing and Foreign Trade of Pakistan
1948-49 to 1958-59

| YEARS | TOTAL INTERWING TRADE AS PERCENT OF TOTAL FOREIGN TRADE OF | | | EXPORTS OF EAST TO WEST PAKISTAN AS PERCENT OF EAST PAKISTAN'S TOTAL EXPORTS | EXPORTS OF WEST TO EAST PAKISTAN AS PERCENT OF WEST PAKISTAN'S TOTAL EXPORTS |
	Pakistan (1)	East Pak. (2)	West Pak. (3)	(4)	(5)
1948-49	6.53	22.28	9.23	3.91	21.03
1949-50	10.49	25.74	17.68	4.78	29.02
1950-51	6.15	15.42	10.24	3.66	13.51
1951-52	4.53	10.47	8.07	3.25	14.54
1952-53	9.92	27.40	15.56	13.41	18.88
1953-54	19.89	50.61	32.73	15.98	36.48
1954-55	20.75	44.85	38.61	19.72	39.83
1955-56	19.10	42.94	34.41	19.28	33.78
1956-57	19.97	49.14	33.65	20.05	42.45
1957-58	26.10	56.12	52.42	20.57	61.61
1958-59	31.41	63.70	61.98	23.08	58.98

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trade of Pakistan rose to 31.4 percent in 1958-59. Note that this was mainly due to the secular growth of interwing trade, because the total foreign trade of Pakistan was more or less constant in value over the period under study.

Since exports exercise leverage in the process of income generation in a region, one magnitude which shows the importance of interwing trade is the ratio between the exports of each wing in interwing trade to its respective total exports (i.e., interwing plus foreign). East Pakistan's exports to West Pakistan as a ratio of her total exports rose from 13.41 percent in 1952-53 to 23.08 percent in 1958-59. The same ratio for West Pakistan, with considerable annual variations, rose from 21.03 percent in 1948-49 to 58.98 percent in 1958-59.

Mention may be made of two snags involved in the comparison between interwing trade and foreign trade of Pakistan. To the extent that prices in interwing trade and foreign trade of Pakistan had dissimilar movements, the changes in the ratios between the values of interwing trade and foreign trade would not reflect exact changes in real terms. Because of the large changes in the quantum of interwing trade, the above need not reduce the importance of the directions of the changes involved. In the second place, since the values relating to the exports in interwing trade include costs, freight and insurance charges and those in foreign exports of East and West Pakistan do not, the ratio indicated between the exports of each wing would necessarily be higher than it should be.

It should be noted that, because of the triangular pattern of its development, the growth of interwing trade has further significance for the economic growth of Pakistan. We have seen, in Section 4.4 above, that the development of the cotton textiles industry in Pakistan led to the decline in the foreign exports of West Pakistan during the last decade. Economic development and population growth, on the other hand, increased the demand for imports in Pakistan. Import substitution through the development of consumer goods industries behind a tariff wall, the growth of interwing trade, and the discriminatory import policy of the Government of Pakistan partly helped to bridge the gulf between the exports and imports of Pakistan. This can be seen from Table 5.5. Till 1955-56, East Pakistan had a surplus in her total balance of trade while West Pakistan had a deficit (excepting the year 1950-51). Over the eleven-year period from 1948-49 through 1958-59, East Pakistan had surplus earnings of Rs.176.43 crores, which partly balanced the deficit of Rs.241.47 crores of West Pakistan. This partial compensation of the deficit of one wing by the surplus of the other was obviously facilitated by the growth of interwing trade between East and West Pakistan.

5.3 The Effects on the Foreign Trade of East and West Pakistan

Changes in the volume and composition of a region's foreign trade partly reflect structural changes, over time, in its economy. The foregoing analysis indicates the structural changes in the regional economies of East and West Pakistan during the period under study. To the extent that economic development of these regions and the growth of interwing

TABLE 5.5

Total (Interwing and Foreign) Balance
of Trade of East and West Pakistan
1948-49 to 1958-59

YEARS	In Crores of Rupees TOTAL TRADE BALANCE OF	
	East Pakistan (1)	West Pakistan (2)
1948-49	3.72	- 52.72
1949-50	4.40	- 16.40
1950-51	55.05	38.95
1951-52	13.71	- 36.71
1952-53	21.08	- 19.08
1953-54	16.06	- 1.06
1954-55	30.31	- 23.35
1955-56	46.17	- 20.17
1956-57	2.71	- 51.71
1957-58	- 9.28	- 52.72
1958-59	- 7.50	- 6.50
TOTAL	176.43	-241.47

trade are interdependent, it is difficult to isolate the consequences of
the one from those of the other on their foreign trade. However, certain
particular effects of the growth of interwing trade on the foreign trade
of East and West Pakistan, which have been indicated earlier, may now be
recapitulated.

We have seen in Chapter 4 that the growth of interwing trade was
partly an effect and partly a cause of the progressive decline of Pakistan's
trade with India. This may be considered as one aspect of the trade
diversion impact of the growth of interwing trade. Second, the growth of
interwing trade in manufactures has replaced the foreign imports of similar
goods in Pakistan. This may be regarded as the second aspect of the trade
diversion effects of the growth of interwing trade. And, as we shall see
soon, this has affected the composition of the foreign imports of manu-
factures in East and West Pakistan. The third trade diversion effect is
visible in the decline of the foreign export of certain items from Pakistan.
Tea is an important example. The increased exports of tea from East to
West Pakistan has led to the reduction of the foreign exports of tea from
East Pakistan. For example, the volume index of the foreign exports of tea
from East Pakistan declined from 100 in 1954-55 to 44.2 in 1958-59.

Since tea was a relatively very small item in the foreign exports
of East Pakistan, this did not affect the total foreign exports of East
Pakistan much. Compared to the pre-partition volume of exports, the
exports of raw jute from East Pakistan declined. And this was due to the
decline of the export of raw jute from East Pakistan to India. As can
be seen from Column 1 of Table 4.3, the total foreign exports of East

Pakistan, on the whole, showed a tendency to increase. As Table 5.6 indicates, this increase was partly due to the increased export of manufactures, especially in jute goods, since 1955-56. Exports of minor raw materials like hides and skins, oil cakes and seeds from East Pakistan also increased slightly from 1954-55 on. The total foreign trade of East Pakistan, as well as total exports, increased .

The total foreign exports of West Pakistan declined mainly because of the decline in the exports of raw cotton. This was, as we have seen, because of the increased domestic consumption of raw cotton in Pakistan and the unchanged volume of production of raw cotton in West Pakistan. However, because of the growth of her export to East Pakistan, the total exports of West Pakistan, on the whole, increased. As mentioned before, the total foreign trade of Pakistan and West Pakistan, though it fluctuated from year to year, did not show a significant tendency to decline.

Till the year 1954-55 no regional distribution of Pakistan's foreign trade by commodities was made by the CSO. Therefore, the composition of the foreign trade of East and West Pakistan is shown, in Tables 5.6 and 5.7, only for the years from 1954-55 to 1958-59. On the side of exports, the notable point is the increased exports of manufactures from East and West Pakistan. Since this is accounted for by jute and cotton manufactures, it might have been indirectly influenced by the growth of interwing trade. The argument is that the growth of interwing trade by facilitating the increased efficiency in jute and cotton textiles industries helped to reduce the unit costs of production which enabled East and West Pakistan

TABLE 5.6

The Composition of the Foreign Trade of
East Pakistan, July 1954 to June 1959[*]

Values are in crores of rupees

YEARS	FOOD, DRINK AND TOBACCO (1)		RAW MATERIALS (2)		MANU-FACTURES (3)		TOTAL (4)	FOOD, DRINK AND TOBACCO (5)		RAW MATERIALS (6)		MANU-FACTURES (7)		TOTAL (8)
	EXPORTS							IMPORTS						
	Values	Share o/o	Values	Share o/o	Values	Share o/o	Values	Values	Share o/o	Values	Share o/o	Values	Share o/o	Values
1954-55	8.1	11.1	62.8	86.0	2.1	2.9	73.0	0.6	1.9	7.7	24.6	23.2	73.5	31.5
1955-56	5.2	5.6	78.1	84.4	9.2	10.0	92.5	0.8	2.2	8.1	22.4	27.3	75.4	36.2
1956-57	7.3	8.1	75.1	82.9	8.2	9.0	90.6	18.9	32.0	15.2	25.8	24.9	42.2	59.0
1957-58	3.4	3.3	89.8	88.3	8.5	8.4	101.7	31.2	45.7	11.1	16.2	26.0	38.1	68.3
1958-59	4.5	5.1	69.3	78.7	14.3	16.2	88.1	15.0	27.1	14.7	26.6	25.6	46.3	55.3

[*] Up to February 1956 the figures include trade on private accounts only.

TABLE 5.7

The Composition of the Foreign Trade of
West Pakistan, July 1954 to June 1959*

Values are in crores of rupees

YEARS	EXPORTS							IMPORTS						
	FOOD, DRINK AND TOBACCO (1)		RAW MATERIALS (2)		MANU-FACTURES (3)		TOTAL (4)	FOOD, DRINK AND TOBACCO (5)		RAW MATERIALS (6)		MANU-FACTURES (7)		TOTAL (8)
	Values	Share o/o	Values	Share o/o	Values	Share o/o	Values	Values	Share o/o	Values	Share o/o	Values	Share o/o	Values
1954–55	2.7	6.2	39.0	89.0	2.1	4.8	43.8	3.5	4.4	12.6	16.0	62.6	79.6	78.7
1955–56	6.9	10.5	53.0	80.5	5.9	9.0	65.8	5.1	5.3	16.8	17.5	74.2	77.2	96.1
1956–57	2.1	3.0	54.3	77.6	13.6	19.4	70.0	40.1	26.7	20.4	13.6	89.7	59.7	150.2
1957–58	2.0	4.3	36.2	78.0	8.2	17.7	46.4	34.3	24.7	13.7	9.9	91.2	65.4	139.2
1958–59	4.4	9.6	32.0	69.7	9.5	20.7	45.9	23.6	23.7	12.3	21.1	65.8	64.7	101.7

* Up to February 1956 the figures include trade on private accounts only.

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to expand foreign exports of these in a competitive world market. Also noteworthy is the decline of the exports of Food, Drink and Tobacco from East Pakistan. This was mainly due to the decline in the foreign exports of tea from East Pakistan.

The foreign imports of both East and West Pakistan were characterized by the great increase of the imports of Food, Drink and Tobacco from 1956-57. The values of the import of this group of commodities in East Pakistan amounted to Rs.0.8 crores in 1955-56, Rs.18.9 crores in 1956-57, Rs.31.2 crores in 1957-58 and Rs.15.0 crores in 1958-59. The corresponding figures for West Pakistan were Rs.5.1 crores in 1955-56, Rs.40.1 crores in 1956-57, Rs.34.3 crores in 1957-58 and Rs.23.6 crores in 1958-59. This was mainly due to the heavy increase of the import of rice and wheat in Pakistan from 1956-57. Note that the figures in Tables 5.6 and 5.7 include imports on Government account from March 1956 on. The imports of rice and wheat were on Government account. Since there had been imports of food grains in Pakistan during the preceding years on Government account, which are not included in the figures shown in these tables, the figures in Column 5 of Tables 5.6 and 5.7 do not give the correct picture of the actual change in the import of Food, Drink, and Tobacco in East and West Pakistan from 1956-57. Nevertheless, they do reflect the deteriorating conditions in the agricultural sectors of East and West Pakistan. Despite the fact that agriculture in both East and West Pakistan is subject to the vagaries of nature in the form of draught, flood and the like, it remains true that there has been little development in the agricultural sector of Pakistan. With the rapid growth of the industrial sector in Pakistan during the past

decade, she has reached a point where the absence of technical progress in agriculture is seriously retarding the pace of her overall economic growth.

As Table 5.6 shows, East Pakistan's imports of raw materials increased between 1954-55 and 1958-59, whereas her imports of Manufactures showed no rising or falling trend, varying between Rs.23 and 27 crores during this period. West Pakistan's imports of Raw Materials increased rapidly up to 1956-57, then fell again below the 1954-55 level. The imports of Manufactures in West Pakistan increased continually from Rs.62.6 crores in 1954-55 to Rs.91.2 crores in 1957-58, then fell sharply to Rs.65.8 crores in 1958-59. The increased imports of Raw Materials indicate the structural changes in the industrial sector in Pakistan. The same is evident from the change in the composition of the imports of Manufactures in East and West Pakistan. This can be seen from Table 5.8. The share of capital goods in the imports of Manufactures in East Pakistan rose continuously from 32.7 percent in 1954-55 to 78.8 percent in 1957-58, and then dropped to 65.8 percent in 1958-59. The share of capital goods in the import of Manufactures in West Pakistan, excluding the year 1955-56, varied between 51 percent and 62 percent. Note that the absolute values of the import of capital goods in West Pakistan actually declined in 1958-59 by Rs.5.42 crores.

It should be observed that these figures do not indicate the actual import of raw material and capital goods in Pakistan, since imports on account of foreign aid are not included here. The regional distribution of foreign aid is not officially published in Pakistan, but it is generally known that East Pakistan had little share of the foreign aid received by Pakistan till 1955-56. As we shall see soon, the overall surplus in the balance of payments of East Pakistan is also indicative of this fact. This

TABLE 5.8

Foreign Import of Capital Goods in Pakistan

1954-55 to 1958-59

Values in crores of rupees .

YEARS	EAST PAKISTAN		WEST PAKISTAN	
	Values	As percentage of total imports of Manufactures	Values	As percentage of total imports of Manufactures
1954-55	7.65	32.7	33.76	53.5
1955-56	8.23	37.7	22.93	30.9
1956-57	18.09	72.6	53.31	59.4
1957-58	18.58	78.8	46.82	51.3
1958-59	16.79	65.8	41.40	62.8

means that the imports of complimentary goods in West Pakistan were far greater than what is indicated by Table 5.8. Note that apart from imports favoured by foreign aid, the levels of foreign imports in West Pakistan were more than double the levels of foreign imports in East Pakistan almost every year after 1948-49.

5.4. The Interregional Payments Between East and West Pakistan

5.4.1.   It remains for us to examine the problems and processes of adjustment of interregional payments between East and West Pakistan consequent upon the growth of the triangular pattern of trade between them. Furthermore, all trade involves relative gains for the trading partners, although their relative gains may be different. As is well known, the relative gains from trade depend partly upon the movements of the balance and terms of trade. This section is devoted to the analysis of these aspects of the growth of interwing trade between East and West Pakistan.

5.4.2. The Balance of Interwing Trade

There are two alternative ways of estimating the balance of merchandise trade between two regions. The first is to take the difference between a region's exports and imports of merchandise in a particular period of time in terms of its own currency or in terms of some standard international currency. An improvement in the balance of trade according to this procedure can be defined as a decrease in the values of trade deficit or an increase in the values of trade surplus.

The second alternative is to measure the trade balance of a region as a ratio of the values of its exports to its imports. An increase in this ratio implies an improvement of a region's trade balance and vice-versa.

The question of a choice between the above alternatives is a matter of analytical convenience, since in different contexts one may be interested in either of them according to the assumptions made about the sources of financing of the balance.[3] Note that except in the case in which trade is balanced, an improvement or deterioration on one alternative may not be followed by an improvement or deterioration on the other. The second alternative, trade balance as a ratio, may be preferred in the analysis of the trade balance because it permits a more satisfactory analysis of the changes in the trade balance in terms of changes in the volumes and prices of exports and imports.[4]

In Table 5.9 we have shown the alternative estimates of the balance of interwing trade. Column 1 represents East Pakistan's deficit or West Pakistan's surplus balance of trade measured as the difference between the money values of exports and imports. It can be seen that there has been a great deterioration of East Pakistan's trade balance since 1955-56. East Pakistan's deficit trade balance amounted to Rs.19.41 crores per annum in interwing trade.

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[3] Harry G. Johnson; International Trade and Economic Growth, Allen and Unwin Ltd., London, 1958, p. 98. Professor Johnson has designated the first alternative as the 'monetary' and the second as the 'real' criterion of trade balance. We prefer to avoid this distinction here.

[4] Charles P. Kindleberger; The Terms of Trade, A European Case Study, Chapman and Hall Ltd., London, 1956, Ch. 12, pp. 279-288.

TABLE 5.9

The Balance of Interwing Trade

1948-49 to 1958-59

(The average of 1949-50 to 1952-53 = 100)

| YEARS | WEST PAKISTAN'S TRADE BALANCE $q_x p_x - q_m p_m$ [Crores of Rs] (1) | EAST PAKISTAN | | | WEST PAKISTAN | | |
		TRADE BALANCE $[q_x p_x / q_m p_m]$ Index* (2)	GROSS BARTER TERMS OF TRADE $\frac{q_x}{q_m} \cdot 100$ INDEX [ ] (3)	NET BARTER TERMS OF TRADE INDEX (4)	TRADE BALANCE $[q_x p_x / q_m p_m]$ Index (5)	GROSS BARTER TERMS OF TRADE INDEX [$\frac{q_x}{q_m} \cdot 100$] (6)	NET BARTER TERMS OF TRADE INDEX (7)
1948-49	12.3	38.2	55.72	97.08	210.7	147.18	102.03
1949-50	18.6	58.5	48.63	100.68	136.9	168.63	98.38
1950-51	20.9	67.4	93.01	90.74	119.6	88.18	109.15
1951-52	18.3	76.2	88.06	116.18	103.3	94.04	85.25
1952-53	6.9	200.0	170.30	92.40	40.5	49.15	107.22
1953-54	22.9	114.7	112.29	105.13	69.4	73.03	94.22
1954-55	10.7	188.2	131.43	156.76	42.4	62.41	63.18
1955-56	10.8	200.0	133.04	158.57	39.9	61.64	62.46
1956-57	29.3	129.4	96.89	133.49	61.2	84.64	74.19
1957-58	43.3	111.7	50.07	148.47	71.9	163.97	66.71
1958-59	40.5	117.6	79.66	119.65	68.3	102.45	82.84

* Trade balance, gross and net barter terms of interwing trade of one wing are reciprocals of those of the other. The products of these reciprocals in this and other tables do not equal one because of the four-year average used in deriving the indices of the different series involved.

Columns 2 and 5 of Table 5.9 show the trade balance of East and West
Pakistan measured as the ratio between the values of exports and imports.
When compared with Column 1, these columns show divergent changes in trade
balances. For example, in certain years, especially from 1948-49 to
1950-51, the deterioration in the trade balance of East Pakistan as a
difference was accompanied by an improvement in her trade balance as a
ratio. The reverse was the case for West Pakistan. Generally speaking,
the index of the trade balance of East Pakistan measured as a ratio shows
less unfavourable movement over time than when measured as a difference.

Our next task is to examine the causes of the movements in the
balance of interwing trade. The changes in the balance of trade are
governed by the changes in the volume of trade, terms of trade, and the
general price level. The discussion of the effects of these variables
on trade balance has to run in terms of partial equilibrium analysis.
Since the volume of trade, terms of trade, and the general price level
are mutually interdependent in a system of general equilibrium, the results
of partial equilibrium analysis in this respect are likely to be more
vitiating than revealing. What is intended here is to examine the nature
of association between the changes in trade balance, volume and terms of
trade and in the general price level and not to establish a general causal
relationship between these variables. In doing this, balance of trade,
measured as a ratio, seems to be more useful, because it can be compared
with the gross barter terms of trade. As the effects of volume and price
changes are reflected in the changes in the gross and net barter terms of
trade, a comparison between these and the changes in trade balance would

indicate the degree of association between the changes in trade balance, volume of trade and in the general price level. It should be noted that the gross barter terms of trade, for this purpose, must be defined, after Professor Taussig, as the ratio of the volume of exports to the volume of imports. This procedure, though unusual nowadays, enables the changes in trade balance to be computed from the sum of changes in gross and net barter terms of trade.[5/] Notice that thus defined, a rise in the index of the gross barter terms of trade indicates an unfavorable moment.

It follows from what has been said above that a favourable movement in the balance of trade must be associated with an unfavourable movement (a rise in the index) in the gross barter terms of trade, if the change in trade balance is caused by the changes in the volume of trade alone. It can be seen from Table 5.9 that the changes in the index of the gross barter terms of trade are associated more frequently than those in the net barter terms of trade with changes in trade balance in the same direction. In the cases of both East and West Pakistan, trade balance and the gross barter terms of trade moved in the same direction in eight out of eleven years, while the same relationship existed between trade balance and the net barter terms of trade for five years only. On this evidence, the volume of trade appears to have been the more important determinant of movements of the trade balance in interwing trade than the price.

[5/] The proof is based on a simple composite function rule for differentiation. See Charles P. Kindleberger, op. cit., p. 286.

5.4.3.   The Balance of Payments Between East and West Pakistan

Broadly speaking, the estimate of the balance of payments between East and West Pakistan would involve the estimates of (a) the triangular balance of payments between them, (b) the interregional transfer of funds via the collection of revenue in each region and expenditures (including loans) made by the Central Government, and (c) the interregional transfer of funds on account of private investment and remittances by the inhabitants of one region working in the other. While it was possible for us to have some estimates of (a) and (b), to estimate (c) remained an impossibility.

(a) The total balance of trade for East and West Pakistan has been shown in Table 5.5 above. It would remain to add to it the balance of invisible receipts and payments in international transactions to get the full picture of the total balance of payments. The State Bank of Pakistan, which compiles the balance of payments statistics for Pakistan, does not give a regional distribution of the same. Certain efforts have been made by the experts of the Planning Commission of Pakistan to divide the invisible receipts and payments between the two regions for the years 1956-57 and 1957-58. This shows that East Pakistan shared about 30 percent of the total receipts and about 28 percent of the total payments of Pakistan in the invisible part of her international transactions. On the basis of these ratios, we have estimated the invisible payments and receipts of East Pakistan for other years. The results are shown in Columns 1 and 2 of Table 5.10.

TABLE 5.10

The Total Balance of Payments of East Pakistan
1948-49 to 1957-58

(Excluding governmental transfers, private investment
transfers, and personal remittances)

Values are in crores of rupees.

YEARS	INVISIBLE RECEIPTS (1)	INVISIBLE PAYMENTS (2)	BALANCE [1 - 2] (3)	TOTAL BALANCE OF TRADE [From T. 5.5] (4)	BALANCE OF PAYMENTS [3 + 4] (5)
1948-49	6	3	3	3.72	6.72
1949-50	2	6	-4	4.40	0.40
1950-51	5	5	0	55.05	55.05
1951-52	7	10	-3	13.71	10.71
1952-53	5	7	-2	21.08	19.08
1953-54	4	6	-2	16.06	18.06
1954-55	3	6	-3	30.31	27.31
1955-56	6	10	-4	46.17	42.17
1956-57	6	11	-5	2.71	- 2.29
1957-58	6	10	-4	- 9.28	-13.28
				TOTAL =	163.93

In no way can these figures be taken as perfectly accurate. For, in the first place, it is not necessary that the same ratios prevailed in the earlier years as well. In the second place, there are other important complications also. The Head Offices of most financial institutions in Pakistan are situated in West Pakistan. The accounting procedure of these institutions as well as of the Government of Pakistan is not based on the regional basis. Furthermore, there is a peculiar practice of recording the values of the exports of raw jute on a c and f basis instead of an f.o.b. basis. This practice tends to vitiate the regional distribution of the invisible items in the balance of payments of Pakistan. However, since the invisible items represent a small fraction of the total balance of payments of Pakistan, the limitations in respect to the accuracy of the figures involved may not do fundamental harm to our analysis.

It can be seen from Table 5.10 that except in the years 1948-49 and 1950-51, East Pakistan had a deficit in the invisible items of her foreign balance of payments. But, as can be seen from Column 5 of this table, she had a net surplus in the total balance of payments till 1955-56. The total surplus earnings of East Pakistan during the period between 1948-49 and 1957-58 amounted to Rs.163.93 crores.

(b) The absence of the regional distribution of the total revenue receipts and expenditures of the Central Government of Pakistan prevents us from having a precise idea of the interregional movement of funds on Government account for each of the years under consideration.

One official estimate discloses that from 1947-48 to 1956-57 the excess of expenditures over receipts of the Central Government of Pakistan in East Pakistan amounted to Rs.17 crores.[6] In 1957-58, according to another estimate, it was Rs.48 crores.[7] Thus East Pakistan incurred a net deficit in her total balance of payments from 1956-57. But up to 1955-56 she had a net surplus in her total balance of payments which amounted to Rs.162.5 (Rs.179.50 crores - Rs.17 crores), or Rs.20.31 crores per annum. East Pakistan's total balance of payments deficit in 1957-58, according to the above estimate, amounted to Rs.61.28 crores (Rs.13.28 crores + Rs.48 crores).

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[6] Government of Pakistan, Department of Advertising, Films, and Publication; Economic Progress of East Pakistan, Karachi, 1956, p. 34. Receipts include tax revenues, income from public utilities, and contributions to Central loans from East Pakistan. Expenditures include loans, advances and grants to East Pakistan over and above other current and capital expenditures.

[7] The Planning Commission of Pakistan, Fiscal and Monetary Division. The accuracy of these figures may be doubted for two reasons. First, because of the presence of their Head Offices in West Pakistan, a number of businesses pay their taxes in West Pakistan, although a part of the taxes thus paid was actually assessed in and paid by East Pakistan. This under-estimates the total revenues received by the Government of Pakistan from East Pakistan. Note that there are a few business concerns having their Head Offices in East Pakistan. Since the latter are relatively smaller in number and capacity, taking into account the taxes paid by them would only reduce the extent of the underestimation of the total tax receipts from East Pakistan. Thus more accurate estimation of the balance of government taxes and expenditures in East Pakistan would necessitate a good deal of shuffling of the revenues collected by the Government of Pakistan from East and West Pakistan. Second, there is a possibility of double counting in the estimate of total balance of payments of East Pakistan in 1956-57 and 1957-58. The deficit incurred by East Pakistan in her balance of foreign trade during those years was mainly due to the import of rice. These imports were on government account. The money paid by the Central Government, if included in the expenditures made by Central Government for East Pakistan, would involve double counting insofar as the balance of payments of East Pakistan is concerned. For it would be deducted twice, once from her total export earnings and once from total revenues paid to the Government of Pakistan.

The reversal in the total balance of payments position of East
Pakistan was not surprising. As is pointed up before, it was mainly due
to the increased expenditure on the import of food in East Pakistan. To
this must be added the increased development expenditures in East Pakistan
consequent upon the initiation of the First Five-Year Plan since 1955.
Note that from 1956 on, the development expenditure in East Pakistan got
added impetus from the political change that occurred simultaneously both
at the Central as well as the Provincial Government in East Pakistan in
that year. Although about half of the Central Government expenditure in
East Pakistan in 1957-58 was on defense, from the standpoint of the eco-
nomic development of East Pakistan it was in fact one of the best years
during the entire period under consideration. The growth of development
and nondevelopment expenditures in East Pakistan increased the demand for
imports in East Pakistan. The exports from East Pakistan did not increase
proportionately. This, together with the increased defense expenditures by
the Central Government in East Pakistan, turned the total balance of payments
of East Pakistan into a huge deficit.

(c) The above includes the results of three major elements
involving interwing payments between East and West Pakistan. There are
other important elements as well. These, as indicated above, involve
interwing receipts and payments on account of services, remittances of
individual residents of one wing earning their incomes in the other, inter-
wing tourist expenditure and private investment. Nothing definite is known
about these items. Anything short of a wild guess would take several years

of research by a group of competent experts and with the fullest coopera-
tion of the Government of Pakistan and financial and other business
institutions. Under the circumstances, we are compelled to proceed
with the present analysis on the assumption that the above estimates
represent a reasonably close approximation to reality. It is our belief
that interwing transactions relating to services, individual remittances,
tourist expenditures and the like would be approximately even, and if
not, the net balance would not be significant to vitiate the following
analysis. As regards interwing investment, it is our belief that the
net flow of capital from West to East Pakistan on private account would
also be insignificant, if any, at least up to 1956-57. These assumptions,
it is hoped, would be supported in part by what follows below.

5.4.4.   The Relative Gains from Interwing Trade

(a) One way of evaluating the relative gains derived from the
growth of interwing trade by East and West Pakistan is to analyze the
effects of the surplus balance of payments of East Pakistan till 1955-56.
We have seen above that up to 1955-56 East Pakistan had a surplus of
Rs.162.50 crores in her total balance of payments, or Rs.20.31 crores
per annum. This was used to finance a part of the excess foreign imports
of West Pakistan. In other words, it amounted to capital transfer from
East to West Pakistan. Note that these amounts were financed by East
Pakistan from her foreign exchange earnings. Since, in spite of the
devaluation of 1955, the official external value of the Pakistani rupee
was (about 40 percent) higher than it was in the open market, East Pakistan

paid to West Pakistan much more in real terms than she received in terms of Pakistani rupees. This, as has been argued in Chapter 3, meant obvious loss to East Pakistan. East Pakistan might have incurred further loss due to the possible transfer of loanable funds to West Pakistan owing to her net surplus Rs.20.31 crores per annum in her total balance of payments with West Pakistan.

The absence of data relating to the interregional flow of loanable funds makes it difficult to estimate the exact flow of investment funds from East to West Pakistan up to 1955-56. However, an analysis of certain related data would suggest that some flow of investment funds from East to West Pakistan might have taken place during this period. In the absence of the transfer of loanable funds, the balance of payments surplus, cet. par., would have exerted an expansionary pressure on money supply and general price level in East Pakistan. More so, if we remember that the Provincial Government of East Pakistan was spending from budget deficits throughout this period. Although exact figures are not available, the data on industrial output in East Pakistan suggest that there was some increase of development expenditures in East Pakistan during this period on construction, social overheads, and manufacturing. We have also seen that agricultural output in East Pakistan did not increase proportionately with the growth of Population. All these together with export surplus ought to have exerted great inflationary pressure in East Pakistan. Yet Column 1 of Table 5.11 shows that the increase in money supply in East Pakistan up to 1955-56 did not reflect the balance of payments surplus

TABLE 5.11

Money Supply and Prices in East and West Pakistan

1950-51 to 1958-59

	EAST PAKISTAN				WEST PAKISTAN			
YEARS	INCREASE IN MONEY SUPPLY(a) Crores of Rs. (1)	WHOLESALE PRICE INDEX HAQ(b) INDEX Base 1951-52 = 100 (2)	RAHMAN(c) INDEX Base 1954 = 100 Year (3)	COST OF LIVING INDEX Base 1951-52 = 100 (4)	INCREASE IN MONEY SUPPLY(a) Crores of Rs. (5)	WHOLESALE PRICE INDEX HAQ(b) INDEX Base 1951-52 = 100 (6)	RAHMAN(c) INDEX Base 1954 = 100 Year (7)	COST OF LIVING INDEX(d) Base 1951-52 = 100 (8)
1950-51	17	---	1950 106	---	14		1950 84.1	
1951-52	1	100	1951 122	100	10	100	1951 90.5	100
1952-53	- 3	96	1952 101	104	14	114	1952 99.0	111
1953-54	4	76	1953 105	97	24	99	1953 107.9	109
1954-55	7	59	1954 100	84	20	82	1954 100.0	104
1955-56	6	83	1955 98	100	51	93	1955 100.0	103
1956-57	34	118	1956 120	104	12	112	1956 95.4	112
1957-58	31	113	1957 124	111	- 2	109	1957 108.5	120
1958-59	---	124	1958 123	111	---	113	1958 115.4	114

(a) Estimated from Balance Sheets of Commercial Banks in East and West Pakistan (Money Supply including Cash and Demand Deposits). The figures represent the average stock of money found to exist on a particular day in December and June.

(b) The Institute of Development Economics, A Measure of Inflation in Pakistan, 1951-60, Karachi, 1961. Table 5, p. 16.

(c) Estimated, see Statistical Appendix.

(d) C.S.O. Statistical Bulletin.

of East Pakistan.[8] Also revealing are the movements of the wholesale

price index of East Pakistan. The wholesale price index of East Pakistan,

excluding the year of the Korean boom, declined till 1954-55. The defla-

tionary trend in East Pakistan up to 1955 can only be explained by some

leakage of purchasing power from East Pakistan.

One such leakage might have been the flight of Hindu funds from

East Pakistan to India. According to one estimate, it involved the

fantastic sum of Rs.40 crores per annum up to 1954.[9] This estimate is

extremely unreliable, because the author did not mention the source of

his information. Furthermore, in respect to smuggling of gold the author

quoted the border police of East Pakistan as his source. Nothing could

be more absurd than this. How could the border police estimate the quantity

of gold smuggled without holding the same at the border? The emigrant

Hindus could have taken their capital from East Pakistan to India mainly

[8] The extent of increase in money supply, consequent upon surplus balance
of payments, depends upon the credit-creation coefficient for a region.
According to one estimate, the credit-creation coefficient for Pakistan
was 1.51 during the past years. (M. Haq; Deficit Financing in Pakistan,
1951-60, Institute of Development Economics, Karachi, 1961, p. 12.) On
this estimate, money supply in East Pakistan up to 1955-56 ought to have
increased at the average rate of about Rs.30 crores per annum.

[9] Dr. A. Sadeq; The Economic Emergence of Pakistan, Government of East
Bengal Printing Press, Dacca, 1954.

through unilateral transfer of goods. This would have left the purchasing power in East Pakistan unchanged with excess exports from East Pakistan to India through smuggling. Such a situation ought to have accentuated the inflationary pressure in East Pakistan.[10/] Thus the flight of Hindu capital could not explain the declining wholesale price index in East Pakistan.

The above does not mean that there has been no smuggling between East Pakistan and India. There had been smuggling across the borders in both East and West Pakistan. Smuggling, as is well known, cannot be a one-way traffic. It has its own economic laws. And as we shall argue soon, smuggling across East Pakistan's border might have been partly influenced by the growth of the triangular pattern of trade between the two wings and the rest of the world. Note that the smuggling of gold from East Pakistan to India could be one mechanism of the transfer of loanable funds from East to West Pakistan. East Pakistan does not have a gold mine to produce gold to be smuggled to India. The gold smuggling involved a net-work of transaction, involving the Middle Eastern countries like Saudi Arabia, Bahrain and Kuwait, West Pakistan, East Pakistan, and India. The sequence probably took the following pattern. West Pakistani smugglers brought gold to West Pakistan from the Middle Eastern countries. A part of this gold they smuggled to East Pakistan. The gold was mostly sold to

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10/ See my "Mr. Sadeq's Economic Emergence of Pakistan, A Review", Pakistan Economic Journal, Dec. 1954. The transfer of capital by emigrant Muslims from India to East Pakistan must also be noted.

the emigrant Hindus in East Pakistan who smuggled it to India. The recipients of the money then smuggled it into West Pakistan. This is not to say that East Pakistani Muslims were not involved in this. Many of them were probably involved as the agents of the West Pakistani as well as the East Pakistani (Hindu) smugglers. Whatever may be the case, the point is that in this sequence money from East Pakistan went to West Pakistan and gold to India and the East Pakistani agents ended by earning a commission.

Thus the smuggling of gold worked as a mechanism of transfer of funds from East to West Pakistan. This could not, however, explain the transfer of the entire amount corresponding to the net balance of payments surplus of East Pakistan. It seems that the deflationary situation in East Pakistan could only be explained by the movements of loanable funds from East to West Pakistan. The early start in the development of industries in West Pakistan together with the increased induced government expenditure on social overhead capital increased the rate of returns on investment in West Pakistan. In the absence of adequate growth conditions in East Pakistan, this might have induced the flow of funds from East to West Pakistan. The fact that West Pakistani traders dominated the field of trade and commerce in East Pakistan could have partly facilitated this process. The existence of the head offices of most financial institutions in West Pakistan also might have played an important role in this respect.[11]

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[11] The rate of savings in East and West Pakistan are not officially estimated. According to the estimate of Dr. Mahbubul Haq, the marginal rate of saving in East Pakistan was about 65 percent during the period between 1950 and 1955. The same figure for West Pakistan was 24 percent.

The Haq price index indicates a slight declining trend in the wholesale prices in West Pakistan up to 1955-56, while my price index shows a slight increasing trend. Our knowledge of the economic situation in West Pakistan would tend to make my price index closer to realities. Since the method of estimation of the former has been more sophisticated than the latter, we regard the Haq price index as more authentic. Even then the declining wholesale price index of West Pakistan up to 1955-56 need not invalidate our contention about the possible transfer of funds from East to West Pakistan, because the voluminous excess imports in West Pakistan facilitated by the growth of triangular trade and foreign aid together with the increase in domestic industrial output might have prevented the prices from rising with increased money supply.

It is possible that the per capita real consumption in East Pakistan during the period under consideration was adversely affected. For the per capita output of agricultural production in East Pakistan declined (see Table 5.16) over the period under discussion. Since the industrial output represented a small fraction of the gross national product of East Pakistan, the increase in industrial output, in the face of 1-8 percent annual increase of population, could not prevent the per capita consumption from declining in East Pakistan. This reduced not only the level of per capita consumption in East Pakistan, it also created conditions for smuggling with India. Put in another way, the above argument also implies that per capita real income in East Pakistan might have been declining during this period.[12]

The decline in per capita real consumption in East Pakistan as such cannot be attributed to her net surplus in the balance of payments up to

[12] The non-official estimate of the C.S.O. cited earlier shows that per capita income, at constant prices, in East Pakistan declined from Rs.220 in 1956-57 to Rs.213 in 1957-58, while that of West Pakistan increased from Rs.302 in 1956-57 to Rs.305 in 1957-58. These results were analytically confirmed in the Panel of Economists' Report on the Second Plan, published by the Planning Commission of Pakistan in 1960.

1955-56, unless the latter was created through the deliberate restriction of imports from abroad in East Pakistan. Note that the total balance of payments surplus of East Pakistan might have affected the level of her per capita consumption and real income via the overvaluation of the rupee.

However, it appears that the growth of triangular trade between East and West Pakistan and the rest of the world facilitated the latter in gaining in terms of per capita consumption and real income. In view of the fact that it facilitated the excess imports of foreign goods in West Pakistan, the relative gains derived by West Pakistan in terms of economic growth seem to have been considerable.

As stated earlier, East Pakistan, like West Pakistan, became a net deficit region in her triangular balance of payments from 1956-57. Did this involve a transfer of capital from West to East Pakistan? The fact that West Pakistan also had a deficit balance of payments makes it difficult to say anything definite about this. How could one debtor lend to another debtor unless there existed a creditor somewhere else? Obviously a part of East Pakistan's deficit represented the expenditure of foreign aid in Pakistan. The exact distribution of foreign aid between East and West Pakistan could not be ascertained, because of official secrecy. However, the above analysis implies that up to 1955-56 there was no need to spend foreign aid for East Pakistan. East Pakistan's balance of payments deficit in 1956-57 was insignificant and probably it was met through the allocation of foreign aid to East Pakistan.

But the deficit incurred by East Pakistan in 1957-58 could not have been met by the allocation of foreign aid alone. The excess Central Government expenditure in East Pakistan in 1957-58 does not necessarily

imply transfer of loanable funds from West Pakistan to East Pakistan. Be-
cause of the deficit financing of the Central Government of Pakistan, the
excess expenditure in East Pakistan could have been made by printing money.
That some such thing happened is indicated by the great increase in money
supply in East Pakistan in 1956-57 and 1957-58. This may also be supported
by the fact that in 1957-58 the total budget deficit of the Central Govern-
ment of Pakistan amounted to Rs.76.9 crores. Consequently, prices in East
Pakistan rose in those years. In view of the three-fold rise in the prices
of food grains in East Pakistan during the year 1956-57, the rise in the
wholesale prices in East Pakistan would have been far greater than what it
was if the total imports (foreign plus interwing) had not increased
significantly.

The rise in the wholesale prices in West Pakistan in 1957-58 can be
explained mainly by the increase in the prices of food grains in that year.
The declined of money supply in West Pakistan in 1957-58 could also imply
some transfer of loanable funds from West to East Pakistan during that year.
Although there had been a short-fall of Rs.127 crores out of the total planned
development expenditure of Rs.350 crores from 1955 to 1960 in East Pakistan,
it is known that most of the spending in East Pakistan was done between 1957
and 1958. On the other hand, West Pakistan was able to spend a total amount
of Rs.700 crores on development, which represented overfulfillment of the
planned target. This meant that the supply of investible funds in West Paki-
stan grew during the First Plan Period. In fact, it was the scarcity of the
supply of foreign exchange which began to set a limit to the expansion of

investment in West Pakistan during this period. The relative shortage of investible funds in East Pakistan, coupled with the availability of foreign exchange for particular projects in East Pakistan, probably induced some flow of funds from West to East Pakistan. The same might have also been facilitated through the PIDC undertakings in East Pakistan.

It appears that the process of interregional transfer of funds got reversed since 1957-58. It is not possible for us to say anything definite about the flow of funds from West to East Pakistan in the subsequent years. Nor is it possible to indicate the extent of compensation East Pakistan has received because of this.

(b) It remains for us to discuss the relative gains derived by each wing from interwing trade in terms of price and volume changes. The total gains from trade are indicated by the income terms of trade which are derived by multiplying the index of the net barter terms of trade by the quantum index of exports. In other words, the income terms of trade measure the quantity of imports that can be obtained per unit of exports, and therefore this concept is sometimes referred to as the "capacity to import". The difference between the index of income terms of trade and the index of the quantity of exports measures the total gains derived from trade.[13]

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[13] By definition $I = Tq_x$, and the total gains from trade, $I - q_x = q_x (T-1)$, where I is the Income Terms of Trade, T the Net Barter Terms of Trade and q_x is the quantum of exports, all considered as indices.

The results of the estimates of gains on this basis are shown in Table 5.12. It can be seen from Columns 3 and 9 that the total gains derived from interwing trade have fluctuated from year to year and these were positive for East Pakistan in eight out of eleven years, especially from 1953-54 on. However, Columns 6 and 12 of Table 5.12 show that East Pakistan incurred progressive loss in her foreign trade after 1955-56 while West Pakistan gained during that period. The decline in the volume of exports and the net barter terms of foreign trade of East Pakistan after 1956-57 made her gains from foreign trade negative. West Pakistan's gains from foreign trade since 1956-57 have been governed mainly by the improvement in her net barter terms of foreign trade (see Table 5.13). To the extent that the growth of interwing trade had its effects on the volume and terms of foreign trade of East and West Pakistan, the indicators of the relative gains derived by them from foreign trade may facilitate the following discussion of gains from interwing trade.

It should be observed that the income terms of trade as an indicator of gains even from foreign trade operate on a particular implicit assumption about the trade balance. As has been pointed up by C. P. Kindleberger, it involves the implicit assumption that the trading regions or countries normally tend to keep their trade in balance, and the terms of trade and the volume of exports together determine what a country or a region can import. "This is another partial truth, of course, which ignores the possibility of capital movements in the short run and resource effects over the longer period."[14]

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[14] Charles P. Kindleberger, op. cit., p. 288. Also see G. Haberler, A Survey of International Trade Theory, Princeton University, 1961,

TABLE 5.12

Gains From Trade

1948-49 to 1958-59

[Base: (interwing trade) Average of 1949-50 to 1952-53 = 100]

YEARS	EAST PAKISTAN'S GAINS FROM TRADE					
	INTERWING TRADE			FOREIGN TRADE		
	INCOME TERMS OF TRADE	VOLUME OF EXPORTS	GAINS [1-2]	INCOME TERMS OF TRADE	VOLUME OF EXPORTS	GAINS [4-5]
	(1)	(2)	(3)	(4)	(5)	(6)
1948-49	40.78	41.18	- 0.40			
1949-50	64.76	63.07	1.69			
1950-51	82.88	89.56	- 6.68			
1951-52	93.85	79.20	14.65			
1952-53	158.49	168.17	- 9.68			
1953-54	212.81	198.47	14.34			
1954-55	317.47	198.55	118.92	100.00	100.00	
1955-56	406.44	251.31	155.13	93.02	95.90	- 2.88
1956-57	303.93	243.04	60.89	78.83	88.35	- 9.83
1957-58	368.41	234.28	134.13	85.27	95.23	- 9.96
1958-59	353.08	289.33	63.75	82.83	94.29	-11.46

(continued next page)

TABLE 5.12 (continued)

Gains From Trade

1948-49 to 1958-59

[Base: (interwing trade) Average of 1949-50 to 1952-53 = 100]

	WEST PAKISTAN'S GAINS FROM TRADE					
	INTERWING TRADE			FOREIGN TRADE		
YEARS	INCOME TERMS OF TRADE	VOLUME OF EXPORTS	GAINS [7-8]	INCOME TERMS OF TRADE	VOLUME OF EXPORTS	GAINS [10-11]
	(7)	(8)	(9)	(10)	(11)	(12)
1948-49	72.71	71.31	1.40			
1949-50	122.90	125.13	- 2.23			
1950-51	101.31	92.91	8.40			
1951-52	73.84	86.78	-12.94			
1952-53	101.95	95.28	6.67			
1953-54	160.58	170.54	- 9.96			
1954-55	92.03	145.77	-53.74	100.00	100.00	
1955-56	113.78	182.26	-68.48	110.40	111.64	-1.24
1956-57	179.44	242.03	-62.59	122.21	114.95	7.26
1957-58	300.98	451.46	-150.48	81.23	79.60	1.63
1958-59	290.12	350.44	-63.32	95.12	88.00	7.12

(c) The direction of gains derived from interregional trade
is also indicated by the movements in the gross and net barter terms of
trade. Defined as the ratio of the index of the quantity of imports to
the index of the quantity of exports, a fall in the index of the gross
barter terms of trade indicates an unfavourable trend and conversely. A
favourable or unfavourable movement in gross barter terms of trade seems
to imply that a trading region benefits more or less according to the
direction in which the terms of trade move. This may be true insofar as
the change in the gross barter terms of trade has been induced by the
relative change in the price level. A region may find its exports in-
creasing relative to its imports because its price level is declining
relative to the price level in the region of its imports. To the extent
that imports in this case cost more relative to money incomes, the region
is worse off. But if this is all that the gross barter terms of trade
indicate, then the net barter terms of trade are better indicators of the
phenomenon.

It may be, said, however, that a favourable or unfavourable gross
barter terms of trade implies something more. A region with unfavourable
gross barter terms of trade, i.e., sending out more goods relative to the
quantity of goods received, may be said to lose something for some time.
According to Taussig, not only does a country with unfavourable gross
barter terms of trade make a sacrifice, incur a loss for the time being,

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pp. 24-29; and J. Viner, Studies in the Theory of International Trade,
London, 1955, p. 563.

but it incurs a further loss in the sense that the net barter terms of
trade become less advantageous to it.[15/] To the extent that unfavourable
gross barter terms of trade reflects capital exports, it cannot be considered
as an indicator of short-term loss.[16/] Likewise, to the extent that an un-
favourable movement in the net barter terms of trade reflects the underlying
technical progress in the economy of a region, it cannot be regarded as an
indicator of loss from trade. Note that because of its triangular character,
gross barter terms of interwing trade cannot, by itself, indicate the direc-
tion of capital exports.

[15/] F. W. Taussig, _International Trade,_ The Macmillan Company, New York, 1927,
Chs. 11 and 21. It must be pointed out that Taussig referred to this phe-
nomenon as the consequence of a _favourable_ gross barter terms of trade,
since he defined the gross barter terms of trade as the ratio of the
quantity of exports to the quantity of imports.

[16/] Excluding reparation payments, more often than not, a change in the gross
barter terms of a region is brought about by changes in the volumes of
interregional investments. An increase in the external investments of
a region or a country results in an increase of exports of goods and
services relative to imports. In what way does this indicate a loss to
the capital exporting region? The resources used in order to produce
the goods and services exported on capital account would not have yielded
any more consumption goods for domestic consumption if the same amount
of capital had been invested at home as abroad. In either case, an equi-
valent portion of productive resources would have been devoted to the
production of commodities that would not have yielded consumption goods
until some time in the future. Thus capital exports merely indicate that
present goods are being exchanged in increasing amounts for future goods,
instead of future goods being produced at home. Notice, however, that
there is an important distinction between investment at home and invest-
ment abroad. The repercussion on the total level of income and/or the
distribution of income at home may differ accordingly as the flows of
domestic investment differ in direction. Abstracting from these aspects
of the problem, it may be said that all capital investments involve some
sacrifice of immediate well-being for an expected future well-being. The
question as to the wisdom or otherwise of devoting productive resources
to the production of future rather than present utilities is not a special
problem of interregional or international trade. Whatever the case may be,
the movements of gross barter terms of trade cannot be regarded as the
sufficient indicators of loss or gain from trade.

The indices of the different terms of trade of East and West Pakistan are shown in Table. 5.13. Columns 1 and 5 indicate the movements in the gross barter terms of interwing trade for East and West Pakistan. Despite the year-to-year variations, East Pakistan's gross barter terms of interwing trade showed a declining trend up to 1955-56. From 1955-56 to 1957-58, it showed an increasing trend. But this is no proof of what we have discussed above on the interregional flow of loanable funds in Pakistan. A better idea in this respect could be obtained from the integrated (i.e., interwing plus foreign) gross barter terms of trade of East Pakistan. Because of the absence of the regional distribution of the foreign trade of Pakistan by commodities up to 1953-54, we could not compute the integrated terms of trade of East and West Pakistan for the whole period under review. Table 5.14 shows the integrated terms of trade from 1954-55 to 1958-59. The movements in the integrated gross barter terms of trade of East Pakistan indicate capital imports in that region from 1956-57 on. That a part of it could be from West Pakistan is indicated by the relative movements in the gross barter terms of interwing and foreign trade of West Pakistan.

Like the gross barter terms of trade, the net barter terms of interwing trade has shown wide variation over the period under study. As can be seen from Column 3 of Table 5.13, on the whole the index of the net barter terms of interwing trade was in favour of East Pakistan, excluding the years 1948-49, 1950-51 and 1952-53. Note that the net barter terms of foreign trade moved against East Pakistan after 1955-56. This, together with the relative movement of the net barter terms of interwing trade

TABLE 5.13

Indices of Different Terms of Trade

1948-49 to 1958-59

YEARS	EAST PAKISTAN				WEST PAKISTAN			
	GROSS BARTER TERMS OF TRADE		NET BARTER TERMS OF TRADE		GROSS BARTER TERMS OF TRADE		NET BARTER TERMS OF TRADE	
	INTERWING	FOREIGN	INTERWING	FOREIGN	INTERWING	FOREIGN	INTERWING	FOREIGN
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1949-53	100.00		100.00		100.00		100.00	
1948-49	147.18		97.08		55.72		102.03	
1949-50	168.63		100.68		48.63		98.38	
1950-51	88.18		90.74		93.01		109.15	
1951-52	94.04		116.18		88.06		85.25	
1952-53	49.15		92.40		170.30		107.22	
1953-54	73.03		105.13		112.29		94.22	
1954-55	62.41	100.00	156.76	100.00	131.43	100.00	63.18	100.00
1955-56	61.64	91.88	158.57	97.00	133.04	57.89	62.46	98.87
1956-57	84.64	166.89	133.49	89.00	96.89	97.30	74.19	106.28
1957-58	163.97	148.58	148.47	89.54	50.07	129.78	66.71	102.00
1958-59	102.45	144.29	119.65	87.63	79.66	114.80	82.84	108.12

TABLE 5.14

The Integrated Terms of Trade[*]
of East and West Pakistan

1954-55 to 1958-59

YEARS	EAST PAKISTAN'S TERMS OF TRADE			WEST PAKISTAN'S TERMS OF TRADE		
	GROSS BARTER (1)	NET BARTER (2)	INCOME (3)	GROSS BARTER (4)	NET BARTER (5)	INCOME (6)
1954-55	100.00	100.00	100.00	100.00	100.00	100.00
1955-56	93.91	98.35	104.20	68.86	99.14	114.14
1956-57	122.95	87.83	84.81	91.29	109.43	141.84
1957-58	190.06	91.51	96.89	98.40	103.62	166.70
1958-59	151.09	83.31	93.22	94.03	117.46	180.85

* Weighted average of the terms of interwing and foreign trade. The ratios of interwing trade to the
foreign trade of each wing are used as weights.

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against East Pakistan since 1956-57, turned the integrated net barter terms
of trade against East Pakistan from 1955-56 on. The net barter terms of
foreign trade moved in favour of West Pakistan from 1956-57; so did the
integrated barter terms of West Pakistan.

As is well known, when the net barter terms of trade of a region
moves in its favour it simply implies that, in terms of price relatives
only, it can buy more imports per unit of exports. Whether this represents
a real gain for the region concerned depends upon the reasons which caused
the movements in the terms of trade. The net barter terms of trade being
the ratio of the index of the prices of exports to the index of the prices
of imports, a relative rise in the export prices would turn the net barter
terms of trade more favourably for a region. This would happen if the
export and import prices were both rising or both falling so long as the
export prices were rising more rapidly or falling more slowly than the
import prices.

The relative movements in the price indices of East and West
Pakistan can be seen from Table 5.15. The relative movements in the
indices of the unit values of the different commodity groups in the exports
of East and West Pakistan in interwing trade should be especially noted.
The index of the unit values of Food, Drink and Tobacco in the exports of
East Pakistan rose almost continuously between 1952-53 and 1958-59. The
index of the unit values of the Raw Materials exports from East Pakistan
showed wider variation over the period. The same indices for West Pakistan
rose considerably from 1955-56. The index of the exports of manufactures

TABLE 5.15

Price Indices

1948-49 to 1958-59

YEARS	EAST PAKISTAN				WEST PAKISTAN			
	EXPORTS TO WEST PAK. Unit Values	FOREIGN EXPORTS Unit Values	WHOLE-SALE	FOREIGN IMPORTS Unit Values	EXPORTS TO EAST PAK. Unit Values	FOREIGN EXPORTS Unit Values	WHOLE-SALE	FOREIGN IMPORTS Unit Values
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1949-53	100.00				100.00			
1948-49	88.31				90.20			
1949-50	106.10				104.50			
1950-51	101.85				111.30			
1951-52	99.67		100.00		85.06		100.00	
1952-53	92.40		96.00		99.15		114.00	
1953-54	114.93		76.00		108.40		99.00	
1954-55	146.40	100.00	59.00	100.00	92.59	100.00	82.00	100.00
1955-56	151.91	121.78	83.00	125.59	95.00	117.66	93.00	119.00
1956-57	146.49	142.50	118.00	160.10	108.80	127.52	112.00	120.00
1957-58	169.35	133.59	113.00	149.19	113.11	115.24	109.00	113.00
1958-59	142.40	143.43	118.00	164.80	118.12	101.71	113.00	94.10

TABLE 5.15 (continued)

Price Indices

1948-49 to 1958-59

	INDICES OF UNIT VALUES OF COMMODITY GROUPS IN INTERWING TRADE					
	FOOD, DRINK AND TOBACCO		RAW MATERIALS		MANUFACTURES	
YEARS	EXPORTS OF EAST PAK.	EXPORTS OF WEST PAK.	EXPORTS OF EAST PAK.	EXPORTS OF WEST PAK.	EXPORTS OF EAST PAK.	EXPORTS OF WEST PAK.
	(9)	(10)	(11)	(12)	(13)	(14)
1949-53	100.00	100.00	100.00	100.00	100.00	100.00
1948-49	94.04	95.67	68.93	96.64	65.90	111.11
1949-50	107.32	110.06	54.85	100.56	114.89	128.28
1950-51	98.82	79.75	130.78	109.33	107.92	106.06
1951-52	100.71	84.57	53.98	103.54	106.85	106.06
1952-53	93.22	126.62	160.39	86.57	70.34	59.59
1953-54	123.58	130.32	169.41	100.75	70.60	95.95
1954-55	162.06	103.06	91.75	97.76	83.98	83.83
1955-56	166.94	102.80	151.46	94.22	78.12	78.78
1956-57	159.34	128.54	139.80	107.09	84.83	81.81
1957-58	187.53	131.85	95.15	118.28	100.40	61.61
1958-59	205.42	136.94	110.19	125.37	80.27	59.59

from East Pakistan showed a declining trend up to 1953-54, after which it
showed a slightly rising trend. The index of the unit values of the same
group of exports from West Pakistan, however, with little variation has
shown a declining trend. From 111.11 in 1948-49 it declined almost con-
tinually to 59.59 in 1958-59.

It seems that the movements in the indices of the unit values of the
total exports and imports in interwing trade were mainly governed by the
prices of food, drink and tobacco and raw materials. And this should be so,
since these two groups of commodities have accounted for the larger portion
of interwing trade. It is worth noting that the relative influence of the
prices of Food, Drink and Tobacco on the prices of the exports from East
Pakistan was the greatest subsequent to 1953-54.

To say that the changes in the net barter terms of trade are due to
the changes in the prices of exports and imports, though important, amounts
to a tautology which follows from the definition of the concept of net
barter terms of trade itself. More important for the purpose of the
analysis of the gains from trade is the explanation of the causes of such
price changes. The causes for the changes in prices may vary, and with them
their significance as well.

The different behavior in the movements of the prices of the exports
from one wing to the other has to be explained with reference to the differ-
ent demand and supply conditions of goods entering into interwing trade. The
difficulties involved in separating the influence of demand on prices from
that of supply is too well known to be specially stressed here. Moreover,
it is also difficult to distinguish in the statistical data a shift in demand

or supply schedule from a movement along an unchanged schedule. A rise
in the prices may mean that the demand curve has shifted up and to the
right, while the supply curve remains unchanged; or that the supply curve
has shifted up and to the left, while the demand curve remains unaltered.
If both demand and supply curves shift simultaneously upward or downward,
the rise or fall in prices will be magnified. But if they move in the
opposite direction, the final effects on prices would depend upon the
relative elasticites of demand and supply curves.

Because of our inability to separate the income effects on the
volume of imports in interwing trade, owing to the absence of appropriate
data on the regional incomes in Pakistan, we have refrained from estimating
the elasticity of demand for imports in interwing trade. However, a com-
parison of the volume indices of exports of each wing to the corresponding
indices of unit values or net barter terms of trade would indicate that, in
most of the years, the influence of price changes on demand was negligible
in interwing trade. Since the growth of interwing trade has been partly
governed by the trade diversion impact of the commercial policy of the
Government of Pakistan and partly by the growth of industries in East and
West Pakistan, it is also difficult to say anything definite about the
influence of demand changes on the changes in prices in interwing trade.
However, from our discussion in Section 4.4, the effects of the upward
shift of the demand curves for Food, Drink and Tobacco and Raw Materials
on their prices can be noted. The fact that the exports of Food, Drink
and Tobacco and Raw Materials from East Pakistan increased in spite of

the increase in their prices in most years indicates that the shift in demand played a stronger role in governing the imports of West Pakistan from East Pakistan.

It has already been seen that the influence of increased money supply on the levels of prices in East and West Pakistan was negligible up to 1955-56. From 1955-56, especially in East Pakistan, the influence of the monetary factors on the general levels of prices seems to have been important. However, it seems that the conditions of supply have played a greater role in influencing the prices of exports from East Pakistan throughout the period under consideration. Since the major part of the exports in interwing trade was composed of primary products, the conditions of supply in the primary sectors in East and West Pakistan must have played a predominant role in governing the prices of exports in interwing trade.

The density of population in East Pakistan is about 777 per square mile as against 109 in West Pakistan. The overwhelming pressure of population on land in East Pakistan is obvious. More important is the fact that the ratio of cultivated land to labor force is far lower in East Pakistan than in West Pakistan. The amount of cultivated land per agricultural worker varied between 2.15 and 2.29 acres in East Pakistan and between 3.72 and 4.39 acres in West Pakistan during the period under study. It can be seen from Table 5.16 that the output per acre of land is higher in East Pakistan than in West Pakistan. But the output per agricultural worker in East Pakistan is lower. And this indicates that the operation of

TABLE 5.16

The Land-Output Ratios in East and West Pakistan

1948-49 to 1957-58

YEARS	EAST PAKISTAN				WEST PAKISTAN			
	AREA UNDER PRINCIPAL CROPS (in '000' acres)	OUTPUT PER ACRE (in Maunds)	OUTPUT PER AGRI-CULTURAL WORKER (in Maunds)	OUTPUT PER CAPITA (in Maunds)	AREA UNDER PRINCIPAL CROPS (in '000' acres)	OUTPUT PER ACRE (in Maunds)	OUTPUT PER AGRI-CULTURAL WORKER (in Maunds)	OUTPUT PER CAPITA (in Maunds
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1948-49	22,640	11.19	24.12	6.33	24,661	8.61	33.17	6.49
1949-50	22,450	10.45	22.30	5.78	24,493	8.53	32.62	6.30
1950-51	23,081	10.70	23.51	6.02	25,650	8.22	33.00	6.27
1951-52	23,471	10.26	22.96	5.78	24,158	6.90	26.02	4.87
1952-53	24,098	10.51	24.06	5.97	23,813	6.46	24.06	4.46
1953-54	24,404	10.78	24.99	6.13	25,908	8.14	32.89	5.99
1954-55	24,047	10.40	23.79	5.75	26,043	7.48	30.44	5.47
1955-56	22,530	9.82	21.01	5.03	27,625	7.43	31.68	5.64
1956-57	22,625	11.91	25.63	6.05	28,102	7.51	32.95	5.78
1957-58	22,998	11.82	24.26	5.64	27,942	7.76	33.85	5.86

the law of diminishing returns is likely to be relatively stronger in East
than in West Pakistan.

Because of more or less similar techniques of agricultural production
in East and West Pakistan, the lower average productivity of agricultural
worker implies that the real cost of production, defined as input per unit
of outputs, of primary products is relatively higher in East Pakistan.
Under the circumstances, given a rise in demand, the prices of agricultural
goods in East Pakistan would rise (faster than in West Pakistan) and the
increased prices would reflect both the increase in real cost of production
and the increase in demand.

It was not possible for us to estimate the average productivity of
industrial workers in East and West Pakistan because of the lack of accurate
data on industrial workers in each of the regions except for 1955. In 1955
the industrial output per worker was Rs.896.59 in West Pakistan and Rs.599.02
in East Pakistan. Even these figures are highly conjectural. An average
of wages per worker in 25 manufacturing firms in West Pakistan and in 22
manufacturing units in East Pakistan shows that the average wages were
Rs.86.0 in West Pakistan and Rs.78.0 in East Pakistan in 1954. According
to the I.L.O. Report on Manpower Survey in Pakistan, the average wages in
small-scale industries ranged between Rs.40 and Rs.50 in East Pakistan and
between Rs.60 and Rs.70 in West Pakistan in 1955.

The higher general productivity in the industrial sector of West
Pakistan should imply that, other things being equal, the real cost of
production of manufactures in West Pakistan was lower than that in East
Pakistan. Not only was the development of the industrial sector in West

Pakistan greater, the pace of technological progress, in the narrow sense, seems to have been greater in West Pakistan. All these indicate that with the growth of industrial output the real cost of production in West Pakistan was declining at a greater rate. This is partly reflected in the declining price indices of the exports of manufactures from West to East Pakistan.

The relative differences in the cost of transportation in East and West Pakistan should also be noted in this connection. As compared with West Pakistan, the road transport system is very poor in East Pakistan. Railways are the most developed part of the transport system in East Pakistan. The poor capacity of the Eastern Bengal Railways can be seen from Table 5.17, which shows the movements of freight in East and West Pakistan during the past decade. The Eastern Bengal Railways suffer from relatively lower speed and short-distance stoppages as compared with their counterparts in West Pakistan. Short-distance stoppages involve more shunting and hence the use of more time, fuel, and labour. The absence of a double track system in East Pakistan also limits the full operation of economies of scale. Given the official freight rates, all these factors must raise the real cost of railway transportation in East Pakistan.

Furthermore, the bulk of inland transport in East Pakistan is conducted by boats. This may involve high real cost of transport in terms of delay in movement, inadequate storage facilities leading to waste, and the like. To these may be added the relatively higher cost of power and fuel in East Pakistan.[17] All these factors indicate that the real costs

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[17] For a good discussion on this problem and its effects on the cost of production of sugar in East Pakistan, see A Report of the Sugar Industry of Pakistan, published by the Planning Commission of Pakistan, March 1958, pp. 38-47.

TABLE 5.17

Rail Movement of Freight in East and West Pakistan
1948-49 to 1958-59

YEARS	EASTERN BENGAL RAILWAY		NORTH WESTERN RAILWAY	
	FREIGHT (tons carried in thousand) (1)	NET FREIGHT TON-MILES (in millions) (2)	FREIGHT (tons carried in thousand) (3)	NET FREIGHT TON-MILES (in millions) (4)
1948-49	3,838	637	6,356	1,702
1949-50	4,116	655	7,176	1,807
1950-51	2,913	495	7,812	2,224
1951-52	3,638	545	8,656	2,523
1952-53	3,738	559	9,011	2,756
1953-54	3,316	509	10,075	2,058
1954-55	3,289	472	9,938	2,826
1955-56	3,862	574	10,652	2,874
1956-57	4,603	709	10,886	3,174
1957-58	4,488	723	11,855	3,362

of production might have been higher in East Pakistan during the past
decade.

To the extent that the relatively higher prices of the exports
from East Pakistan reflected the higher real cost of production, the
movement of the net barter terms of interwing trade involved a real loss
for West Pakistan. But insofar as the relatively lower price index of the
exports from West Pakistan reflected lower real costs of production due to
technical progress in her industrial sector, the fruits of economic growth
of West Pakistan were partly transmitted to East Pakistan via the movement
of the net barter terms of trade in favour of East Pakistan. West Pakistan
is not likely to incur a loss on this score, for she gained in terms of
increased employment and income, which were facilitated partly by the
increased exports of manufactures to East Pakistan.

It is doubtful if the gains derived by East Pakistan in terms of
favourable terms of interwing trade could compensate the loss she incurred
on account of the growth of triangular trade at least up to the year
1956-57. Not only were the net barter terms of interwing trade not
favourable for East Pakistan during all the years up to 1955-56, but the
net barter terms of her foreign trade might also have been moving against
her. The index of the unit values of the export of raw jute from East
Pakistan, shown in Table 5.18, seems to indicate this possibility.
Furthermore, the surplus foreign exchange earnings of East Pakistan up
to 1955-56 was used in financing a part of the excess foreign imports of
West Pakistan; and, as a result, the extra profits that the importers in

TABLE 5.18

Indices of Unit Values of
Raw Jute and Raw Cotton

[April 1948 - March 1949 = 100]

YEARS	RAW JUTE	RAW COTTON
1949-50	82.9	101.9
1950-51	85.9	158.7
1951-52	85.8	154.7
1952-53	50.4	101.2
1953-54	53.9	88.5
1954-55	54.8	87.8
1955-56	69.1	101.3
1956-57	80.1	108.3
1957-58	81.1	101.6
1958-59	75.8	89.8
1959-60	69.4	86.6

Source: Government of Pakistan, C.S.O., Statistical Bulletin,
Karachi, May 1961, p. 406.

West Pakistan earned was partly paid by the producers of foreign exports
in East Pakistan. To this must be added the consequences of the possible
flow of funds from East to West Pakistan up to 1955-56. The possible
reversal of the flow of funds since 1957-58 might have enabled East Pakistan
to recapture a part of the past loss. But in view of the fact that the
net barter terms of trade in both interwing and foreign trade moved
against East Pakistan subsequent to 1957-58, nothing definite can be said
about the net gains derived by East Pakistan from interwing trade since
1957-58.

CHAPTER 6

Summary of the Argument

6.1.   Before the partition of India, the regions of East and West Pakistan specialized in the production of raw jute and raw cotton respectively. Both the volumes of exports and the levels of income of these regions were mainly governed by this production. Certain socio-cultural factors led to the growth of jute and cotton manufacturing in other regions of India. Thus East and West Pakistan mainly exported raw materials and imported manufactured goods. The major portion of their interregional trade was with the other regions of India.

At the time of partition, about 25 percent of East Pakistan's raw jute and 20 percent of West Pakistan's raw cotton were exported abroad, but this export function too was performed by the other regions of India.

In spite of differential resource endowments, there was little possibility for trade between the regions of East and West Pakistan before partition. For in the first place, the patterns of production in these regions were such that they had little opportunity for consuming each other's major export products. In the second place, because of the distance involved it was more profitable for them to trade with other adjacent regions of India.

Yet after partition trade between East and West Pakistan recorded a six-fold increase over a period of eleven years (1948-49 to 1958-59). The central purpose of this dissertation has been to explain the growth of inter-wing trade. In order to do so, a theoretical model was constructed involving regions termed East, West, India, and the Foreign region.

Obviously, the growth of trade between East and West Pakistan would not have been possible without fundamental changes in their prepartition patterns of trade and production. And the latter were likely to be conditioned by three factors: (1) the fact of partition and integration, (2) the coincidence of partition with the desire for long-run economic growth, and (3) the emergence of a vigorous class of private entrepreneurs in Pakistan.

In its positive aspects, integration created the necessary conditions for the growth of interwing trade. Free trade between East and West Pakistan, with high tariff barriers against the rest of the world, made the price differences wider than transport costs between them. This led to the opening up of trade between East and West Pakistan in certain minor primary products; but this does not explain the secular growth of interwing trade.

In its negative aspect, integration implied partial or complete isolation of East and West Pakistan from India. The abrupt cessation of economic cooperation led private entrepreneurs to alter their activity in an attempt to maintain their incomes, and led the Government of Pakistan to facilitate or carry out adjustments in prepartition patterns of trade and production in East and West Pakistan in order to maintain the prepartition levels of employment, income, and consumption. The change in the prepartition patterns of production in East and West Pakistan created the sufficient conditions for the growth of trade between them.

Economic growth, defined to be synonymous with industrialization, would create similar conditions for the growth of trade between East and West Pakistan. In a growth atmosphere, partition might facilitate economic growth (a) by creating the need for growth-oriented adjustments, and (b) by

facilitating the growth of an active entrepreneurial class in East and West Pakistan. Partition would bring into Pakistan a huge number of displaced persons from India who, in search of alternative sources of income in a new environment, might turn to industrial investment, the more so since sudden social, political, and economic displacements, under certain circumstances, are conducive to the growth of the innovative personality.

6.2.   The effects of partition, integration, and economic growth on interregional trade between four hypothetical regions, namely East, West, India, and the Foreign region, can be analyzed under certain basic assumptions: (1) that before partition, East, West and India constituted three regions of the same country. East and West had no direct trade relations between them or with the Foreign region. East and West exported raw jute and raw cotton respectively to India (and through India to the Foreign region) and imported manufactures; (2) that the partition of India and the integration between East and West would be followed by their complete economic isolation from India; (3) that the possibility for adjustments through the horizontal reallocation of existing resources is limited in East and West; and (4) that East and West would try to maintain the types and amounts of goods and services consumed before partition insofar as possible.

Partition and integration by cutting off the economic cooperation between East or West and India would necessitate drastic adjustment in the prepartition inter-industry relations between them. These relations can be

conceived mainly in terms of certain raw jute- and raw cotton-based
circuit flows, each of which could exist independent of the others.
Post-partition adjustments would involve the rearrangement of these
flows. From the standpoint of East and West, such rearrangement would
call for the replacement of the functions previously performed by India,
which included certain (a) marketing and (b) processing functions. The
former relates to the foreign trade of East and West (transit trade)
carried through India before partition. The latter relates to the supply
of Indian capital and enterprise for the processing of raw jute and raw
cotton in India. Where and in what order in time these functions might
most economically be replaced would depend upon (1) the extent of the
existing market, (2) the creation of new market (for raw jute and cotton),
and (3) the possibility for the creation of new factor supplies.

Assuming that East and West had no active supply of capital and entre-
preneurship, the immediate adjustment efforts in these regions would be
directed toward the replacement of Indian marketing functions and Indian
market for raw jute and raw cotton through the rechannelling of trade. Such
adjustments may be called consumption-oriented, since these will involve no
change in the initial patterns of production in East and West. Because of
the coincidence of the desire for the initiation of the long-run economic
growth with partition, the adjustment efforts in East and West might also
simultaneously become growth-oriented, i.e., the replacement of Indian
processing functions in East and West.

The replacement of the marketing functions would be easy, since it
would involve no more export or import than existed before; and it would
create direct trade relations between East or West and the Foreign region

(i.e., the rest of the world except India). The next step would be to create additional markets for raw jute and raw cotton in the Foreign region. This might not be necessary if India tries to solve her adjustment problems without replacing the raw materials of East and West by domestic production. In that case, the Foreign region would perform certain marketing functions for India, East and West. Such an arrangement would not continue for long, because of the double cost of transportation involved, the more so if India were motivated by the feeling of retaliating East and West for political separation.

An attempt by India at the replacement of raw jute and raw cotton imports by domestic production would create the problem of finding new markets for their raw materials by East and West. The problem would be partly solved if the processing capacity in the Foreign region increases proportionately. If it does not, or if India is able to produce an exportable surplus so as to compete with East and West in the Foreign region, the terms of trade would move against the latter regions. Such adjustments would impoverish East and West. Furthermore, secular growth of trade between East and West would not occur.

The long-run problems of economic growth in East and West would be accentuated by the short-run effects of post-partition adjustment through the rechannelling of trade. This might initiate the process of growth-oriented adjustment in East and West. The development of cotton and jute manufacturing in West and East respectively through the exploitation of each other's regional markets would lead to the growth of trade between them in cotton and jute manufactures. Because of integration, trade between East and West would also grow if economic growth occurred in either region.

In that case, one region would compensate the other via the Foreign region; and thus would occur a triangular pattern of trade between East, West, and the Foreign region. Such adjustment would lead to the increase of income and perhaps employment in East and West.

6.3.   The growth of trade between East and West due to growth-oriented adjustment would facilitate economic growth of these regions via the expansion of their regional markets. However, it would also involve certain short-term costs in terms of loss of comparative advantage of production and consumption due to the trade diversion effects of the growth of trade between East and West.

These, however, may be compensated for by the benefits derived from economic growth. First, because of surplus labour and disguised unemployment, money wages in East and West do not reflect the real wages, and hence the classical theory of comparative advantage fails to provide an adequate criterion for real gains from the existing types of specialization in these regions. Second, economic growth implies technical changes; and changes in production function might create new comparative advantages of production in these regions. Tariff involves a loss of consumer satisfaction, but to the extent that it facilitates capital accumulation by redistributing incremental income in favour of the investing classes and by making possible the transfer of workers from agriculture to the newly created industries, the consumers will gain from the increase in total output.

Economic growth and the growth of trade between East and West would produce certain effects on the foreign trade of these regions. It would also create certain problems of interregional payments adjustment between

them. The composition of the imports of East and West from abroad would change, because the process of import replacement would necessitate the import of complementary goods from abroad. The composition of the exports of East and West to the rest of the world might also change, if, over time, the growth of productive efficiency were to facilitate the export of manufactures. Unless the export of raw materials to the Foreign region falls, the total volume of their foreign trade is not likely to decline. The terms of foreign trade of East and West may move in either direction depending upon circumstances.

As long as the triangular trade between East, West and the Foreign region is balanced for each region, no transfer problem would arise. But if because of import restrictions, the currency of the integrated state gets overvalued in terms of the foreign currency, and is artificially maintained so, it would involve a decline in export and employment, and transfer of income from exporters to importers in both East and West; and if one of the regions is growing, with no growth in the other, it would also involve transfer of income from the exporters of the stagnant region to the importers of the growing region. It would also imply a relative loss to the consumers in the stagnant region because they would not get the benefits of overvaluation in respect to their imports from the growing region financed from foreign exchange earnings via the Foreign region.

If the growing region had an overall import surplus and the stagnant region an export surplus, there would occur a real transfer from the latter to the former which would be followed by monetary transfer in the same direction in the form of investment by the stagnant region in the growing

region. It would facilitate the growth of the growing region without any short-term loss to the other in terms of employment and income. On the other hand, the stagnant region would benefit in the long run from the returns from investment in the growing region. Furthermore, the stagnant region might benefit from favourable movement in the interregional terms of trade in her favour because of technical progress in the growing region. This might partly be offset by the loss of income in the stagnant region, if the growth of interregional trade were to lead to the competitive elimination of handicraft production in that region or if the terms of her foreign trade moved against her.

Because of the distance between East and West and because of the existence of surplus labour in both regions, the migration of labour from the stagnant to the growing region would be only marginal, if any. And unless growth conditions were created in the stagnant region, the flow of capital and enterprise from the growing region might not occur in the short run, and that short run might be long enough.

6.4.   The analysis of the changes in the volume and composition of inter-wing trade seems to confirm our hypothesis about the effects of partition, integration and economic growth on the growth of trade between East and West Pakistan from 1948-49 to 1958-59.

In spite of certain annual variations, interwing trade in all specified commodity groups showed considerable upward trend; but more significant was the rate of growth of trade in raw materials and manufactures. The relative share of these two groups of commodities increased, while that of food, drink and tobacco decreased.

The first significant rise in interwing trade occurred in 1949-50. But the actual secular change, both in its volume and in its composition, took place in 1953-54 when the growth curve of interwing trade recorded a sharp, kinked rise.

Up to September 1949, Pakistan's trade with India and the rest of the world was quite liberal; and almost the entire interwing trade was composed of a few primary products, the import of which from abroad was very much restricted in Pakistan.

The deadlock over Indo-Pakistan trade in September 1949, following the devaluation of the Indian rupee (and the nondevaluation of the Pakistani rupee) and the refusal of India to accept the official external value of the Pakistani rupee, produced the first trade diversion effects of partition on the growth of interwing trade. The deadlock over the Indo-Pakistan trade continued for eight months, but the subsequent resumption of trade could not reduce the extent of economic isolation between India and Pakistan, for the share of Indo-Pakistan trade in Pakistan's foreign trade did not rise beyond 6 percent up to 1958-59.

The intensification of economic isolation between India and Pakistan produced certain important effects on the prepartition patterns of production and trade in the Indo-Pakistan subcontinent. First, interwing trade in both directions increased. Second, the prices and the volume of exports of raw jute and raw cotton in Pakistan fell drastically. In India, employment and output in jute and cotton manufacturing declined.

But for the Korean crisis, conditions in East and West Pakistan would have been very serious indeed. However, the Korean boom could not raise the

prices and the volume of export of raw jute to their prepartition levels,
and with the quick onrush of the Korean depression, conditions in Pakistan
worsened again. The crisis in the export of raw cotton from West Pakistan
was temporarily averted by the bulk purchase of raw cotton by China.

With the growing crisis in her balance of payments, Pakistan intro-
duced rigorous import control in 1952. As a result, the domestic prices of
industrial goods increased side by side with the falling prices of raw
materials.

The domestic price situation, along with the government policy
toward liberal import of machinery, prompted the traders, especially in
West Pakistan, to venture into cotton manufacturing. And most of these
traders came from among the migrants from India. The direct government
actions in this respect took the form of the establishment of the Pakistan
Industrial Development Corporation and the National Bank of Pakistan in
1952. Both organizations played a significant role in promoting industrial
development in Pakistan in the subsequent periods.

Thus the adjustment efforts in Pakistan, consequent upon the
intensified economic isolation from India, took the forms of both consumption-
oriented and growth-oriented adjustments in trade and production. The
former led to some growth of trade in primary products between East and
West Pakistan, and the rechannelling of the foreign trade of Pakistan.
Because of the expansion of production capacities in the industrial countries
and because of the growth of jute and cotton manufacturing in certain
emerging countries, Pakistan was able to expand the export of raw jute and
cotton to the rest of the world. The Pakistan Industrial Development

Corporation played an important role in developing jute manufacturing in certain less developed countries.

The growth-oriented adjustments in Pakistan took the form of the development of jute manufacturing in East Pakistan and cotton manufacturing in both East and West Pakistan. The domestic consumption of raw jute in East Pakistan rose from 5.33 percent in 1951-52 to 22.22 percent of East Pakistan's total output in 1958-59. The output of jute manufacturing increased from 9.7 million yards in 1952 to 265.7 million yards in 1958-59. The Pakistan Development Corporation alone invested a total amount of Rs.20.5 crores in jute manufacturing in East Pakistan during this period. The domestic consumption of raw cotton increased from 15.6 percent in 1948-49 to 71.4 percent of the total output of raw cotton in Pakistan in 1958-59. The output of cotton manufacturing increased to 566 million yards in West Pakistan and to 62.7 million yards in East Pakistan by 1958-59. Note that the total output of raw jute and raw cotton did not decline in Pakistan.

Adjustment efforts in India took the form of the replacement of Pakistan's raw jute and raw cotton through increased domestic output. By 1958-59 India was able to produce 5.18 million bales of raw jute as against East Pakistan's 6.30 million bales. And the domestic output accounted for 85.76 percent of the total raw jute consumption in India by 1958-59. Before partition, India used to consume 80 percent of the total raw cotton produced in West Pakistan; in 1950-51 her consumption dropped to zero. For some time India imported raw cotton from other countries, but by 1958-59 imports from abroad were completely replaced by domestic production. Note

that this was in spite of the loss of the market for cotton manufactures in Pakistan which absorbed about Rs.21 crores-worth of cotton manufactures in 1949.

The development of jute and cotton manufacturing pushed up the interwing trade from 1953-54 on. For since that year jute manufactures have accounted for about 50 percent of the export of manufactures from East to West Pakistan. Likewise, raw cotton and cotton manufactures accounted for about one-third of the total exports from West to East Pakistan.

With the implementation of the First Plan in Pakistan from 1955 on a number of other manufacturing industries grew up in East and West Pakistan; and both the volume and the composition of exports in interwing trade began to be heavily dominated by raw materials and manufactures. The growth of interwing trade after 1953-54 took the following pattern: the growth of a particular manufactured good in one region followed by the control of import of the same from abroad led to increased export to the other, and where the commodity concerned used raw materials produced in the other region, it also led to the increased export of raw materials in the opposite direction. This shipment of raw materials and reverse shipment of finished products was exceptional, but not negligible.

The increased consumption of raw cotton in Pakistan due to the heavy growth of cotton manufacturing reduced the export of raw cotton from West Pakistan to the rest of the world, since the output of raw cotton did not increase proportionately. The foreign exchange earnings of West Pakistan declined. On the other hand, the faster growth of industries in West Pakistan, together with the growth of cotton manufacturing in East Pakistan,

increased the volume of exports from West to East Pakistan. And East Pakistan's bilateral deficit with West Pakistan, despite the phenomenal growth of the exports from East to West Pakistan, tended to increase. This deficit was financed by East Pakistan from her foreign exchange earnings. Thus grew a triangular pattern of trade between East, West Pakistan and the foreign region.

6.5. Judged by the ratios of interwing exports of individual industrial products to the total output of these products in East and West Pakistan, the growth of interwing trade seems to have played an important role in facilitating the growth of industries, hence economic growth, in East and West Pakistan. And judged by the ratios of the interwing exports to the total exports and regional incomes of East and West Pakistan, the growth of interwing trade seems to have assumed an increasing importance in the income propagation processes in these regions.

The growth of interwing trade has also facilitated the economic growth of Pakistan, especially of West Pakistan, via import replacement by domestic production. The fall of the foreign exchange earnings of West Pakistan was compensated for by her exports to East Pakistan. Furthermore, East Pakistan's total balance of payments surplus of Rs.162.50 crores up to 1955-56 enabled West Pakistan to cover more than half of her total deficits of Rs.241.47 crores.

Note that the decline of the export of raw cotton and raw jute from Pakistan to the rest of the world was not due to the growth of interwing trade. Only in the case of tea was the growth of interwing exports at the cost of

exports abroad. And it was due to the incapacity of Pakistan to increase the production of tea and push the sale of tea abroad. There has been some growth of export of jute and cotton manufactures to the rest of the world, especially toward the latter part of the second half of the decade under consideration. This might have been partly due to the commercial policy of the government of Pakistan and partly due to the growth of efficiency due to the expansion of production via the growth of interwing trade.

Economic growth and the growth of interwing trade did not reduce the total imports of East and West Pakist from abroad, but the composition of such imports underwent progressive structural change. The share of consumer goods decreased while that of raw materials and capital goods increased. The terms of foreign trade of West Pakistan tended to improve during the second half of the period under study.

Because of the surplus in the total balance of payments of East Pakistan, there occurred a real transfer of capital from East to West Pakistan, followed by transfer of investible funds in the same direction, up to 1955-56. Thus the economic growth in West Pakistan was partly financed by the savings in East Pakistan up to that year. The possible decline of per capita real income in East Pakistan, however, cannot be attributed to the growth of interwing trade and investment. This was probably partly due to the fall of agricultural output in some years and the lag of the growth of agricultural output behind that of population, and partly due to the effects of the overvaluation of currency on the exports of raw jute from East Pakistan.

However, a part of the fruit of economic growth in West Pakistan was transmitted to East Pakistan via the movement of the net barter terms of interwing trade in favour of East Pakistan in most of the years. Note that this was partly offset by the movement of the net barter terms of foreign trade against East Pakistan. The speeding up of development expenditures in East Pakistan turned her total balance of payments into a deficit from 1956-57 on. Because of the deficit in the total balance of payments of West Pakistan, it is difficult to say whether there occurred a net movement of investible funds from West to East Pakistan from that year; it is probable that it did not.

6.6. Concluding Observations

In accounting for the growth of interwing trade in Pakistan, it is impossible to separate the effects of the partition of India, the formation of the integrated state of Pakistan, and the initiation of long-run economic growth in East and West Pakistan. Even the economic growth of East and West Pakistan has partly been facilitated by partition.

The extent of growth that occurred in the regions of East and West Pakistan would hardly have occurred in the absence of the partition of India. For in the first place, an undivided India perhaps would not have allowed the extensive growth of cotton and jute manufacturing, particularly in the regions of East and West Pakistan. And even without deterrent government action, inertia and the absence of positive facilitating measures would have caused growth to be much less.

In the second place, not only did the partition of India and the subsequent growth of economic isolation between India and Pakistan create the

pressing need for the initiation of growth-oriented adjustment in the patterns of production in East and West Pakistan, but it also created circumstances for the growth of a vigorous entrepreneurial class in Pakistan through the displacement and migration of Muslim trading classes from the other regions of India. The subsequent political and economic conditions in Pakistan turned many of these migrants into industrial entrepreneurs. It was they who took the initiative in the industrial development of Pakistan, especially of West Pakistan; but for them, the industrial development of Pakistan could hardly have proceeded in the speed at which it did during the past decade.

It is also extremely improbable that these potential entrepreneurs would have been activated in the absence of partition. For one thing, they would not have derived similar competitive advantage in terms of foreign exchange allocations in undivided India. Neither would they have experienced the impact of displacement from established sources of income earnings, the paternal help from the Government of Pakistan, nor the spirit of reactive nationalism directed to the building up of a new homeland. Furthermore, they would hardly have gone into the same industries and at the same places as they actually did in Pakistan had there been no partition of India.

No doubt partition did inflict a short-term loss of comparative advantage, employment, and income on Pakistan and India. But these seem to have been far outweighed by the effects of partition on the economic growth of the regions of East and West Pakistan especially. In fact, as we suggested in Chapter 2, partition produced an "earthworm effect" on the economic growth of the entire Indo-Pakistan subcontinent. However, this

must not be considered as a general argument for political divisions as such. The partition of India is a historical fact. And in evaluating the effects of partition on the economic growth of the regions of East and West Pakistan, one must not lose sight of the size of these regions in terms of both area and population, the socio-economic evolution of India prior to 1947, and the advantage of the differential resource endowments in East and West Pakistan.

APPENDIX

Sources of Data and the Methods of Computation

1. Trade Data

Source: The sole source of trade statistics in Pakistan is the Central Statistical Office (CSO). Data relating to foreign and interwing trade of Pakistan are published in the monthly Statistical Bulletin of the CSO. The CSO, however, is only a processing organization in this respect. It receives monthly trade returns from customs collectorates in East and West Pakistan, processes the raw data, and publishes the final tables.

The bulk of interwing trade is carried by sea; and the present study analyzes the coastal trade between East and West Pakistan. The interwing trade data used in this study are data prepared by the CSO from the returns compiled by the Sea Customs Collectorates on the basis of the Coastal Bills of Entry.

The Adequacy and Reliability of Data: In one of its explanatory notes on interwing trade statistics, the CSO has made the following observations with regard to the quality of such statistics: "Coastal trade is Pakistan's internal trade and does not involve customs duties, and [therefore, it] may not demand as much attention from the Customs [Collectorates] as foreign trade needs. Therefore, the quality of Coastal Trade Statistics may differ from that of foreign trade statistics."[1] One is

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[1] Statistical Bulletin, October 1958, No. 10, Vol. 6, p. 753.

left with the impression that the interwing trade data are not perhaps as adequate as the foreign trade data, but that within this limitation one could possibly use these data for the purpose of analysis with a fair amount of confidence.

However, a paper on "Coastal Trade Statistics" by Mr. Abdul Qayyum Khan[2], the then Research Officer in the Trade Section of the CSO, goes on to reveal that the above impression may be misleading. Mr. Khan has shown that the exports of one wing, on the basis of the returns submitted by the Sea Customs Collectorates, have not been equal to the imports in the other in any year from 1948-49 to 1955-56, even after making certain allowances for time lags and costs, freights, and insurance charges. The CSO resolves this difficulty by publishing the Coastal Trade data as the "Merchandise Imported in the Ports of Chittagong and Chalna" (which we have taken as the exports of West to East Pakistan) and "Merchandise imported in the Port of Karachi" (which we have taken as the exports of East to West Pakistan).[3] This undoubtedly vitiates the authenticity of coastal trade statistics in Pakistan. This is one of the reasons why we have not been able to estimate the f.o.b. values of exports in interwing trade.

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[2] See "Coastal Trade Statistics", Pakistan Economic Journal, March 1957.

[3] Nowhere in its 'explanatory notes' does the CSO mention this important point, although it is expected of the CSO to make explicit and elaborate statements about the method of computation of data it publishes as official figures. The lack of such explicit explanation not only misleads the users of such data; it also closes the door to the possible improvement in the recording of interwing trade by the Sea Customs Collectorates. It is our belief that the present study would go a long way in revealing the importance of inter-wing trade in Pakistan and in pressing hard the need for attaching equal significance to the collection of interwing trade statistics as is given to that of the foreign trade statistics of Pakistan.

Other Difficulties: Mention must be made of other difficulties
that an analyst would face in handling the CSO data on interwing trade.
The first difficulty arises out of the lack of a uniform set of figures.
As has been pointed out in Chapter 4, the interwing trade statistics up
to 1956 relate to trade on private account only. But even from 1956 on,
the CSO does not publish the interwing trade data on Government account
separately. This prevents one from knowing the proportion of interwing
trade on Government account and creates difficulties in explaining accurately
the causes governing changes in the patterns and trends in interwing trade.
There are other important non-uniformities as well. The CSO publishes the
interwing trade data sometimes on the basis of the trade year (i.e., July
to June) and sometimes on the basis of the calendar year. The lack of
uniformity in the monthly and quarterly figures, published by the CSO,
creates, as it did for us, the troublesome and time-consuming processes
of indirect calculation and verification including courageous guesswork.

The second difficulty arises out of the lack of uniformity with regard
to data on the quantities of individual commodities entering into inter-
wing trade. Figures for quantities are recorded for certain items and
sometimes for certain years. Finding the missing figures creates a diffi-
cult problem for any researcher. We dug out certain missing figures from
(unpublished) CSO sources. Furthermore, in many cases the CSO gives
different figures for the same goods traded during a particular period of
time in different issues of its Bulletins. The explanation for such rather
erratic revision of figures is hard to find. At times the revised figures
appear to conform fairly well to other less-disputed figures and at times

they appear to be unbelievable. In many such cases, we had to apply
discretion. Where no such figures were available, we had to rely upon
the mixed method of guessing and interpolation. Sometimes the quantity
figures for important items imported from West Pakistan into Chalna were
not available. In many of these cases interpolation was not possible.
The unit values of the same items imported into Chittagong were not helpful
either because of the transport costs between Chalna and Chittagong. In
most cases we had to rely upon the unit values of the same items at Chalna
at a previous date, adjusted upward or downward on the basis of the trend
of their changes at Chittagong during the current period.

Lastly, we must mention the frequent printing mistakes one would
face in handling the interwing trade data in the CSO Bulletins. These were
revealed to us in the process of estimating the unit values of selected
commodities. We found that during particular years the unit values of
certain items had either increased or decreased to an unbelievable extent
relative to the unit values in the preceding or the following year. On
examination we found that these were either due to the omission of certain
digits on the left-hand side or due to the addition of zeroes on the right-
hand side of the quantity figures. At times, judged by the past trend, the
quantity figures appeared to be reasonable and the value figures had to be
adjusted. This led to some revision of the total values of interwing trade.

2.   Production Data

(a) Agricultural Output: No agricultural census was carried out in
Pakistan until 1961, and it was not possible for us to use the results of
the 1961 Census in the present study. The data on agricultural outputs used

in this study (e.g., Tables 4.11 and 5.16) are primarily taken from the
annual estimates of the output of major and minor crops made by the
Provincial Ministries of Agriculture of the Governments of East and West
Pakistan for their respective provinces. In fact, until 1961 these were
the primary sources for all information relating to the agricultural
sector in Pakistan. The figures for the output of major crops are also
regularly published by the Ministry of Agriculture, the Government of
Pakistan. The CSO also reproduces these data in its monthly Bulletins.
At the provincial levels these figures are published in the form of fore-
casts for individual crops in the Monthly Survey of Economic Conditions in
East Pakistan, issued by the Statistical Bureau of Commercial and Industrial
Intelligence of the Government of East Pakistan and in the Crop Reports,
issued by the Directorate of Land Records of the Government of West Pakistan.
At times the figures issued by the different agencies mentioned above do not
agree with one another for certain individual crops produced in East and
West Pakistan in certain years. This need not matter much in the present
instance, since we have used data from the primary sources. It is important
to note that the estimates made by the Provincial Ministries of Agriculture
are forecasts for individual crops and not ex post estimates of crops actu-
ally produced. These forecasts are based on certain rules of thumb which
have evolved through the long experience of these ministries; and the degree
of reliability of such estimates is anybody's guess.

(b) <u>Industrial Output</u>: Series of data relating to the output of individual industrial goods are published by the CSO in its <u>Bulletins</u>. Some of these are published on the regional basis. Examples of these are the output of sugar, tires and tubes, cigarettes, matches, jute goods, paper and pasteboard and cigars. For most of the other commodities regional distribution of output is very difficult to find. The Statistical Bureau of Commercial and Industrial Intelligence of East Pakistan publishes some data on the output of industrial goods in East Pakistan. Since that organization never mentions the source or the method of its computation, it is difficult to rely on the figures it publishes. The Central Board of Revenue is the most important source of output figures for individual commodities by their regional location. We procured most data used in this study for individual commodities (e.g., Tables 5.1 and 5.2) mainly from the sources of the CSO and the Central Board of Revenue of the Government of Pakistan.

The regional distribution of total industrial output is not available for the entire period under study. The CSO has begun taking the census of manufacturing industries (large scale) in Pakistan. The outputs of large scale industries for the years 1956-57 and 1957-58 are taken directly from the CSO. Figures for the preceding years are estimated from the total output of industrial goods in Pakistan by adjusting percentage distribution of industrial output between East and West Pakistan as revealed by the CSO figures for 1956-58 to those revealed by the census of manufacturing industries taken by the CSO for the calendar years 1953, 1954, and 1955. The following table shows the percentage distribution of industrial output between East and West Pakistan.

The Percentage Distribution of the Output of
Large-Scale Industries Between East and West Pakistan

YEARS	EAST PAKISTAN	WEST PAKISTAN
1953-54	19	81
1954-55	20	80
1955-56	26	74
1956-57	25	75
1957-58	25	75

The ratios for the year 1953-54 were used to derive the figures for
the preceding years (Cf. Table 4.19). The margin of error involved in such
a procedure is anybody's guess, but we have the belief that our estimates
are not likely to be wide of the mark, especially with respect to the direc-
tion of changes.

More conjectural, however, are the regional distributions of the
outputs of small-scale industries. The figures for the years 1956-57 and
1957-58 are taken from the CSO. The figures for the preceding years are
derived by adjusting the ratios of these years to the number of workers
found employed in small industries in East and West Pakistan during these
years.

3.   The Construction of Different Indices

Formula: In constructing the quantum and unit value indices, we have
used Laspeyre's formula, i.e. the fixed-base-weighted index numbers:

Volume Index, Q, $(0,n) = \dfrac{\Sigma P_o q_n}{\Sigma P_o q_o} \times 100$

Price (unit value) Index, P, $(o,n) = \dfrac{\Sigma P_n q_o}{\Sigma P_o q_o} \times 100$

Unit Values: The unit values are calculated by dividing the values of different items traded by their respective quantities. One weakness in the calculation of unit values is that in many cases an article does not represent a single commodity or even an aggregate of fairly homogeneous commodities, e.g. fruits and vegetables, dried, salted, or preserved; dyeing and tanning substances; rape and mustard seeds; spices; cotton yarns and twist. This could not have been avoided, because the basic data published by the CSO provide information, in most cases, only in the form of such aggregates. In certain cases, e.g. seeds of different qualities, we aggregated them in one item for the sake of convenience. Note that in the cases where an item does not represent an aggregate of fairly homogeneous commodities, the result of the above procedure is that the changes in unit values include some element of changes in commodity composition in addition to changes in prices.

Prices Vs. Unit Values: The prices used in different indices relating to trade are unit values. There are certain well known reasons which operate in favour of such a procedure. In the study of terms of trade, interest centers on the changes in the prices at which goods are traded in interregional trade. Wholesale prices reported in domestic market may differ from the prices actually received and paid interregionally because of taxes and subsidies, price discrimination, insurance and transport charges. (Some of these do not apply to interwing trade in Pakistan.) Unit values in external trade are more accurate than wholesale prices if different prices are charged for the same good in the internal and external markets, or if significant transport charges are involved in moving a commodity from the

center of production to the port of export. Differences in coverage also favour the measurement of terms of trade through unit values, because generally speaking, more materials are available for the calculation of unit values than for the estimation of the wholesale prices. Of course, where the classes of commodities are non-homogeneous, some of the unit values may be of dubious meaning. Moreover, it should be noted that in the periods of considerable price change, there may be differences in timing between price quotations and unit values due to lags of shipment and the like. A rise in prices within a given year, as recorded in the domestic market, may not be reflected in the unit values until a year later. Under normal circumstances, this difference is of no great importance.

The Base Year: The base year in all indices relating to interwing trade is the average of the years between 1949-50 and 1952-53. Because of more or less symmetrical fluctuations in data relating to these years, we thought it reasonable to take their arithmetic average as the base.

The Selection of Commodities: For the purpose of the construction of quantum and unit value indices in interwing trade, we selected 14 commodities each from the list of the exports of one wing to the other. Included in the exports from East Pakistan are:

1. Fruits and vegetables, fresh, dried, salted, or preserved
2. Tea
3. Betel nuts
4. Chillies
5. Ginger
6. Seeds
7. Unmanufactured tobacco
8. Hides and skins
9. Dyeing and Tanning substances

      10. Manufactured tobacco
      11. Leather
      12. Cotton piece goods
      13. Gunnybags
      14. Provisions and oilman's stores

The exports of West Pakistan are represented by:

      1. Fruits and vegetables, fresh, dried, salted, or
         preserved
      2. Rice
      3. Wheat and what flour
      4. Rape and mustard seeds
      5. Spices (other)
      6. Ghee
      7. Salt
      8. Rape and mustard oils
      9. Other vegetable oils
      10. Paper and pasteboard
      11. Soap
      12. Raw cotton
      13. Cotton yarns and twists
      14. Cotton piece goods

These commodities were selected for two important reasons. First,
they give a fairly good representation of the total exports of each wing.
The coverage varies between 90 percent in the earlier years and 60 percent
in the latter years for the total exports of each wing. Second, these
commodities are uniformly present in interwing trade throughout the period
under consideration, and fairly reliable quantity figures are available for
these commodities for most of the years.

The construction of the terms of foreign trade for East and West
Pakistan is based on the following commodities:

Exports from East Pakistan

      1. Raw jute   5. Tea
      2. Raw cotton   6. Raw wool
      3. Raw hides   7. Fish
      4. Raw skins   8. Jute manufactures

Imports into East Pakistan

    1. Art silk   5. Nonferrous metals
    2. Cotton piece goods   6. Minerals
    3. Cotton yarns and twists   7. Machineries
    4. Iron, steel or manu-   8. Vehicles
       factures thereof

Exports from West Pakistan

    1. Raw cotton   5. Raw skins
    2. Raw wool   6. Jute manufactures
    3. Raw hides   7. Cotton twists and yarns
    4. Tea   8. Fish

Imports into West Pakistan

    Similar commodities to those included in the imports of
    East Pakistan. These commodities account for 80 to 90
    percent of the exports and more than 60 percent of the
    imports of each wing in foreign trade.

Wholesale Price Indices: No wholesale price indices for East and

West Pakistan were constructed until the Institute of Development Economics

prepared such indices in 1960. These are published in the Monograph No. 4

of the Institute in March 1961. Since these were mainly directed by Dr.

Mahbubul Haq, Deputy Chief, The Planning Commission of Pakistan, I have

preferred to call these indices in Chapter 5 the Haq indices, although the

Institute has not imputed the direct authorship to Dr. Haq. My own price

indices were prepared in 1959. In preparing these indices I was assisted

by Mr. Mahfuz Ali, then Research Officer in the Institute of Development

Economics. In fact, Mr. Ali deserves the main credit for these indices.

In constructing them, we followed a short-cut method by adopting the pro-

cedure and weights used by Eastern Economist for the construction of

wholesale price indices for India, with such adjustments as we thought

necessary in view of structural differences between India and Pakistan.

The weights used for East and West Pakistan are shown in the accompanying chart.

We selected about 40 commodities each for East and West Pakistan. Prices at different centers in East and West Pakistan were collected mainly from local newspaper reports, since the official prices published by the CSO include controlled prices for many commodities. Where wholesale prices were not available, we used the adjusted retail prices. Prices for the same commodity prevailing at different important centers at the same period were averaged to derive the representative price for the whole region.

Chart Showing the Weights Used in
the Construction of Wholesale Price Indices

		WEIGHTS	
	COMMODITY GROUP	EAST PAKISTAN	WEST PAKISTAN
I.	Food, Drink and Tobacco	515	525
1.	Cereals	192	192
	a) Rice	189	29
	b) Wheat	-	115
	c) Bajra	-	10
	d) Jowar	-	8
	e) Maize	-	12
	f) Barley	-	3
	g) Gram	-	15
2.	Pulses	43	43
	a) Mash		
	b) Moong	Weighted equally	Weighted equally
	c) Masoor		
3.	Fruits and Vegetables	23	23
4.	Milk and Ghee		
	a) Milk - unboiled	28	28
	b) Ghee - pure	28	28
	c) Ghee - vegetable	28	28
5.	Edible Oils	47	47
	a) Coconut oil	Weighted equally	Weighted equally
	b) Mustard oil		
6.	Meat and Fish	17	17
	a) Mutton		
	b) Beef	Weighted equally	Weighted equally
	c) Fish		
7.	Sugar and Gur	48	48
	a) Sugar (imported, refined and domestic)	24	24
	b) Gur	24	24
8.	Tea	25	25

(Chart, continued)

	COMMODITY GROUP	WEIGHTS EAST PAKISTAN	WEST PAKISTAN
9.	Spices		
10.	Tobacco - Unmanufactured	11	11
11.	Tobacco - Manufactured	-	10
	a) Red Lamp		
	b) Passing Show	Weighted	Weighted
	c) Scissors	equally	equally
	d) Capstan Navy Cut		
II.	Raw Materials	150	150
1.	Fibers	50	44
	a) Jute - raw	50	11
	b) Cotton - raw, twist and yarn	-	11
	c) Silk - raw	-	11
	d) Wool - raw	-	11
2.	Oil Seeds	50	43
	a) Mustard		
	b) Rape seed	Weighted	Weighted
	c) Cotton seed	equally	equally
	d) Tilseed		
3.	Hides and Skins	25	21
	a) Hides - dry salted (cow) and dry salted (buffalo)	Weighted equally	Weighted equally
	b) Skins - sheep, goat and kid		
4.	Mineral Products	24	21
	a) Mineral oils	Weighted	Weighted
	b) Coal	implicitly	implicitly
	c) Salt	mineral oils	mineral oils
		3 varieties	4 varieties
		rest one each	rest one each
5.	Dyeing and Tanning Substances	-	21

(Chart, continued)

		WEIGHTS	
COMMODITY GROUP		EAST PAKISTAN	WEST PAKISTAN
III. Manufacturing Products		325	325
1. Textiles		195	195
	a) Cotton	–	Weighted
	b) Silk	–	implicitly
	c) Wool	–	cotton 4
	d) Jute	195	varieties rest one each
2. Other Manufactures		130	130
	a) Metals and metal products	65	22
	b) Cement	–	22
	c) Chemicals	65	22
	d) Soap	–	21
	e) Plastic goods	–	21
	f) Rubber manufactures	–	22
ALL COMMODITIES		990	1,000

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