

ECONOMY OF PAKISTAN

For

B. Com. - II

By

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PREFACE TO THE SECOND EDITION

University of Karachi has revised the syllabus for **B. Com.-II**, which has been made effective from **January 2006**, therefore, the current edition has been updated according to the new and latest syllabus. Most of the material of this book has been picked up from the following latest Government publications: -

1. Pakistan Economic Survey-2005-06
2. Annual Report of State Bank of Pakistan.
3. Budget Speech of Finance Minister. 2006

Some question papers of annual examination have been **solved**. I hope, this small effort will be helpful to the students.

Attaullah Khan
1st, October 2006

DEDICATION

To

My friend

-. Mr. Noor Muhammad :-

Executive Director
Institute of Cost and Management Accountants of Pakistan

Attaullah Khan
1st, October 2006

New syllabus of B. Com. Part-II , effective from January 2006

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CHAPTER -1

ECONOMIC DEVELOPMENT

ECONOMIC DEVELOPMENT

Economic development is a process of economic transition involving structural transformation of an economy through industrialization, raising gross national product and per capita income. According to Prof. Arthur Lewis, economic development means increase in the output per head. Professor Michael Todaro in his book Economic Development has said that Economic development must be conceived of as a multi-dimensional process involving major changes in social structures, popular attitudes, national institutions, and acceleration of economic growth and reduction of inequality. In short economic development means economic growth coupled with the structural changes in the economy for obtaining a better life. It is a process, which results in the change in supply of factors as well as in the nature of demand of goods & services.

According to Prof. Kindleberger “Economic development means increase in output of goods and services in an economy. Economic development is more important than economic growth because economic development is wider and more comprehensive process than economic growth. Economic growth is a quantitative term because it represents quantitative increase in production of goods, services and the factors of production in an economy, whereas economic development is a qualitative terms because it indicates continuous increase in the real national income and structural changes in the economy of a country.

OBJECTIVES OF ECONOMIC DEVELOPMENT

1	Increase of supply of food, clothing, health, and education facilities
2	Increase in standard of living of the people
3	Increase in leisure, political freedom & equal opportunities of life
4	Increase in capital formation (new buildings and industries)

ECONOMIC GROWTH

According to Prof Michael Todaro, economic growth is a steady process by which the productive capacity of an economy increases overtime to bring about rising levels of national output and income. Economic growth is the name of more production. Growth is measured in terms of an increase in real gross national product (GNP or GDP) over time or an increase in per capita income.

FACTORS , ELEMENTS OF GROWTH

The ability of an economy to produce more goods and services is dependent on the following factors: -

1. An increase in stock and quality of its capital goods.
2. An increase in quantity and quality of its labor force.
3. An increase in quantity and quality of its natural resources.

-
4. An efficient use of factor inputs so as to maximize their contribution to the expansion of output, through improved productivity.
 5. Development and introduction of innovative techniques and new products i.e. technological progressiveness.
 6. An increase in level of demand to ensure full utilization of the increased productive capabilities of the economy.

The achievement of a high rate of economic growth is one of the main objectives of macroeconomic policy. The significance of economic growth lies in its contribution to the general prosperity of the community. Growth is desirable because it enables the community to consume more goods and services and it also contributes to the provision of a greater quantity of social goods and services such as health and education, thereby improving real standards of living of the people. Government can stimulate growth process by increasing current spending in the economy through tax cuts by adopting fiscal policy and by increasing the money supply and reducing interest rates by monetary policy.

MEASUREMENT OF ECONOMIC GROWTH

1. Increase in the real gross national product
2. Increase in the real per capita income.
3. Increase in the general welfare of the masses
4. Increase in social, economic and human development

DIFFERENCE BETWEEN ECONOMIC DEVELOPMENT & GROWTH

Economic development means increase in output of goods and services in an economy. Economic development is more important than economic growth because economic development is wider and more comprehensive process than economic growth. Economic development is a process of economic transition involving structural transformation of an economy through industrialization, raising gross national product and per capita income. Economic development is a **qualitative terms** because it indicates continuous increase in the real national income and structural changes in the economy of a country.

Economic growth is a **quantitative term** because it represents quantitative increase in production of goods and services in an economy. Economic Growth is a steady process by which the productive capacity of an economy increases overtime to bring about rising levels of national output and income. Economic growth is the name of more production. Growth is measured in terms of an increase in real gross national product (GNP or GDP) over time or an increase in per capita income.

REQUIREMENTS OR ECONOMIC FACTORS FOR DEVELOPMENT

1	Natural resources
2	Capital formation
3	Specialization
4	Technology
5	Transport and communication
6	Entrepreneurship

1. NATURAL RESOURCES

Natural resources are one of the three main factors of production the other two are labor and capital. Natural resources include area of land, forests, rivers, climate and mines. If a country is rich in better quality of all natural resources, it will develop economically at a fast speed.

2. CAPITAL FORMATION

It is the process of adding net physical capital stock of an economy. Capital formation creates productive potential for future production. Capital formation has three stages namely (1) savings, (2) financial institutions and capital market for mobilization of savings and (3) act of investment in machinery and buildings.

3. SPECIALIZATION

Output is greater as a result of specialization. Specialization enables an economy to use its scarce resources more efficiently, thereby producing a larger volume of goods and services. It increases the rate of economic development of a country.

4. TECHNOLOGY

Inventions and innovations reduce the manufacturing and distribution costs. Technological progressiveness serves to change cost conditions in the long run; thus technological changes play an important role in economic development.

5. TRANSPORT AND COMMUNICATION

Efficient communication facilities increase the production capacity of all the sectors of the economy. It reduces cost of production, increases mobility of goods within & outside the country.

6. ENTREPRENEURSHIP

If an entrepreneur is capable, skillful and trained then out put of his organization will be greater. Entrepreneurship results in the introduction of new type of output, new techniques and new sources of supply of inputs for business and industry.

REQUIREMENTS OR NON- ECONOMIC FACTORS FOR DEVELOPMENT

1	Social values and attitudes
2	Political stability
3	Administrative efficiency
4	Economic freedom
5	Right of private property

1. SOCIAL VALUES & ATTITUDES

It includes culture, religion, and life style of people of a society. Some societies are orthodox and do not like material approach of life. Religion does not allow them to keep busy day in and day out for their material prosperity. Most societies believe in festivals and different cultural ceremonies. They do not prefer to save money; hence savings rate reduces too much. In such societies material gains are not appreciated. Prof. Myrdal in his book ‘Asian Drama’ has said that Asian countries should modernize their values for rapid economic development and progress in their countries.

2. POLITICAL STABILITY

Strong and stable Governments can prepare five-year development plans, can enforce monetary and fiscal policies and change social attitudes and institutions, which may be progressive one. The frequent changes in Government setup results in the lack of concrete economic policy decisions.

3. ADMINISTRATIVE EFFICIENCY

Educated, trained, skillful, and hardworking Government officers can push the development of a country at a very fast speed, whereas weak and untrained administration of a country retards the economic growth.

4. ECONOMIC FREEDOM

Private ownership of resources and maximum freedom to deploy these resources in line with profit signals create strong incentives to work hard. If every body is allowed to participate in economic activity then due to competition the rate of economic development will increase.

5. RIGHT OF PRIVATE PROPERTY

Private ownership of the means of production results in the increase in supply of goods and services. In order to own and accumulate profit and property, people work hard, thus trade and business activity flourishes.

CHARACTERISTICS OF A DEVELOPING COUNTRY LIKE PAKISTAN

1	Agrarian economy
2	Undeveloped agriculture and feudal system
3	Population pressure
4	General unemployment and disguised unemployment
5	Low per capita income and general poverty
6	Unequal distribution of national income
7	High inflation rate (general prices are very high)
8	Low level technology
9	Insufficient infrastructure
10	Undeveloped institutional system
11	Industries are not sufficient enough
12	Shortage of entrepreneurial skills
13	Deficit balance of payments & dependence on aids
14	Natural resources are unexploited and unutilized
15	Lack of continuity in economic policies
16	Unsatisfactory law and order situation

1. AGRARIAN ECONOMY

Agriculture is the mainstay of Pakistan's economy. Nearly 22 percent of GDP and 44.8 percent of total employment is generated in agriculture. Agriculture contributes to growth as a supplier of raw materials for industry as well as market for industrial products. Furthermore 44.8 percent work force is employed in agriculture and 65.9 percent of country's population is directly or indirectly linked with agriculture for their livelihood. Pakistan's agriculture has been suffering on and off from a severe shortage of irrigation water in recent years.

2. UNDEVELOPED AGRICULTURE

Performance of our agriculture is not satisfactory. The low productivity in agricultural output is because of (1) shortage of water, (2) lack of use of modern machinery, (4) low quality seeds, (5) expensive fertilizers (6) Illiteracy of farmer, (7) water-logging and salinity (8) floods (9) attacks of pests (10) lack of credit facilities. (11) Feudal Lords who are owners of large lands but are not interested in the development of agriculture.

3. POPULATION PRESSURE

Pakistan faces the problem of over population. Population of Pakistan is 154 million. The rate of increase of population was 2.6 percent during 2005. The high rate of increase of population is nullifying the achievements of progress and development. Rate of literacy is only 24%. People are generally untrained and do not possess any skill required for the production process.

4. GENERAL UNEMPLOYMENT

Due to lack of industrialization, shortage of new investment and low level of business activities, people are generally unemployed. Out of the total labor force of 24%, unemployed percentage is 14%. Unemployment is increasing due to lack of education, technical training, and bad health of the people. Disguised unemployment is a form of unemployment when workers able and willing to work do not register themselves as unemployed. In agricultural sector all family members are engaged whereas only two or three persons can do the whole job.

5. LOW PER CAPITA INCOME

There is too much poverty in Pakistan. Per capita income is very low. 24% people are living below the poverty line. Standard of living of the people is very low and they do not have basic needs of life. Their diet is of low standard, and they are ill fed and ill clothed.

6. UNEQUAL DISTRIBUTION OF NATIONAL INCOME

Pakistani society is divided between “haves and have-nots.” A small section of society i.e. industrialists and landlord have the larger share of national income and is very rich whereas a large number of people are living from hand to mouth.

7. INFLATION RATE

During fiscal year 2005-06, inflation rate was 8 percent. The larger contribution toward the overall inflation comes from items such as house rent, energy and transport and significant increase in prices of pulses and lower production of sugarcane and sugar.

8. LOW LEVEL OF TECHNOLOGY

In Pakistan agricultural and industrial production is carried out by old methods of production. Heavy industries are not there in the country. Moreover it is not possible to import most modern machinery due to shortage of foreign exchange.

9. INSUFFICIENT INFRASTRUCTURE

Infrastructure means roads, railways, housing, water, electric supply and telecommunications facilities, which contribute to a higher rate of economic growth. Due to lack of firm economic policies supply of infrastructure was not provided by the government which has badly affected industrialization.

10. UNDEVELOPED INSTITUTIONAL SYSTEM

These institutions include family system, religion, economic freedom and right of private ownership. Every member of the society has right to adopt and practice any religion, can do any business, can adopt any profession and can own property. In Pakistan these institutions are not very well developed because of the lack of education and tolerance amongst the people.

11. INDUSTRIES ARE NOT SUFFICIENT ENOUGH

Industrial sector in Pakistan is progressing at a very slow speed. Due to market imperfections, low savings rate and weak capital and money markets, industries are not established. There is less progress with reference to heavy industries and other industries based on most modern technology.

12. SHORTAGE OF ENTREPRENEUR SKILLS

Pakistan is short of dynamic business leadership. Enterprise and initiative of entrepreneurs is hampered due to many factors, for example small size of the market, shortage of resources, poor infrastructure and old technology. Businessmen are not highly educated and trained and they are unaware of modern business techniques. They do not have innovative qualities and skills.

13. UNFAVORABLE BALANCE OF PAYMENTS

Pakistan's balance of payments is usually against it, due to more imports and less exports. Main exports are raw material and other primary products, prices of which are decreasing in international market. Main imports are machinery, chemicals, drugs and electronic goods, prices of which are continuously increasing in international market. Thus it has to pay more than what it receives. Pakistan depends on foreign aids and grants for its economic development plans.

14. NATURAL RESOURCES ARE UNEXPLOITED

There is shortage of natural resources. Petroleum, natural gas, iron, copper, water etc. are less than their demand. These resources are not properly discovered and exploited. Therefore industries are not developing for want of raw materials. The reason for not exploiting resources is lack of skill, technology and ill planning by of the Government.

15. LACK OF CONTINUITY IN ECONOMIC POLICIES

There is no consistency in the economic policies of Government. It keeps on changing frequently; therefore-foreign investors and local businessmen cannot chalk out their business and investment plans in Pakistan.

16. UNSATISFACTORY LAW AND ORDER SITUATION

Proper law and order situation is a basic requirement for speedy economic development whereas Pakistan is lacking in this regard. There are general strikes, lockouts, political processions, dacoits and killings in the society. This hampers economic and investment activity. Foreign investors avoid establishing their factories in Pakistani due to poor law and order situation.

OBSTACLES IN ECONOMIC DEVELOPMENT

Obstacles in economic development of Pakistan are too many. These have been divided into economic, social and political obstacles.

ECONOMIC OBSTACLES

1. Lack of capital
2. Under utilization of natural resources
3. Rapid population growth
4. Shortage of modern technology
5. Dependence on agriculture
6. Lack of infrastructure
7. Inefficient banking and financial sector

SOCIAL OBSTACLES

1. Caste system
2. Heavy consumptions
3. People are conservative
4. High illiteracy rate
5. Non-materialistic approach of life
6. No economic participation of Women

POLITICAL OBSTACLES

1. Political instability
2. Lack of continuity in economic policies
3. Negative role of bureaucracy
4. Corruption in government departments
5. Lack of professional efficiency

SUGGESTIONS

There are many other obstacles also in economic development of underdeveloped countries like Pakistan. The obstacles have been divided into three major groups, which have mentioned above. It is therefore suggested that the above obstacles should be removed from developing countries like Pakistan. The details of the above points have already been discussed in the chapter of “characteristics of developing countries”.

CHAPTER -2

RESOURCES OF PAKISTAN

NATURAL RESOURCES

Natural resources are backbone for the industrial development of a country. These resources play a dominant role in accelerating the pace of progress and prosperity. Economic development of an economy is not possible without the availability of natural resources. Natural resources are divided into minerals, forests and hydle power/energy. Pakistan has the following natural resources: -

MINERAL RESOURCES

1	Natural gas
2	Petroleum / Crude oil
3	Coal
4	Chromites
5	Copper
6	Gypsum
7	Iron ore
8	Rock salt
9	Marble & Granite
10	Limestone

1. NATURAL GAS

Natural gas is used in domestic cooking, thermal power stations, and steel furnaces and as a raw material for fertilizer industry and in CNG kits for transport purpose. It is used almost in every industry. It is found in Sui, Attock, Pirkoh, and Kandhkot. In 2005-06 (July to March) its total production was 30,000 MMCFD. The average production of natural gas duly July-March 2005-06 was 3826 million cubic feet per day as against 3663 million cubic feet per day during the corresponding period of last year, showing an increase of 4.4 percent.

2. PETROLEUM

Petroleum or Crude oil is used in transport, power-generating stations, in iron and steel furnaces. Petroleum is known as black liquid gold. Of the total requirement only 40 percent is produced within the country and the rest is imported from abroad. Crude oil is found at Jhelum, Rawalpindi, Badin, Attock & Mianwali. In 2005-06 its total production was 19 million barrels.

3. COAL

Coal is used in thermal power stations and in furnaces for making bricks. About 80 percent of cement industry has now switched over to indigenus coal from furnace oil that has saved considerable foreign exchange being spent on the import of furnace oil. Quality of coal is not very good. It is available at Dandot,

Makerwal, Harnai, Lakhra (Sindh). In 2005-06 its total production was 2.5 million tons. The coalfield in the Sindh province has huge coal resources of about

175 billion tones. In view of the anticipated shortfall of electricity and other energy resources during the next 10 years, the maximum utilization of coal would be required in power generation and gasification. To ascertain commercial viability of mining coal from Thar (Sindh), German consultants have completed a mining feasibility on a specific block in Thar Coalfield.

4. CHROMITES

Chromite is used in making engineering tools and stainless steel. It is found at Chaghi, Muslim Bagh, Malakand, and Zhob. In 2005-06 its total production was 32,000 tons.

5. COPPER

Copper is used in electrical equipment, power and communication transmission lines. It is found at Sandak, Chaghi. In 2005-06 its total production was 3400 tons.

6. GYPSUM

Gypsum is used in the manufacture of cement, fertilizers and plaster of paris. It is found at Hazara, Kohat, D.G Khan, and Dandot. In 2005-06 its total production was 491,000 tons.

7. IRON ORE

Iron ore is used in making steel and engineering products. Quality of iron ore is not of good standard. It is found at Kalabagh, Chitral, Hazara, Makerwal and Khuzdar. In 2005-06 its total production was 3400 tons.

8. ROCK SALT

Rock salt is used for cooking as well as in the manufacture of soda ash. It is also used in textile and tanning industries. It is found at Khewra, Warcha and Kalabagh. In 2005-06 its total production was 1374,000 tons.

9. MARBLE AND GRANITE

Marble is used for decoration in construction industry. It is available in great quantities at various places of the country. In 2005-06 its total production was 1.37 million tons.

10. LIME STONE

Limestone is used in manufacture of cement, bleaching powder, and glass and paint industries. It has rich deposits in the country. Lime stone is found at Hyderabad, Potohar and at Khewra Salt range. In 2005-06 its total production was 12.2 million tons.

FOREST RESOURCES

Forests play a very important role in the economy of a country. There is shortage of forests in Pakistan. Pakistan has 4.01 million hectares covered by forests, which is about 5 percent of the total land area. Eighty-five percent of this is a public forest, which includes 40 percent coniferous and scrub forests on the northern hills and mountains. The balance is made up of irrigated plantations and Riverain forests along major rivers on Indus plains, mangrove forests on the Indus delta and trees planted on farmlands. Though the forest resources are meager, it plays an important role in Pakistan's economy by employing half a million people and fulfills one-third of the nation's energy needs. Forest and Rangelands support about 30 million herds of livestock. Forestry sector plays an important role in soil conservation, regulates flow of water for irrigation and power generation, reduction of sedimentation in water conveyances and reservoirs, employment and maintenance of ecological balance

Total forests area of Punjab, NWFP, Sindh and Balochistan is 0.48, 1.33, 0.84 and 1.36 million hectares respectively. Pakistan being an agricultural country relies on sustained supplies of water and fertile soil. This is only possible when our forests and watersheds in the high hills are intact. Pakistan being a forest deficient country is facing timber and fire wood shortage to the tune of about 29 million cubic meters. There is need to increase the area under tree cover, not only to meet material needs of growing population but also to enhance environmental and ecological services being provided by the forests. During the year 2005-06, forests have contributed 139 thousand cubic meters of timber and 305 thousand cubic meters of firewood. In order to motivate people to plant more trees and to highlight the importance of forest, tree planting campaigns are organized twice a year in spring and monsoon season.

IMPORTANCE OF FORESTS

1. Raw material for paper, sports, silk, furniture and tanning industries.
2. Medical herbs and seeds for pharmaceutical industries.
3. Recreation facilities for tourism and camping.
4. Timber for fire.
5. Reduce floods intensity.
6. Increase fertilizer of land.
7. Cause rains.
8. Control soil erosion.
9. Provide employment opportunities.
10. Fodder for cattle.

-
11. Provide employment opportunities.
 12. Chemicals such as turpentine oil.
 13. Leaves of forests provide natural fertilizers.
 14. Forests are great source e of recreation, natural beauty and attraction

POWER RESOURCES

It is universally recognized that energy is one of the most important inputs of economic growth and development of an economy. The consumption of energy is one of the critical indicators of the level of development of any country. Developed countries use more energy per unit of economic output and far more energy per capita than developing countries. For economic growth Pakistan need energy. The per capita energy consumption in Pakistan is currently low as compared to Malaysia and China. Govt. is making concerted efforts to ensure that progress of energy resources continues to contribute to the nation's development.

MAIN ENERGY SOURCES

1	Hydel power
2	Natural gas
3	Petroleum
4	Coal
5	Atomic energy

IMPORTANCE OF POWER/ENERGY

1. No industry can run without power or energy. All machines require energy to operate.
2. No agricultural machine can function without it. Tube wells, tractors, trolleys, threshers all require energy i.e. electricity, diesel or petrol etc.
3. No transport and communication service such as trucks, cars, railways or aero plane can operate without energy/petrol/diesel etc.
4. No domestic appliances such as electric bulbs, television, fridge, juicer and blenders can function without the use of energy/electricity.

HUMAN RESOURCES

Human resources are very important for economic development of a country. If people are educated, well trained, skillful and healthy then they would be in a position to utilize the country's natural resources in such a way that output of goods and services will enhance. There will be prosperity in the country and standard of living of masses will increase. The country will become prosperous and will be developing by leaps and bounds. The best example in this regard is Japan. In Japan, natural resources are very less but Japanese are well educated, technically highly trained and hard working. That is the reason that Japan has

developed economically. Similarly Singapore is a very small country and there are no natural resources, yet it has developed the reason is that the people are very well educated, skillful and hardworking.

QUANTITATIVE CHARACTERISTICS OF POPULATION

1	Population and Growth rate
2	Density
3	Average age
4	Illiteracy rate
5	Sex distribution and age distribution
6	Urban and rural distribution
7	Labor force

1. POPULATION

The current population of Pakistan is 154 million. Pakistan is number seven country in the world population. Population is growing at the rate of 2.6 percent per annum.

2. DENSITY

The density rate has increased to 166 per square kilometer.

3. AVERAGE AGE

The average age has increased to 65 years during the current year 2006.

4. LITERACY RATE

The literacy rate has increased to 41.5 percent during as per 1998 census.

5. SEX & AGE DISTRIBUTION

According to population estimates of 2004, male: female ratio was 77: 76 Population of young people has increased from 39 percent to 41 percent whereas population of children and of old age people has decreased from 54 percent to 53.5 percent and 7 percent to 5.5 percent respectively.

6 URBAN & RURAL DISTRIBUTION

In rural areas population is 8.9 crore whereas in urban areas it is 4.3 crore.

7 LABOR FORCE

In the year 2006 total labor force was 47.67 million whereas 44.01 million were employed and 3.66 were unemployed.

QUALITATIVE CHARACTERISTICS OF POPULATION

1	Joint family system
2	Class conflicts
3	Poor health
4	Customs and traditions
5	Lack of education and training
6	Contended nature
7	Dependence on agriculture

1. JOINT FAMILY SYSTEM

Joint family system reduces ability and potential to work as the earnings of a worker are spent on the maintenance of whole family and even those who do not work get their share from the income of a working member of family. The same situation happens in Pakistan. Number of dependents is large enough who do not take active part in productive activity.

2. CLASS CONFLICTS

If any society is divided into haves and have-nots then there are always rivalries and class conflicts between the rich and the poor. There are strikes and lockouts, which reduce production potential of the worker. Same situation is in Pakistan.

3. POOR HEALTH

Due to poverty and low-income, proper food, medicines and recreation facilities are not available to the people therefore the general health conditions are bad and people are prone to various types of diseases.

4. CUSTOMS & TRADITIONS

Pakistani people believe in customs and traditions. They spend too much money on ceremonies and traditional activities. They believe in cast system, which badly affects the economic welfare.

5. LACK OF EDUCATION & TRAINING

Proper education & training facilities are not available to the people. Technical education & training increases productivity of the people. Govt. is now providing general and technical education as well as on the job training in order to develop efficiency of the people and very much emphasis is given on computer education.

6. CONTENDED NATURE

Pakistanis don't believe in materialistic way of life, they prefer simple living, therefore they do not exert much for material gains, their economic activities are very less which badly affects materialistic & economic welfare of people.

7. DEPENDENCE ON AGRICULTURE

Majority of people live in villages, where only source of income is agriculture whereas agriculture is not developed. Their income is very low hence they cannot raise their standard of living and cannot benefit from modern means of life.

POPULATION

Pakistan's population has increased to 154 million in 2005-06. Thus making Pakistan the 7th most populous country in the world. The current population growth rate is 2.6 per cent per annum, which is considerably high compared to the average of 0.9 percent for developed countries. According to one estimate, Pakistan's population will almost double in next 32 years at the current growth rate. Higher population growth supplies more work force in the market and given the low economic growth it creates fewer jobs. Thus it puts pressure on educational and health facilities on one hand and gives birth to unemployment, overcrowding, poverty, crime and environmental degradation on the other.

Pakistan being a developing country faces the problem of population. During the past 25 years, cultivable land has increased by 27 percent compared to 98 percent increase in population, resulting in reduced individual land more forest to be cut to make way for humanity. Even now each year, deforestation occurs at the rate of 2.5 percent. In addition, since only 60 percent of our population has sewerage facility, the remaining 40 percent chum out wastes damaging the environment and causing a lot of diseases. Rising levels of income on the one hand and easy availability of loan facility/financing on the other has lead to an increase in motorization in the country, which emit fumes and other monoxide gases. The rapid expansions in industrial sectors have caused the industrial and residential areas to merge, causing health hazards for population.

REASONS FOR INCREASE IN POPULATION

1	Tropical hot climate
2	Poverty
3	Polygamy
4	Illiteracy
5	Joint family system
6	Marriage a religious duty
7	Lack of recreation facilities
8	Desire for male child
9	Unawareness of family planning

Pakistan's climate is hot, puberty is attained at an early age therefore people marry early and have more children. Due to poverty, daughters are treated as economic burden, people cannot provide their food, clothing and other facilities of life and in order to shake off their burden, they marry girls at an early age. Because of polygamy more births take place. People are illiterate and cannot understand disadvantages of large family. They live in joint family; even those who do not work get their share from the income of a working member of the family. Marriage is treated as sacred duty and children are treated as blessings of God. Most of the people are poor and live in small towns and villages. They do not have any recreational facilities for pleasure and enjoyment of life. People feel pride on the birth of a male child. Sons are regarded as helpers and supporters to the family; therefore they prefer to have greater number of male children. People are neither aware of family planning programs nor they believe in it. They are rather against family planning. Moreover medical facilities have now increased in the country; therefore death rate is also reducing.

EFFECT OF INCREASE OF POPULATION ON ECONOMY

1	Decrease in per capita income
2	Increase in unemployment
3	Increase in general price level
4	Decrease in savings and investment
5	Increase in pollution
6	Decrease in agricultural output
7	Shortage in health and education facilities.

If population increases at a higher rate than the rate of increase of national income, then per capita income decreases. No doubt national income of the country is increasing but at the same time rate of increase in population is much higher, the net result is that per capita income is decreasing. That's why the standard of living is deteriorating. Increase in population means more supply of work force, which needs job. Whereas investment opportunities are very less, job seekers are more than the available jobs, hence people remain unemployed or those who luckily get jobs their wages are very low. Unemployment creates frustrations in the country.

Increase in population causes increase in demand for goods and services, which results in rise in general price level by which poor people are hit more and they could not even get basic necessities of life. People are living from hand to mouth. Due to unemployment and lack of other sources of income people cannot save, therefore the overall national savings are very low. Low savings reduces

investment in the country hence capital formation is not possible. This state of affairs further aggravates economic situation of the country. The overall affect is a vicious circle in the economy of the country.

In order to earn their livelihood people are cutting forest to convert them into arable lands. Many people are migrating from villages to already crowded cities of the country. Drinking water is less in supply than its demand; people are forced to use dirty water from polluted sources. The increase in population is resulting in water, noise and air pollution. Increase in population particularly in agricultural sector is resulting division and sub-division of plots of agricultural land thus making it into uneconomic holding. Because of inheritance system land is divided amongst the sons and daughters, it becomes very difficult to adopt improved techniques on small plots of land, hence total agricultural output of Pakistan is decreasing. This situation is also causing food shortage in the country.

Increase in population results in the increase in demand for health, education, housing and transport facilities. Since resources with government are not sufficient enough, these facilities cannot be increased. The whole pressure of increased population is on existing facilities. The result is that education; health and transport facilities are deteriorating at an alarming rate.

POPULATION DENSITY

Density of population means the number of people living within one square kilometer. It is obtained by dividing population with the total area of a country. Density rate of Pakistan is 183 persons per square kilometer. It indicates as to how much is the pressure of population on land and on other resources. Thus the needed policies should be made by govt. to improve the conditions of the people.

FACTORS OF DENSITY OF POPULATION

1	Business and industrial centers
2	Climate
3	Fertility of land
4	Security of life and property
5	Religious and historical centers
6	Transport and communication facilities
7	Education, research and training facilities

1. BUSINESS & INDUSTRIAL CENTERS

Business and industrial centers provide employment and economic opportunities; therefore people from different places migrate to such places and increase density. Karachi is business and industrial center of Pakistan hence people settle here for jobs which increases its density.

2. CLIMATE

Pakistan's those places where climate is moderate; they are densely populated such as Karachi, Lahore, Faisalabd. The climate of Northern part of the country such as of Chitral and Gilgit is very cold therefore less people live there; hence these places are less densely populated.

3. FERTILITY OF LANDS

People particularly farmers prefer to settle down in those places where land is fertile; they therefore migrate from barren lands to more fertile lands. Fertile land increases income of people and economically they get better off.

4. SECURITY OF LIFE & PROPERTY

Security of life and property is dear to every one. People prefer to settle down at clam, quite and peaceful places. Islamabad is most peaceful city that is why its density of population is greatest as compared to all the other cities of the country.

5. RELIGIOUS & HISTORIC AL CENTERS

If a particular area is important due to its religious and historical back ground, people get settled there and thus it increases density of population there.

6. TRANSPORT & COMMUNICATION FACILITIES

People prefer to live in cities where there are seaports, airports, railway stations and transport facilities. In such places they can get jobs, can do their business and can easily avail benefits of modern transport facilities, hence these facilities result increase in density of population.

7. EDUCATION, RESEARCH & TRAINING CENTERS

People prefer to settle down at those places where education, research and training facilities are available for their business and for their children's future. In Pakistan Karachi, Lahore and Islamabad provide the best education, therefore people from different parts of the country try to settle down there. These factors increase density of population of big cities.

CAUSES OF UNEMPLOYMENT

1	High population growth rate
2	Low investment rate
3	Mechanization of agriculture
4	Sick industries and privatization
5	Decrease in foreign employment opportunities

Population of Pakistan is about 154 million whereas the growth rate of population

is about 2.6 percent per year. The total labor force is 47.67 million, out of which 44.01million, is employed & 3.66 million is unemployed. The main cause of unemployment is as under: -

1. HIGH POPULATION GROWTH RATE

Due to rapid increase in population unemployment rate is increasing very fast.

2. LOW RATE OF INVESTMENT.

In Pakistan per capita income is very low, therefore savings are very low, hence investments are less. Due to low investment employment opportunities are not coming up.

3. MECHANIZATION OF AGRICULTURE

Agriculture is under the process of mechanization. Machines are replacing labor and creating unemployment. Migration of people from rural areas towards cities is also a cause of increase in unemployment as cities have already reached to the saturated level and could not absorb new job seekers.

4. SICK INDUSTRIES & PRIVATIZATION

Industries are facing many problems. Many of them are at the verge of collapse due to lack of availability of imported raw material, short of demand in local market, reduction in their exports and competition with foreign imported goods. Number of sick industries is increasing day by day which is causing unemployment in the country. Moreover due to privatization policy of the government, state owned industries are being sold out to private sector, where labor is being reduced thus causing unemployment in the country.

5. DECREASE IN FOREIGN EMPLOYMENT OPPORTUNITIES

Due to war between Iraq & Kuwait, attack on Afghanistan & Iraq economic crises in Middle East & in other European countries, Pakistani workers have been removed from their jobs thus creating unemployment situation in the country.

MEASURES TO REDUCE UNEMPLOYMENT

1	Control on population
2	Agro based and small scale industries
3	Promotion of construction industry
4	Self employment scheme
5	Strengthening Overseas Employment Corporation
6	Labor policy

1. CONTROL ON POPULATION

Rapid increase in population is a main cause of general unemployment in Pakistan. Many other complications develop in the society because of increase in population. Family planning should be adopted to check population growth.

2. AGRO BASED & SMALL SCALE INDUSTRIES

Agro-based industries such as sericulture, bee-keeping, poultry-farming, dairy products, rice husking etc should be established in rural areas Small and cottage industries such as carpet-making, metal-works, wood-works, embroidery, clay work, bangle-making etc should be set-up on a large scale. This will not only reduce disguised unemployment rather people will become professional and will adopt it as their regular profession.

3. PROMOTION OF CONSTRUCTION INDUSTRY

Poverty alleviation programs should be started with whole heartedly. Infrastructure facilities such as farm to market roads, construction of storage facilities, buildings of regulated markets, dispensaries, schools, houses and bridges should be carried out. This will not only increase employment opportunities in rural and urban areas but will also help economic development.

4. SELF-EMPLOYMENT SCHEME

Loan facilities should be provided at a nominal rate of interest to small, cottages and agro-based industries. Loan granting procedure should be made easy and simple. Self-employment scheme should be introduced in the whole country.

5. OVERSEAS EMPLOYMENT CORPORATION

Overseas Employment Corp. of Pakistan arranges employment opportunities for Pakistani workers in foreign countries. This organization should be strengthened and its efficiency improved so that more people may get jobs in foreign countries. This effort will not only reduce unemployment from the country but will also increase foreign exchange earnings for the country.

6. LABOR POLICY

Labor policy of our country is in favor of businessmen and industrialists who do not consider problems of labor. They remove labor from their jobs without giving any notice or warning, which results in increase in unemployment in the country. Government therefore should make this policy as labor-friendly, keeping in view the safeguards of labor's jobs.

POVERTY

Poverty means that people with a certain income may not be in a position to fulfill their basic needs of life, which include food, clothing, shelter, education and transport. In Pakistan poverty rate is 24 percent and is continuously increasing. There are many reasons for the increase of poverty rate in Pakistan. The population is increasing at a very fast rate whereas resources of country are not sufficient enough to fulfill the needs of the people. Government is neglecting their social welfare programs. Since it is not providing state education and health facilities, expenditure on this account is increasing day-by-day making poor people poorer. Due to increase in population and lack of industrialization and development activities, unemployment is increasing which is causing poverty. Moreover administrative machinery is very weak to control general prices.

MEASUREMENT OF POVERTY

The Household Integrated Economic Survey is designed to monitor poverty status of population by collecting information on consumption expenditure at household level. With a representative sample size of 14,706 households, it covered 5808 and 8898 households in urban and rural areas respectively. The Survey was started in July 2004 and completed in June 2005. Information of consumption / expenditure of 196 items including 89 food items were collected from each household. Consumption items include food items, frequently used, non-food expenses (household laundry, cleaning, personal care product, utilities, fuel, energy and transportation), other non-food expenses such as clothing, footwear, education, health and house rents. The poverty line is based on 2350 calories per adult per day. Poverty line 2004-05 is adjusted by inflation rate during 2001-2005.

The latest poverty line is Rs.878.64 per person per month. Head count ratio that is percentage of poverty line of population living below poverty line is 23.9. The percentage of population living below poverty line in rural areas has declined from 39.26 to 28.10 percent while those in urban areas has declined from 22.69 to 14.9 percent. In other words rural poverty has declined by 11.16 percent and urban poverty is reduced by 7.79 percent

GENERAL CAUSES OF POVERTY

1	Increase in population
2	Increase in prices of general commodities
3	Social welfare programs are neglected
4	Lack of employment opportunities
5	Uneven distribution of national wealth
6	Poor law and order situation

MEASURES TO REDUCE POVERTY

In order to reduce poverty from Pakistan, government is adopting several measures. Utility Stores Corporation is providing daily use items at a very subsidized rate. Its stores have been set up in different cities of the country. Government is providing food stamps to very poor people against which they can have food items from utility stores with out any payment. Government is also distributing cash money through zakat and Ushr mechanism. Under the Integrated Public Works Program construction work of roads, canals, bridges and reclamation of land has already started which provides job opportunities. Moreover Price Control system has been strengthened and the government officials carry out frequent checking and inspection so that prices of essential goods may not increase. Measures to reduce poverty have been given as under: -

MEASURES TO REDUCE POVERTY

1	Utility Stores Corporation
2	Food stamps scheme
3	Zakat distribution system
4	Integrated public works program
5	Micro Finance bank

Pakistan's poverty reduction strategy has yielded handsome result in the shape of reduction in poverty. Although poverty has declined but the fact remains that 23.9 percent people of Pakistan still live below the poverty line. Further reduction in poverty is a major challenge for government. A clear lesson from the past is that sustained growth on a consistent basis is needed to reduce poverty. Macro economic stability is a prerequisite for sustained economic growth that brings poverty reduction and rising living standards that Pakistanis want to see. But macroeconomic stability is not sufficient. Rather it is the foundation on which to build a thriving economy. Successfully targeted social programs, fair and broad based fiscal regimes, labor markets that promote job creation and high quality education opportunities are also key to poverty reduction.

HUMAN CAPITAL FORMATION

Human capital formation means the process of acquiring and increasing the number of persons who have skills, education and experience, which are critical for economic and political development of a country. Human capital formation is thus associated with investment in man and his development as a creative and productive resource. Human capital formation means increase in productive potential and skills of the manpower. This is possible by providing education, training, expertise and better health facilities to the people. If people of a country are well educated, trained and healthy, they can develop their own techniques and

efficient methods of production within the parameters of their own environment and culture. They can better use available national resources; can utilize the foreign aid and grants more efficiently for economic progress and prosperity of the country. Since there is general unemployment in developing countries, the human capital formation removes unemployment from the country. Educated and trained people become a source of increase in productivity and national income of the country. All these factors increase the standard of living as well as social and cultural values of the people.

CAPITAL RESOURCES

Capital formation consists of both tangible goods like plants and machinery and intangible goods like high standards of education, health, scientific tradition and research. It is the process of adding to the net physical capital stock of an economy in an attempt to achieve greater total output. The rate of accumulation of an economy's physical stock of capital is an important determinant of the rate of growth of an economy. It creates productive potential for future production. It has three stages namely savings, existence of financial institutions and capital market for mobilization of savings and finally act of investment in capital goods. Capital formation results in increase in employment opportunities increase in output of goods and services and the use of new and most modern technology. Following is the importance of capital formation

IMPORTANCE OF CAPITAL FORMATION

1	Vicious circle of poverty is broken
2	Increase in productivity
3	Market expansion
4	Increase in export earnings
5	Technological development
6	Increase in employment
7	Decrease in general price level
8	Improvement in health and education facilities
9	Increase in the pace of industrialization
10	Increase in the economic growth rate

Capital formation results in overall improvement of economy. With the increase in machine and equipment total output increases, hence national income increases. Increase in national income results improvement in per capita income. This increases purchasing power and standard of living of masses. Since output of goods and services increases, price level goes down, which in turn increases welfare of the people. Employment opportunities also increase. Due to increase in local production, foreign imports are reduced, which in turn reduces burden on foreign exchange payments, rather balance of payments is improved. Since capital

formation is carried on in all sectors of economy, including health, education and technical training facilities, the work-efficiency of manpower increases. In nutshell Capital formation quickens the pace of economic growth of the country.

INTERNAL SOURCES OF CAPITAL FORMATION

1	Voluntary savings
2	Taxes
3	Government borrowing
4	Use of idle resources
5	Deficit financing

Voluntary savings come from household and business sectors and it depends upon per capita income, distribution of national income, banking facilities and interest rate. Taxes are known as involuntary savings. Tax revenues depend upon income of people and the overall economic situation of a country. If income of the people is greater and economic activity is at brisk revenue from this source will be greater otherwise not. Government also borrows money by sale of short term and long-term interest bearings bonds. Capital formation can be increased with the utilization of idles resources of the country for example uncultivated land, unemployed manpower and other natural resources. Deficit financing means deliberate unbalancing its budget in order to inject additional aggregate demand.

EXTERNAL SOURCES OF CAPITAL FORMATION

1	Foreign loans and credits
2	Foreign Grant assistance
3	Foreign Aid

The External resources mainly comprise of (i) loans and credits from friendly countries and specialized international agencies and (ii) grant assistance under specific country programs. The Foreign Aid (loans, credits and grants) is broadly categorized as project aid, commodity aid, food aid and other aid. Project aid, which generally takes the shape of foreign loans and grants for procurement of project equipment and supply of services etc. Commodity aid is utilized for commercial imports. Goods imported under this aid are generally industrial raw materials, equipment, consumer goods, chemicals, fertilizers and such other commodities as may be specified or generally agreed to or, if the aid is untied, as the country may actually need. Commodity aid also helps to generate rupee funds, which augment the country's rupee resources to meet its development needs. Food aid comprises of foodstuffs such as wheat and edible oils etc. In most cases,

the net sale proceeds of food aid are deposited as counterpart funds, which are further utilized for development purposes. The assistance under Other Aid

comprises of loans and grants from non-traditional sources generally by way of balance of payment support. Loan and grants may be obtained from Asian Development Bank, International Bank for Reconstruction and Development, Islamic Development Bank, International Development Association, World Food Program, European Economic Community, United States Agency for International Development, and different countries.

SUMMARY OF EXTERNAL RESOURCES

		(Rs. In Million) Budget 2006-07
1	Project Aid	82,165,800
2	Commodity Aid (Non-food)	96,037,700
3	Food Aid	605,000
4	Other Aid	60,500,000
	Total resources	239,308,500

PROBLEMS OF CAPITAL FORMATION

1	Low technology and lack of basic industries
2	Shortage of basic infrastructure facilities
3	Low level of education and technical knowledge
4	Lack of continuity in economic policies of government
5	Increasing foreign debt liability
6	Low rate of domestic savings

1. LOW TECHNOLOGY & LACK OF BASIC INDUSTRIES

Very low-level technology is used in Pakistan. There are less manufacturing industries whereas packaging and assembling units are more. Basic industries such as Steel, automobile, chemicals and electronic industries are too few, which is main hurdle in capital formation and economic development.

2. SHORTAGE OF BASIC INFRASTRUCTURE FACILITIES

It means availability of power, gas, cheap transport, and communications etc, which are prerequisites for establishing industries. Non-availability of these facilities are causing problem in capital formation.

3. LOW LEVEL OF EDUCATION & TECHNICAL KNOWLEDGE

Industries and business require expertise knowledge, specialized education and technical know-how, which is not available in Pakistan. Specialized professional institutions are very few and are of sub-standard. This creates difficulty in establishing and operating industries economically.

4. LACK OF CONTINUITY IN ECONOMIC POLICIES OF GOVERNMENT

Economic policies of Govt. of Pakistan are inconsistent and there is no continuity.

Businessman is not aware as to what will be the future decision of the Govt. about trade and business, he is therefore shy to invest. Departmental formalities are too much and complicated, there are delays and corruption in sanctioning projects and in other business related matters. This results in low-level capital formation.

5. INCREASING FOREIGN DEBT LIABILITY

Industrialization in Pakistan requires foreign imported machinery and basic raw material, for which foreign exchange is required. There is shortage of foreign exchange in Pakistan. There is huge foreign debt on Pakistan; whatever foreign exchange is earned by way of exports of raw cotton, rice and other goods is used for repayment of principal loan and its interest. Thus due to lack of foreign exchange industrial Plant and machinery cannot be set up which reduces the capital formation. It is suggested that all these hurdles may be removed from the economy, so that the pace of capital formation may be increased in Pakistan.

6. LOW RATE OF DOMESTIC SAVINGS

People of Pakistan are poor; they are not in a position to save. Their income is very low and it has become difficult for them to meet their both hands. It is therefore, suggested that all above hurdles may be removed as early as possible so that the rate of capital formation may increase.

MEASURES FOR INCREASE IN DOMESTIC SAVINGS

1	Reduction in inequality of income and wealth
2	Decrease in the rate of indirect taxes
3	Increase in the interest rate on savings
4	Control on inflation
5	Stability in the value of money
6	Increase in education and foresightedness
7	Discouraging consumption
8	Bright future expectations

Savings is most important factor for capital formation. In Pakistan savings rate is very low, therefore all-out efforts should be done to increase savings. A limited minority has captured more than 80 per cent wealth of the nation and a majority of the people are living from hand to mouth, hence efforts should be made to reduce this inequality in the distribution of national wealth. Higher income groups should be heavily taxed and lower income groups should be provided tax concessions. They should also be provided employment opportunities. This will ultimately increase savings rate in economy. Interest rate is main attraction for savings; therefore interest rate should be increased by commercial banks and

National savings centers for general public. Credit creation and deficit financing should be carefully managed so that supply of quantity of money may not increase too much and inflation rate should be within the control limits. Inflation erodes the purchasing power and wipes out savings from economy.

Education is the panacea of all evils. Educated people avoid unnecessary expenditure on customs and traditions. They are foresighted. They want that their future should be secured and safeguarded hence they avoid spending their hard earned money on unnecessary customs and traditions and save for future. It is therefore suggested that education level should be increased in the country, which will increase savings and therefore capital formation will increase.

CHAPTER -3

AGRICULTURAL DEVELOPMENT

IMPORTANCE OF AGRICULTURE

Agriculture is backbone and the largest sector of Pakistan's economy, which plays a very important role in its development. It provides food i.e. wheat, rice, pulses, vegetables, fruit and other items for growing population of the country. Nearly 22 percent of total output i.e. GDP, and 44.8 percent of total employment is generated in agriculture. It also contributes substantially to Pakistan's exports. Agriculture also contributes to growth as a supplier of raw materials to industry as well as market for industrial products. Not only that 44.8 % of country's work force is employed in agriculture but also 65.9 percent of country's population living in rural areas is directly or indirectly linked with agriculture for their livelihood. Whatever happens to agriculture is bound to affect not only country's growth performance but to a large segment of country's population as well.

The performance of agriculture during the year 2005-06 has been weak. Against the target of 4.2 percent and last year's achieved of 6.7 percent, overall agriculture grew by 2.5 percent in 2005-06 on the back of poor showing of major crops and forestry and weaker performance of minor crops and fishery.

It employs 30 percent of country's work force. Country's 67 % population lives in villages. It contributes about 25 percent to GDP. It provides raw material such as cotton, sugarcane, tobacco, cottonseed, edible oil seeds, citrus fruits, leather, wool, paper pulp, wood and other items for various industries. Major crops accounting for 35.2 percent of value added in agriculture, registered a decline of 3.6 percent as production of two of the four major crops, namely cotton and sugarcane has been significantly less for a variety of reasons including excessive rains at the time of sowing, high temperature at flowering stage, late harvesting of wheat crop, strong base effect (cotton) and incidence of frost, damaging sugarcane crop in the month of January 2006. Pakistan's agriculture has been suffering, off and on, from severe shortage of irrigation water in recent years.

MAIN FEATURES OF AGRICULTURE

1. Main source of food supply
2. Provides employment opportunities
3. Major source of national income
4. Provides raw material for industries
5. Good market for agricultural machinery and equipment
6. Market for fertilizers, pesticides and insecticides
7. Main source of foreign exchange earnings
8. Expands industrial goods market

MAJOR AGRICULTURAL CROPS

1	Cotton
2	Rice
3	Sugar cane
4	Wheat

There are two principal crop seasons in Pakistan, namely Kharif, sowing season begins in April-June and harvesting during October-December; and Rabi, which begins in October-December and ends in April-May. Rice, sugarcane, cotton, maize, bajra and jowar are Kharif crops whereas wheat, gram, tobacco, rapeseed, barley and mustard are Rabi crops. Major crops wheat, rice, cotton and sugarcane account for 90.1 percent of the value added in the major crops.

1. COTTON

Cotton is not only an export-earning crop but also provides raw material to the local textile industries. It accounts for 8.6 percent of the value added in agriculture and about 1.9 percent to GDP. The area and production target for cotton crop during the current fiscal year were 3247 thousand hectares and 15.0 million bales respectively. The crop however, sown on the area of 3096 thousand hectares—4.6 percent less than the target and 3 percent less than the last which was 3193 thousand hectares. The production of cotton is estimated at 12.417 million bales lower by 13 percent over the last year's production of 14.265 million bales. Factors responsible for the decline in cotton production include:

1. Excessive rain at the time of sowing
2. High temperature at flowering stage
3. Late wheat harvesting resulting in decline of area under the crop
4. Pest attack in some cottons growing areas of Punjab and Sindh

2. RICE

Rice is an important food cash crop. It is also one of the main export items of the country. It accounts for 6.1 percent of the total value added in agriculture and 1.3 percent to GDP. Area and production target of rice for the year 2005-06 were set at 2533 thousand hectares and 5000 thousand tons respectively. Area sown for rice is estimated at 2620 thousand hectares—3.4 percent higher than the target and 4 percent higher than the last year. The size of the crop estimated at 5547 thousand tons—almost 10.4 percent higher than last year and 10.9 percent higher than the original target. The higher production is due to: -

1. Favorable weather condition
2. Larger area of production
3. Greater production target

3. SUGAR CANE

Sugar cane crop serves as a major raw material for production of white sugar and gur. Their share in value added of agriculture and GDP are 3.4 percent and 0.7 percent respectively. Sugar cane has been sown in the area of 907 thousand hectares---5 percent below the target and 6.1 percent less than the last year. Sugarcane production for the year 2005-06 is estimated at 44.3 million tons against the 47.2 million tons last year. Thus sugarcane production is estimated to be lower by 6.2 percent over the last year. Factors responsible for decline in sugar cane production include the following: -

1. Late harvesting of wheat
2. Farmer's shifting to other competing crops
3. Affect of frost.

4. WHEAT

Wheat is the main staple diet of the people of Pakistan. It contributes 13.7 percent to the value added in agriculture and 3.0 percent to GDP. Area and production target of wheat for the year 2005-06 were set at 8415 thousand hectares and 22.0 million tons respectively. Wheat was cultivated on an area of 8303 thousand hectares showing a 0.7 percent decrease over last year and 1.3 percent lower than target. The size of the wheat crop is estimated at 21.7 million tons which is 0.4 percent higher than the last year and 1.4 percent lower than the target as the area under crop decreased due to following reasons: -

1. Delayed crushing of sugarcane by the sugar mills
2. Less rains during the early stage of the crop
3. Erratic high temperature at the time of formation of wheat grain

MINOR AGRICULTURAL CROPS

1. OILSEEDS

The oil seed crops include cottonseed, rapeseed, sunflower and canola. During 2005-06 local production of edible oil is estimated at 0.809 million tons. During the same period 1.269 million tons of edible oil was imported and 0.216 million tons edible oil was recovered from imported oilseeds. The local production of oil seeds is short than the actual demand; therefore, every year edible oil is imported

2. OTHER MINOR CROPS

The production of all the pulses namely masoor, mung and mash are down by 13.5 percent, 12.6 percent and 9.8 percent respectively during 2005-06. The main reason for decline in production of all these pulses as compared to last year has

been the short fall of respective area of these crops. The production of potato was also lower than last year on account of frost, which affected the potato during the month of January 2006. However, production of onion and chilies increased by 29 percent and 34.8 percent respectively.

PROBLEMS OF AGRICULTURE

1	Under utilization of cultivatable land
2	Uneconomic holdings
3	Concentration of land ownership
4	Lack of irrigation facilities
5	Old methods of cultivation
6	Shortage of finance
7	Inadequate supply of inputs
8	Water logging and salinity
9	Soil erosion
10	Natural calamities
11	Insufficient infrastructure
12	Absence of regulated markets
13	Lack of education and training
14	Improper agricultural research
15	Lack of alternative occupations

1. UNDER UTILIZATION OF CULTIVATABLE LAND

The total area of Pakistan is 80 million hectares out of which 22 million hectares of land i.e. 25% land is being cultivated. Due to various reasons a greater portion of land is not used for cultivation purpose, that's why our agriculture output is low. We should bring a greater portion of land under the use of agriculture.

2. UNECONOMIC HOLDINGS

It means small area of land, which is uneconomical to cultivate. Due to inheritance system, land is divided and subdivided into small pieces, making it uneconomical to cultivate. Small and scattered holdings produce less output.

3. CONCENTRATION OF LAND OWNERSHIP

In Pakistan Jagirdars and big Zamindars who own majority of land area live in big cities and do not take much interest in the development of agriculture. They give their lands to landless people for cultivation on the basis of heavy Lagan or Batai (some agreed proportion of output). Since a greater portion of output goes to the zamindars and very less is left to small and poor peasants, they get frustrated and do not take much interest to raise productivity.

4. LACK OF IRRIGATION FACILITIES

Development and progress of agriculture is based on regular supply of sufficient quantity of water. Rains in Pakistan are uncertain and unpredictable, whereas irrigation system is unsatisfactory. Inadequate water supply through irrigation system, i.e. from wells, ponds, and canals are causing low agriculture productivity

5. OLD METHODS OF CULTIVATION

Primitive methods of cultivation i.e. use of wooden Hul, Phaora, Sohaga and Bail (Oxen) cannot increase output. It is therefore the need of the day that our farmers should use tractors, threshers, bulldozers and tube-wells.

6. SHORTAGE OF FINANCE

Our farmer is poor. In order to meet his demand he borrows money from relatives, friends and moneylenders at a very high interest-rate. Due to shortage of finance he cannot adopt new methods of cultivation.

7. INADEQUATE SUPPLY OF INPUTS

Our farmer uses poor quality seeds. Due to lack of finance and ignorance he do not use fertilizers, insecticides, pesticides, improved high yielding seeds and modern machinery, therefore his output keeps on decreasing.

8. WATER LOGGING & SALINITY

With the continued use lands have become waterlogged and saline. The excess and salty water is very harmful for production of agricultural goods. This situation is decreasing area of cultivatable land.

9. SOIL EROSION

Winds and floods take away fertility of land, causing the land sandy and barren, thus output decreases drastically.

10. NATURAL CALAMITIES

Heavy rains, floods, droughts, hailstorms, and pest attacks are frequent in our agricultural sector causing heavy damages to the standing crops.

11. INSUFFICIENT INFRASTRUCTURE

Stores, power supply, transport, and road facilities are very less, which hampers development of agricultural sector. Produce is stored on open places, which is destroyed due to rains, winds and insects.

12. ABSENCE OF REGULATED MARKETS

Markets are far away and there is no transport with the farmers. It is very difficult to carry the products to far-flung markets therefore farmers are forced to sell their

produce at a low price to the local commission agents.

13. LACK OF EDUCATION & TRAINING

Our farmer is uneducated and untrained. He does not know the latest multiple cropping, pest control equipment, the use of technology and other modern farming practices. All this results in the decrease in output per hectare.

14. IMPROPER AGRICULTURAL RESEARCH

Research facilities in agricultural sector result in the development of better quality seeds, modern storage facilities, economical use of water, cheap fertilizers, effective low cost insecticides, and locally produced cheap machinery. Due to shortage of funds proper research is not being carried out in this field.

15. LACK OF ALTERNATIVE OCCUPATIONS

In case of failure of crop due to one reason or the other, our farmers become distressed. They live from hand to mouth and their source of income dries down. There is lack of agro-based industries such as dairy, poultry, and livestock farms, which may increase income of farmers during off-season.

MECHANIZATION OF AGRICULTURE

Mechanized farming means the use of mechanical appliances and scientific techniques for boosting agricultural production. In it tractors, tube wells and chemical technologies (fertilizers), bio-technology (new varieties of seeds) are included. Mechanization as a tool for modernization of agriculture has been well recognized. Mechanization generates greater cropping intensity and as such improves productivity. It also results in considerable saving of fodder and feed through a reduction in bullock population. Thus, a transition from subsistence farming to commercial farming can only be achieved through transfer of the most efficient and cost effective technology to farming system. The efficient use of scarce agriculture resources and accelerated agriculture mechanization is, therefore vital. In consideration of the role of precision in farm operations, the use of machinery has been encouraged through provision of credit availability by commercial banks. The demand for tractors has outstripped local production. Time lag in delivery of tractors is reportedly 3-4 months. As such shortage of 10,000 – 15,000 tractors per annum has been noted in the country against the existing production capacity of manufacturing units. In order to meet tractor's demand, new investors have been engaged in order to enhance local production for meeting the rising demand of farming community.

MERITS OF MECHANIZATION

1	Increase in output
2	Increase in standard of living
3	Facility in transportation
4	Multiple cropping
5	Increase in job opportunities

1. INCREASE IN OUTPUT

As compared with human being's physical labor, machinery can produce much more. Barren and uncultivated lands can be turned into fertile lands. Those lands, which are just used for animals' fodder requirement, can be used for cultivation of food crop, which will result in food sufficiency.

2. INCREASE IN STANDARD OF LIVING

Increase in agricultural output will decrease cost of production thereby the income of farmer will increase. It will increase his efficiency and will improve his living standard, which is a healthy sign of progress and development of economy.

3. FACILITY IN TRANSPORTATION

Our farmer uses bullock and animal carts for transport, irrigation, sowing and threshing purposes. With the adoption of mechanization, threshers, tractors, tube wells etc will be used which are less time consuming and will facilitate a lot to the farmers. Thus dependence on animals will be reduced to a great extent.

4. MULTIPLE CROPPING

Adopting intensive methodology of cultivation with the help of machinery can easily do multiple cropping, raising two different types of crops simultaneously.

5. INCREASE IN JOB OPPORTUNITIES

Mechanization requires maintenance, repairs and workshop facilities. It will provide off-farm employments opportunities to the local people.

DEMERITS OF MECHANIZATION

1	Lack of financial resources
2	Lack of technical training
3	Urbanization problem
4	Foreign exchange burden
5	Diversion of capital resources
6	Socio economic disparity

1. LACK OF FINANCIAL RESOURCES

Our farmers are poor. They are living from hand to mouth. It is not possible for them to purchase agricultural machinery. Financial institutes do not cooperate with them. Farmers are not in a position to provide securities demanded by banks.

2. LACK OF TECHNICAL TRAINING

Our farmers cannot operate machines due to lack of technical knowledge and training. In villages there are no workshops for repairs and maintenance and spare parts are not easily available there.

3. URBANIZATION PROBLEM

Machinery can do many workers job; therefore farm labor will become unemployed, which will increase the number of jobless people. When these jobless people will move to cities for seeking jobs it will create urbanization and civil amenities problems.

4. FOREIGN EXCHANGE BURDEN

Machinery is imported from foreign countries, spare parts, petrol and lubricants needed for the machinery are also imported, which involves heavy pressure on foreign exchange.

5. DIVERSION OF CAPITAL RESOURCES

Capital/funds will be diverted from industrial sector to the agricultural sector to be utilized for purchase of machinery and equipment. Thus industrial sector, which is already facing shortage of fund, will suffer a lot.

6. SOCIO- ECONOMIC DISPARITY

Machinery and equipment are very expensive items, which are beyond the reach of poor farmer, only rich landlords can afford to purchase and use them. There is already class conflict between haves and have-nots in our village sector. Mechanization will further aggravate this situation and the poor farmers will be entirely at the mercy of landlords.

MEASURES TO INCREASE MECHANIZED FARMING

Government should adopt the following measures for mechanizing agriculture: -

1. Reduce the prices of machines/equipments used in agricultural sector.
2. Provide electricity for tube wells at a low rate.
3. Set up workshops for repairs of machinery.
4. Establish technical training centers in villages.
5. Provide loan facilities to the farmers at a low interest rate.
6. Cooperative farming should be started to control fragmentation of land.

AGRICULTURE PRICE POLICY

Supply of agricultural products remains unchanged during the short period. With increase in price, their supply cannot be increased immediately as output depends upon natural and seasonal factors. Likewise demand for agricultural products is also less elastic as most of them are included in necessities of life. Agricultural policy is adopted by Government in order to adjust and modify ways and means for export promotion, maintaining adequate domestic food supply and meeting the requirement of raw material needed for domestic industries. Thus agricultural policy is a method of influencing prices of agricultural products as an incentive to produce certain goods in desired quantities.

MEASURES OF AGRICULTURAL PRICE POLICY

1	Stability in the income of farmers
2	Self sufficiency in food crop
3	Development of agro based Industries
4	Stability of prices for general consumers

1. STABILITY IN THE INCOME OF FARMERS

Decrease in prices of agricultural produce badly affects income of farmers. It also controls the mobility of farmer from rural areas to big cities for search of jobs. It is therefore necessary that prices should be made stable. Stable prices also help in investment in agricultural sector.

2. SELF SUFFICIENCY IN FOOD CROP

In order to increase food crop, government adopts policy of support prices, so that farmers may find it profitable to produce more food crop, thus self-sufficiency is obtained. Some produce is exported in raw form such as cotton; therefore, government fixes prices of cotton at a high level just to encourage its production. In this way more foreign exchanged is earned.

3. DEVELOPMENT OF AGRO BASED INDUSTRIES

Many industries such as textile and sugar use agricultural raw material and in order to provide cheap raw material for local industries of cotton, government fixes less prices of such raw material so that prices of finished products of these industries may not increase.

4. STABILITY OF PRICES FOR GENERAL CONSUMERS

General consumers are hard hit with higher prices of agricultural goods; hence government adopts the policy of support prices. Prices of onions general rise due to decrease in its production, therefore with the mechanism of agricultural price

policy its prices are controlled. Government purchases it at a higher price and supplies it at lower price to general consumer. This is done through Pakistan Agricultural Supply Corporation.

AGRICULTURAL CREDIT

Planning Commission of Pakistan has mentioned that village development program cannot be successfully implemented unless and until credit needs of our farmers are fulfilled. Due to agricultural backwardness and low income of farmers, they need money not only for development purpose but also for their day today requirements. They need credit in order to increase efficiency and agricultural productivity. The credit can be classified into three groups i.e. short term, medium term and long term credit. The credit is required for various purposes as has been shown in the following table. (Please see “Sources of Finance for industries and agriculture” page 93)

Short term loan Up to one year needed for	
1	Seeds
2	Fertilizers
3	Insecticides
4	Animal fodder
5	Natural calamities
6	Land revenue
7	Customs, traditions and litigation

Medium term loan Up to 5 years needed for	
1	Cattle
2	Tools and equipment
3	Water courses
4	Repairs of wells
5	Land leveling

Long term loan Over 5 years need for	
1	Purchase of new lands
2	Agricultural machinery
3	Sinking of tube wells
4	Land reclamation
5	Horticulture

1. SHORT TERM CREDIT

This type of credit is required up to a period of one year and is used for the purchase of seeds, fertilizers, pesticides, insecticides, etc. When the crop is destroyed by the attack of pests and insects, or by floods and droughts even then farmer needs credit. Our farmers are custom bound people they have to fulfill

their customary traditions and hence require credit. Farmers are usually engaged in various court cases and they need money for litigation purpose.

2. MEDIUM TERM CREDIT

This type of credit is required up to a period of five years and is used for purchase of cattle, repair of wells and water-courses, small tool and equipment and leveling of lands in order to make these cultivatable.

3. LONG TERM CREDIT

This type of credit is required for over 5 years period in order to meet development required of farmer's lands, such as sinking of new tube wells, purchase of tractor, thresher, trolley, and reclamation of land.

SOURCES OF AGRICULTURAL CREDIT

	Non-Institutional sources
1	Relatives
2	Friends
3	Local shopkeepers
4	Commission Agents

Under these source moneylenders, relatives, friends, shopkeepers and commission agents provide short-term loan to the farmer, which is repaid after the harvest. Moneylenders charge very high rate of interest. Commission agents know the farmers very well and do not demand much security for loans advanced by them. Credit available from these sources is not sufficient enough for the requirement of agricultural development.

	Institutional sources
1	Taccavi Govt. Loans
2	Agricultural Bank
3	Commercial Banks
4	Cooperative Society

1. TACCAVI (GOVT.) LOANS

Taccavi loans are granted by Provincial Revenue Department to meet the emergency requirement such as floods, earthquakes, famines etc. These loans are provided at a very low interest rate. The Credit Enquiry Commission had recommended that (1) the amount advanced should be sufficient for the purpose it is granted and an attempt must be made to supervise the use of credit (2) delay in the grant of Taccavi may be minimized (3) and the recovery period should be minimized. This source of credit has now become very insignificant.

2. COMMERCIAL BANKS

All commercial banks of Pakistan provide credit facilities for short and medium terms for dairy farming, tube-wells, tractors and other inputs. The loans are given under supervised credit scheme as well as outside the supervised credit scheme.

3. AGRICULTURAL CREDIT COOPERATIVE SOCIETIES

Agricultural Credit cooperative societies established in rural areas also provide credit facilities to farmers. These societies obtain loans from Provincial Cooperative Banks, whereas provincial cooperative banks obtain loans from Federal Cooperative Bank. As per need of credit, cooperative banks are very few and their credit facilities are not up to the requirement.

PROBLEMS OF AGRICULTURAL CREDIT

1	Loan not available to small farmers
2	Complicated procedure
3	Delay in actual payment
4	High rate of interest
5	Repayments of loans are not made
6	Loan only for few purposes

Agricultural credit facilities are generally availed by big landlords. These people are influential and can provide securities. Poor farmers who are in great number who actually need loans have no contacts and cannot provide securities; therefore credit facilities are not extended to them. Loan advancing procedure is complicated. Farmers are illiterate and cannot fulfill credit formalities. Even if commercial banks or other institutions sanction loan, it takes much time for actual payment of the loan. The interest rates are very high. The loans sanctioned to big landlords are not being repaid to commercial banks; ZTBL and other institutions cannot do any thing against these influential landlords. Lastly loans are generally given for the purchase of fertilizers, seeds, tube wells and trolley etc.

SOLUTION OF AGRICULTURAL CREDIT PROBLEMS

Agricultural Development Bank of Pakistan (ZTBL) has established regional and branch offices in different areas for supply of credit to farmers. Loans are given to farmers on the basis of land mortgage and personal security. This bank has contributed a lot for the development and progress of agriculture. Commercial banks of the country have been directed to advance loans to agriculture under the supervised and outside the supervised credit schemes. Cooperative banks provide loans to small farmers at a very low rate of interest. Taccavi loans are provided by Provincial Governments to provide relief at the time of floods, famine and bad harvests. But all these steps are not sufficient enough and more have to be done

for the better credit facilities. Govt. should further reduce interest rate, credit should be given to poor and actual tillers of the soil and not to influential landlords, and arrangements should be made to receive back credit given to big landlords. Cooperative credit societies should be organized and their working should be improved. Through television and radio programs farmers should be instructed not to spend their hard earned money on unnecessary customs traditions and festivals.

AGRICULTURAL MARKETING

Agricultural marketing is the performance of business activity that directs the flow of agricultural goods from producer to consumer. Agricultural produce cannot be stored for long time as these are perishable and are destroyed very quickly. Farmer has weak bargaining position, he cannot wait, he is bound to dispose off his produce at an unfavorable price, at an unfavorable time and on unfavorable terms and conditions. There is imperfect market system, which has created a lot of marketing problems, which are as under.

PROBLEMS OF AGRICULTURAL MARKETING

1	Low quality of output
2	Shortage of storage facilities
3	Heavy transportation expenses
4	Unawareness about markets and prices
5	No standard weights
6	Chain of middle men

1. LOW QUALITY OF OUTPUT

Farmer uses low quality seeds and fertilizers therefore his output is of below standard. There is also lack of grading; good and spoiled crops are mixed together thus farmer gets less price in the market.

2. SHORTAGE OF STORAGE FACILITIES

Our farmers do not have proper storage facilities. The cold storages are not there. He is worried about the destruction of his crop therefore he disposes the crop as early as possible. Due to his weak bargaining position he gets low price.

3. HEAVY TRANSPORTATION EXPENSES

Roads from farms to town markets are in a deplorable condition. Farmers do not have trolleys or trucks of their own. Private transport is very expensive, thus the net return to the farmer is very less.

4. UNAWARENESS ABOUT MARKETS AND PRICES

Farmers are uneducated; they do not know about better markets for their products, where they could take their produce for better bargain. They do not know

prevailing prices. They are always in hurry to dispose-off the produce; therefore they sell their produce at whatever price is offered to them.

5. NO STANDARD WEIGHTS

Below standard measuring units are used in different grain markets of Pakistan. Due to this reason our farmers do not get proper value and thus suffer financially.

6. CHAIN OF MIDDLE MEN

There are no proper regulated markets. The host of middle men charge their own remuneration, for example those who weigh the produce, those who lift the crop bags, commission agents, shopkeepers where crop is stored. Other charges are, toll taxes etc. All these factors reduce farmer's income.

MEASURES FOR IMPROVING AGRICULTURAL MARKETING

1	Department of agricultural marketing
2	Construction of farm to market roads
3	Price awareness
4	General stores and cold storages
5	Regulated markets & uniform weight measurements
6	Education and training

1. DEPARTMENT OF AGRICULTURAL MARKETING

Government has established Agricultural Marketing Department in order to improve marketing system of agricultural crops. Department surveys the agricultural marketing and prepares its recommendations for provincial department. It also develops agricultural cooperative marketing.

2. CONSTRUCTION OF FARM TO MARKET ROADS

Government is constructing roads and bridges to link farms with markets in order to reduce time and cost of transportation. Quick and easy accessibility of markets will increase income of farmers and their economic position will improve.

3. PRICE AWARENESS

Government through newspapers, radio and television is providing information to farmers about current prices of different crops, fertilizers, insecticides and other inputs, which are prevailing in different markets and cities. Special programs are being broadcast regularly for awareness about modern techniques of cultivation. Modern methods of cultivation are also being taught through TV programs.

4. BIG STORES AND COLD STORAGES

Stores and cold storages are being constructed in regulated markets so that the farmers' output may not be destroyed. These facilities also help in stabilizing

prices of the produce. Tax concessions are given to those who construct stores.

5. REGULATED MARKETS & UNIFORM WEIGHT MEASUREMENTS

Regulated markets are being set up and uniform weights and measurement system has been introduced so that the farmers may not be cheated and they may get the proper return of their produce. In regulated markets, Market Committee system has been introduced which controls and solve these problems. Moreover attention is being paid on standards and grade of the produce.

6. EDUCATION & TRAINING

Main cause of all evils in agricultural sector is lack of education and training of farmers. Govt. has started providing education/training facilities about modern methods of cultivation and marketing of agricultural output. Staff of regulated markets is being trained in order to manage marketing system in a decent manner.

AGRICULTURAL INCOME TAX

Various Commissions and Committees appointed by the Government have recommended about levy of agricultural income tax but nothing has been done so far and this issue is yet to be resolved.

ARGUMENTS IN FAVOR OF AGRICULTURAL INCOME TAX

1	Principle of equity
2	Agricultural income has increased
3	Industries income is shown as income from agriculture
4	Illegal income is used in partnership with landlords
5	Development expenditures of Govt. on agriculture

1. PRINCIPLE OF EQUITY

Landlords do not pay income tax which is not fair and is against the principle of equality. When industrialist and professional pay tax, landlords should also contribute in national exchequer of the state.

2. AGRICULTURAL INCOME HAS INCREASED

Due to heavy expenditures of Govt. on providing physical infrastructure, such as farm to market roads, regulated markets, storage facilities, electricity and irrigation facilities, agricultural output and income of the landlords has increased. They should now pay tax. This will help in increase of tax collection base and economy will grow further.

3. INDUSTRIES INCOME IS SHOWN AS INCOME FROM AGRICULTURE

Landlords are also engaged in industries, they hide the tax by declaring that their income has not been obtained from industries and not from the agricultural produce.

4. ILL-LEGAL MONEY USED IN PARTNERSHIP WITH LANDLORDS

Influential Govt. officers and political leaders having secured illegal money by corruption or otherwise convert it into white money by entering into partnership with their landlord friends and relatives. Many times the industrialist and other businessmen also enter into fictitious loan agreements for their business purpose with landlords and thus avoid paying taxes.

5. DEVELOPMENT EXPENDITURE OF GOVT. ON AGRICULTURE

Huge expenditures are incurred by the government on developments programs of agricultural sector particularly on the construction of dams, canals, roads from farms to markets etc. It is therefore justified that landowners should contribute some money by way of taxes to the government.

ARGUMENTS AGAINST AGRICULTURAL INCOME TAX

1	Tax collection is not economical
2	Facilities of subsidies are not available to farmers
3	Discourage investment in agriculture
4	Reduce the standard of living

1. TAX COLLECTION IS NOT ECONOMICAL

It is very difficult to assess the income from agriculture because it is not certain and depends upon natural factors. Some times output is greater and some time it is too low due to famine, floods, pest and insects attacks.

2. FACILITIES OF SUBSIDIES ARE NOT AVAILABLE TO FARMERS

Govt. provides subsidies on fertilizers, better quality seeds and machinery but practically these facilities are not reached to poor farmers rather government agencies involved in this process take advantage. Since subsidies are not availed, farmers say then why to pay tax.

3. DISCOURAGE INVESTMENT IN AGRICULTURE

Our agriculture requires modernization. Modern methods of cultivation as adopted by western countries cannot increase agricultural output. The use of modern techniques requires huge investment. If agricultural income tax is imposed, this will reduce income of farmers and they will not be in a position to save and modernize the system. Moreover big landlords will shift the tax burden on poor farmers, who are their tenants and the actual tillers of the soil.

4. REDUCE THE STANDARD OF LIVING

There is already general as well as disguised unemployment in agricultural sector, because agriculture is a seasonal factor. Imposition of tax will further deteriorate the standard of living of farmers.

COOPERATIVE FARMING

Planning Commission of Pakistan in a report have mentioned that Cooperative farming is a voluntary organization in which farmers pool up their resources to carry out various agricultural operations with mutual help for protection of their common economic cause and adopt new skills and techniques. There are many defects and weaknesses in cooperative movement yet the only solution of rural credit is to form rural credit cooperative societies. According to the Planning Commission if cooperative program is established on right footings then the whole social setup of rural community will improve. The social and political attitudes will change rapidly which will increase the pace of economic development of Pakistan. In cooperative farming, member's ownership of land is transferred to the society or even if ownership of members land is not transferred then right of cultivation of land is given to society for member's mutual advantage. In Pakistan neither credit cooperative societies nor agricultural marketing cooperative societies have developed. There are only commission shops in the Ghalla Mandies (Markets) where farmers take their output. These shops are run and operated by senior business people, they sale output and charge some commission from farmers. In order to earn more out of commission, these shop keepers by virtue of their experience, sale output at a higher price. Thus the farmers are benefited. Otherwise no other facilities of cooperative nature are available in the market for marketing purpose of farmers output.

REASONS FOR FAILURE OF COOPERATIVE FARMING

1	People of villages love their lands very much and are not interested to transfer ownership of land to any individual, institution or society.
2	Societies do not have sufficient funds to carry-out their operations'
3	Societies do not have proper administration
4	Member-farmers do not cooperate with each other
5	Management of societies favors their friends and relatives
6	Members have very less contacts with Govt. departments.

CHAPTER -4

INDUSTRIAL DEVELOPMENT

IMPORTANCE OF INDUSTRIES

Industries play a dominant role in the economic development of a country. Western countries standard of living is very high. They enjoy all comforts and luxuries of life due to higher productivity of goods and services in their countries. This is because of industrialization. Unfortunately there were no industries when Pakistan came into being but now with the efforts of Government and the people there is an improvement in this regard however more is required to be done.

The overall manufacturing sector continued its positive trend during the current fiscal year. Overall manufacturing recorded an impressive and broad based growth of 8.6 percent. There has been a slight decline in growth in the manufacturing sector due to multiple reasons like reduced production of cotton crop, sugar shortage, steel and iron problems and the last but not the least global oil prices. All of these reasons contributed to reduced growth in 2005-06 but high levels of liquidity in the banking system, an investment friendly interest rate environment, a stable exchange rate, low inflation, comfortable foreign exchange reserves, stronger domestic demand for consumer durable and high business confidence among other things will again boost the manufacturing sector growth rate up to a reasonable level

Sugar and metallic billets have registered a negative trend during year 2005-06, whereas TV. Sets have shown a marked increased by posting a growth of 12.5 percent. In the same context the production of motorcycles in the country has also increased tremendously. The production and sale of motorcycles is taken as an indirect measure to ascertain the standard of living of the middle class of Pakistan.

MAIN INDUSTRIES

1	Textile
2	Automobile
3	Fertilizer
4	Paint and Varnish
5	Cement
6	Home appliances

1. TEXTILE INDUSTRY

The share of textile industry in the economy along with its contribution to exports, employment, foreign exchange earnings, investment and value added makes it the single largest manufacturing sector. It contributes around 8.5 percent to GDP, employs 38 percents of the total manufacturing labor force and contributes between 60-70 percent to total merchandise exports. Pakistan is one of the largest

textile exporters in the world. The variety of products ranges from cotton yarn to knitwear. Garment made-ups and bed wear are the most important export products with an export value of about \$1.35 billion each. Knitwear, ready-made garments and cotton yarn also have important shares in total exports. Major importers of textile products are USA, European Union, China, UAE and Saudi Arabia.

2. AUTOMOBILE INDUSTRY

The auto industry growing is fast and may soon begin to achieve economies of scale. The tremendous rise in automobile demand has resulted in increased production, giving a healthy impetus to industrial output and generating over 150,000 direct employment opportunities besides contributing tax revenue to the government. Since 2001-02 the automobile market is growing rapidly by over 40 percent per annum. Long-term investment-friendly policies of the Govt. and up-gradation of production facilities considered as pre-requisite by experts. The automobile sector of Pakistan has shown significant growth in the last couple of years. Production of cars in first nine months of 2005-06 increased from, 87,104 to 112,478 units. Production of trucks increased to 3746, and motorcycles to 426,607. Automobile industry of Pakistan can achieve sustained growth, as there is a growing demand from local consumers along with potential to export in foreign markets.

3. FERTILIZER INDUSTRY

In order to promote the use of fertilizer, government offered various incentives, which ultimately resulted in the excessive demand for fertilizer. The fertilizer use in Pakistan is a growth story in the field of agriculture. Presently they're 10 manufacturing units in operation. Out of these, four units are located in the public sector and six are operating in private sector. The average annual growth of the fertilizer sector stands at 6 percent per annum. Its share in GDP is 0.5 percent and 7,563 people are employed in this sector.

4. PAINT & VARNISH INDUSTRY

There are 22 units in organized and 400 units in the unorganized sector for the manufacture of paints and varnishes. The per capita consumption of paints in Pakistan is low. The demand for paints and varnishes is rising due to the resurgence of housing and construction sector. In 2005-06 production of paints and varnishes grew by 10.97 percent and 12.78 percent respectively.

5. CEMENT INDUSTRY

Cement industry has shown significant growth. At the moment there are 25 cement manufacturing units in the country. The total production of cement was recorded at 12.2 million tones in 2005-06. The boost during the period in the

performance of cement industry activity is because of high level of construction activity in country and increased development expenditure of the government.

6. HOME APPLIANCE INDUSTRY

Production of television, refrigerators, deep freezers and air conditioners has almost doubled in the last three years. The pace of growth in demand for home appliances is the direct result of the banks and leasing companies' policy of consumer financing package. Many dealers have initiated their own schemes of easy installments, which is further increasing demand.

IMPORTANCE OF INDUSTRIES IN ECONOMIC DEVELOPMENT

1	Increase in national income
2	Increase in employment opportunities
3	Increase in productive capacity
4	Development in agriculture
5	Increase in government revenues
6	Improvement in balance of payments
7	Economic stability and political domination

1. INCREASE IN NATIONAL INCOME

Progress of industrial sector of the country results greater production of goods and services. Output of goods and services is known as GDP. Increase in national income increases per capita income of the people. Higher per capita income increases general welfare of people and standard of living of masses improves.

2. INCREASE IN EMPLOYMENT OPPORTUNITIES

Industries create many types of employment opportunities. Disguised unemployment prevailing in agricultural sector is removed as the labor moves for search of jobs to the cities where industries are located. Increase in employments results increased savings, which is utilized for further investment in industries.

3. INCREASE IN PRODUCTIVE CAPACITY

Industrialization increases productive potential. Specialization results in mass production of superior quality goods at a cheaper cost. Greater employment opportunities increase income; income increases demand for goods and services and increase in demand increases investment in industries and other sectors of economy. Effective demand through acceleration principle increases investment and a small investment through multiplier effect increases national income many times, and in order to meet demand of people productive capacity develops.

4. DEVELOPMENT IN AGRICULTURE

Agriculture is backbone of the economy of Pakistan where as agriculture itself depends upon the progress and development of industries. Industries produce all inputs that are needed by agriculture such as fertilizers, insecticides, and machinery etc. Agricultural output such as cotton, sugarcane, edible oils, fruits, tobacco etc becomes input for industries. All these factors increase income of farmers. Thus agriculture and industries are inter-dependent sectors of economy.

5. INCREASE IN GOVERNMENT REVENUE

Industries provide revenue to the Govt. through different sources such as tax on the profit of the company, income tax, sales tax, excise duty, import duty , export duty. Thus industries provide a greater proportion of taxes to the Govt.

6. IMPROVEMENT IN BALANCE OF PAYMENTS

Export of industrial goods increases foreign exchange earnings. Likewise processing of raw material reduces expenditure on imports, and foreign exchange earnings improve balance of payments of Pakistan.

7. ECONOMIC STABILITY & POLITICAL DOMINATION

Arms, ammunitions, communication appliances, vehicles and other defense requirements are produced by domestic industries, which make defense of Pakistan strong. Industrialization provides economic and political stability. It provides name and fame in international community. Hence a political domination is achieved.

REASONS OF INDUSTRIAL BACKWARDNESS

1	Shortage of investment capital
2	Shortage of infrastructure facilities
3	Lack of technical knowledge
4	Lack of by-product and subsidiary industries
5	Insufficient spare parts and repair workshops
6	Racial disturbances and political instability
7	Non-cooperative behavior of general public
8	Lack of industrial research
9	Poor and unskilled level of management
10	Over capitalization

1. SHORTAGE OF INVESTMENT CAPITAL

Establishment of industries requires huge capital whereas our businessmen do not have sufficient funds at their disposal. There is non-availability of industrial finance. The procedure and requirements of loan giving institutions are very

complicated and their formalities are too much. They demand properties documents for mortgage purposes in order to have security of their funds. Since such formalities cannot be fulfilled hence industries could not be easily setup in the country.

2. SHORTAGE OF INFRASTRUCTURE FACILITIES

Basic infrastructure facilities for setting up of industries are not available in the country. For industrialization roads, railways, electricity, water, gas, etc. are a must. Transport and communication facilities are vital for progress, development and expansion of industries but the Govt. does not adequately provide these. Whatever transport facilities are available they are very expensive. Power supply is short and expensive and there are too much breakdowns in its supply, this increases cost of production, hence prices of final product increases.

3. LACK OF TECHNICAL KNOWLEDGE

Workers are not skilled and trained. They do not know how to operate machines properly. They are inefficient and incapable for doing jobs in industrial sector. They are neither hardworking nor they adopt industrial way of life. Their background is agrarian and they want to go back to their villages after earning some money from industries of the cities. This results in the reduction of output and increase in cost of production of final goods.

4. LACK OF SUBSIDIARY & BY-PRODUCT INDUSTRIES

In order to reduce cost of production a policy of specialization should be adopted and different processes of production should be carried out in different industrial units. This is however not done in industrial sector of Pakistan rather the entire process of production from the beginning up to the final product is done in one factory. They produce raw material, semi-processed items and the final finished goods. This policy is a negation of specialization. Similarly there is shortage of by-product industries. By-product are those industries which use waste material of large industries as their input and produce final goods. Automobile industries should be divided into spare parts industry and tyre and tubes industry. This results in the reduction of cost of production of the main automobile industries. In Pakistan there is short of by-product industries.

5. INSUFFICIENT SPARE PARTS & REPAIR WORKSHOPS

All most all industries of our country are based on imported machinery. In case of any break down spare parts are not easily available whereas workshops do not exist to repair them quickly. The production stops till the machines are not put into operation, which increases cost of production of final goods.

6. RACIAL DISTURBANCES & POLITICAL INSTABILITY

Industries are located in main cities whereas labor force from different regions of the country to work. Due to difference in regional languages, casts, traditions and race they make their own groups. These groups do not work in harmony rather they clash with each other on petty matters. This results in strikes and lockouts and industrial disturbance, which ultimately increase cost of production. Similarly there is no political stability in the country. No firm industrial and economic policy is adopted. Every time when Govt. changes the economic and industrial policies change hence businessmen are always hesitate to invest in industries.

7. NON-COOPERATIVE BEHAVIOR OF GENERAL PUBLIC

Pakistanis are generally poor people their income and purchasing power is very low, therefore their demand for industrial goods is also very low. Those people who have purchasing power, do not support local industries due to their demonstration effect, they prefer to purchase and use the imported industrial goods. Thus the narrowness of demand hampers the development of industries

8. LACK OF INDUSTRIAL RESEARCH

Industrial research results in the new methods and techniques of production of good quality products at the lowest cost. Local raw material is used for production of goods. Since there is dearth of industrial research in the country the improvement in production techniques and the use of local raw material could not be possible. This ultimately increases the cost of production

9. POOR AND UNSKILLED LEVEL OF MANAGEMENT

Industries are not managed, supervised and controlled by the experienced, talented and professional persons. They lack quality of decision-making and leadership. Some time delay in decisions increases cost of production and industry suffers a lost. There is also lack of marketing and industrial consultancy firms in the country who could guide and advise prospective investors for setting up the gainful and profitable industries.

10. OVER CAPITALIZATION

Industries of Pakistan are generally based on the imported machinery and raw material. Industrialists not only import machinery but they also import excessive quantity of spare parts and raw material so that they may not face any production problem due to non-availability of spare parts and raw material. This situation of over- stocking results in capitalization of funds that ultimately increases cost of production and hence prices of final products.

MEASURES FOR INDUSTRIAL DEVELOPMENT

Government is adopting following measures for the development of industrial sector of Pakistan: -

1	Industrial trading estates
2	Technical training centers
3	Tax concessions
4	Research institutes
5	Protection policy
6	Export Processing Authority
7	Investment Promotion Bureau
8	Provision of industrial credit
9	Investment-friendly interest rate
10	Revival of sick industries
11	Privatization policy

1. INDUSTRIAL TRADING ESTATES

Government has established industrial trading estates where the entire basic infrastructure such as roads, communication, water, gas, power, banks, police protection etc. has been provided. Most famous industrial estate of Pakistan is Sindh Industrial Trading Estate.

2. TECHNICAL TRAINING CENTERS

In order to remove shortage of technical labor, Govt. has established Polytechnic Institutes & colleges in various industrial cities.

3. TAX CONCESSIONS

In order to develop industrial sector, Government has granted tax holidays and concessions to the industries.

4. RESEARCH INSTITUTES

For progress and development of industries Government has established many research institutes, which are directly or indirectly assisting industrial sector. The most important research institutes are Pakistan council of Scientific and Industrial Research, Central Testing Laboratories, and Pakistan Standard Institute.

5. PROTECTION POLICY

In order to protect new and infant industries, Government has adopted the protection policy for new industries i.e. Goods, which are produced by the local industry are not allowed to be imported, so that local industry may grow quickly.

6. EXPORT PROCESSING AUTHORITY/ZONES

Separate export processing zones have been established where those industries are established which are engaged in the production of exportable goods. The entire infrastructure is made available their and all facilities are given to these industries in order to increase export earnings of the country.

7. EXPORT PROMOTION BUREAU

This Government department helps in the exports of locally produced goods by arranging exhibition, seminars and inviting prospective foreign investors. It also arranges exhibitions of Pakistani products in international markets and disseminates different types of information for progress and development of industrial sector.

8. PROVISION OF INDUSTRIAL CREDIT

In order to meet loan/credit requirement, both in local and foreign currency, Government has established many financial institutions such as Industrial Development Bank of Pakistan, Pakistan Industrial Credit and Investment Corporation. Investment Corporation of Pakistan, National Investment Trust etc.

9. INVESTMENT-FRIENDLY RATE OF INTEREST

Government has reduced rate of interest so that the investors may feel happy to borrow and invest in industrial sector. Low rate of interest increases margin of profit thus businessmen establishes more industries in the country.

10. REVIVAL OF SICK INDUSTRIES

Many industries, which had gone sick and were closed, are now being revived. Their dues of taxes, loans and interest etc have been drastically reduced and they are now being put into operation. This is being done so that the industries may become prosper and export earnings of the country may increase.

11. PRIVATIZATION POLICY

Most of the State owned industries are inefficient and are running in losses, when these will be transferred to private sector, their administration will improve and non-development expenditures decrease to a greater extent, their efficiency will increase and such industries will be converted into profitable ventures.

COTTAGE/ SMALL SCALE INDUSTRIES

Small and Medium Enterprises (SMEs) is a new name given to cottage and small-scale industries. Small-scale industry is an industrial project whose fixed assets cost (excluding land and buildings), does not exceed Rs.10 million and which have less than 20 workers. Cottage industries are located in homes, operated by

family members and in which hand-made tools and equipment are used. Important cottage and small-scale industries are sports goods, surgical instruments, leather goods, handloom products, silver and gold ornaments, handicrafts, carpets, furniture making, embroidery and tailoring, bangles making etc. In rural areas the most important ones are poultry farming, sericulture, and bee keeping.

Small and Medium Enterprises (SMEs) constitute the bulk of Pakistan's business landscape. Nothing portrays the reality of Pakistan business environment better than the nature and complexion of its SME sector. The Economic Census of Pakistan-2005 lists 3.2 million business enterprises and SMEs constitute over 99 percent of all. Their share in industrial employment is estimated at 78 %, in value addition approximately 28 % and in manufacturing exports earnings at 25 percent. Nearly 53 % of all SME activity is in retail trade, wholesale, restaurants and hotel business whereas the contribution of industrial establishments and those involved in service provision is 20 % and 22 % respectively. Among the SMEs involved in retail, wholesale and restaurant business, 98 % employ less than 5 persons and 99 % less than 10 persons. The manufacturing and other sectors also follow a similar pattern with 87 % employing less than 5 persons and 98 % less than 10 persons.

IMPORTANCE OF SMALL-SCALE INDUSTRIES

1	Use of local machinery and local raw material
2	Employment opportunities
3	Increase in standard of living
4	Increase in export earnings
5	Act as by-product and subsidiary industries
6	Expansion in home market
7	Diversification in industrial products

1. USE OF LOCAL MACHINERY & LOCAL RAW MATERIAL

Small industries can be set up easily because no technical and administrative expertise and training is required. Since in it local machinery and local raw material is used therefore no foreign exchange is required.

2. EMPLOYMENT OPPORTUNITIES

These industries provide greater employment opportunities to the local people. The disguised unemployment is reduced and migration of people towards cities for search of jobs is reduced. Since unemployed person can easily get jobs in small industries, the rate of dependent persons is reduced.

3. INCREASE IN STANDARD OF LIVING

These industries provide job opportunities, income of the people increases, which

result in the increase in standard of living of the people. These also reduce income disparity between the rich and the poor.

4. INCREASE IN EXPORT EARNINGS

Foreigners heavily demand goods produced by small industries, which results in the increase in foreign exchange earnings of Pakistan. These enterprises increase name and fame of Pakistan in international market.

5. ACT AS BY-PRODUCT & SUBSIDIARY INDUSTRIES

Small industries purchase wasted raw material of large industries to be used in their own production process, thus they increase income of large-scale industries. These industries manufacture nuts, bolts and spare parts required by large industries at a very low price, hence both of them are benefited with each other.

6. EXPANSION IN HOME MARKET

SMEs produce goods keeping in view needs and requirement of local market therefore home market is expanded. Increased supply of goods increases business activity and national income. With increase in output the prevailing high rate of inflation can be controlled.

7. DIVERSIFICATION IN INDUSTRIAL PRODUCTS

Goods using different types of material, result in diversification of products. Different varieties of goods are produced according to the demand of different customers' purchasing power.

PROBLEMS OF SMALL-SCALE INDUSTRIES

1	Old methods of production
2	Difficulties in getting raw material
3	High cost of production
4	Lack of consumers support
5	Lack of proper marketing
6	Shortage of finance

1. OLD METHODS OF PRODUCTION

In small scale and cottage industries old and traditional methods of productions are used which do not help in the increase of output. The quality remains poor whereas cost of production increases. Due to lack of skill & training quality of product is not improved therefore demand decreases and these industries suffer.

2. DIFFICULTIES IN GETTING RAW MATERIAL

Inadequate availability of raw material is a big challenge for small industries. Sometimes raw material used in these industries is brought from far off areas of

the country. Sometimes waste material or by-products becomes short therefore small industries suffer. Similarly those main industries that use the output of subsidiary nature, produced by small industries reduce their demand even then small industries producing subsidiary goods suffer a lot.

3. HIGH COST OF PRODUCTION

These industries purchase raw material in small quantity therefore they pay high prices. Raw material is procured from distant areas hence transport expenses increase. They borrow money from moneylenders and from other sources at a high rate of interest rate. Old and used machinery results in frequent brake-down, which involves expenses on repairs. Since these industries cannot provide proper securities therefore loan is not available to them. Most of these industries are located in villages where electric power is not available to them.

4. LACK OF CONSUMERS SUPPORT

Consumers prefer to use machine made modern goods, which are cheap in price and better in quality. Small industries do not maintain their quality they rather produce sub-standard goods, hence people do not patronize them, thus demand for their product decreases and in many cases it becomes difficult for them to survive.

5. LACK OF PROPER MARKETING

Small industries do not have transport facilities to take their output to city markets. They do not have finance to advertise their products through television, or newspapers. The producers are not professionally trained to bargain with wholesalers of large markets. They are poor and cannot wait for rise in prices of their products. They do not have sufficient stock of raw material at their disposal. All these factors force them to sell their output in local market at a very low price. Due to these reasons many artisans and craftsmen have closed their business and prefer to work in large industries of the cities. Ultimately these factors cause the collapse of small industries in Pakistan.

6. SHORTAGE OF FINANCE

Small industries do not have sufficient funds at their disposal. Credit facilities are not easily available; these industries are not in a position to provide proper securities to the financial institutions for the loans. Due to lack of finance these industries are not in a position to modernize their productive capacity.

MEASURES FOR DEVELOPMENT OF SMALL INDUSTRIES

Small Industries Corporations have been set up by the government in all the four provinces for progress and development of small and cottage industries. These corporations have established industrial estates in almost all the important cities where all infrastructure facilities have been provided. Small industries Advisory

Services have been set up in order to provide counseling and guidance to newcomers. Carpet Training Centers are providing training to carpet weavers. Handicrafts shops have been opened in all the big cities and towns in order to develop and extend the marketing of their products. Through Export Promotion Bureau, small-scale industries products are being placed in international exhibitions. Financial assistance is also being provided for progress and development of these industries.

MEASURES FOR DEVELOPMENT OF SMALL INDUSTRIES

1	Industrial Estates
2	Loan facility, Micro Finance Bank
3	Small Industries Corporations
4	Small Industries Advisory Services
5	Carpet Training Development Centers
6	Handicrafts Shops
7	Handicrafts Development Centers
8	Displays in international exhibitions
9	Small and Medium Enterprises Development Authority

SMALL & MEDIUM ENTERPRISES DEVELOPMENT AUTHORITY

SMEDA which was established in 1998, is creating the sense of importance of SMEs within the Government for this crucial sector of economy which provides low cost employment opportunities and helps the economy in two valuable ways: One for boosting exports and two in poverty reduction. Also, a strong SME presence provides the resilience to economy from global economic fluctuations that large business enterprises are unable to respond quickly. SMEDA has embraced upon aggressive SME development strategy by focusing on 7 priority sectors. These sectors are gems and jewellery, dairy and agro-processing, fisheries, furniture, sports goods, light engineering, marble and granite. These sectors have been selected with the intention of developing sector strategies and proposing regulatory reforms to stimulate growth on the sole criterion of SME presence. The growth of SMEs has mainly been hampered by non-availability of credit in the past. Realizing this constraint government has opened two specialized non-credit banks namely, the SME Bank and Khushali Bank.

FUNCTIONS OF SMEDA

1. To provide and facilitate support services to SMEs and to serve as a key resource base for them.
2. To prepare a plan of action to revitalize the role of small business in the development of the country.

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3. To act as the voice of small business within the government and to ensure participation of private sector in the policy making process.
 4. To generate massive employment opportunities at significantly low cost
 5. To drive industrial growth towards value added exports.
 6. To coordinate Small Business Finance Corporation and Micro Finance Banks, SME Bank and Khushhali Bank in arranging finance for self-employment schemes.

MARKETING OF INDUSTRIAL PRODUCTS

1	Low quality and limited market
2	Competition with local and imported goods
3	Transport and communication problems
4	Quota restrictions
5	Lack of market research and uncertain Govt. policies
6	Smuggling of foreign products

1. LOW QUALITY & LIMITED MARKET

Industrial products of Pakistan are of low quality and their cost of production is high. Due to low national income and low per capita income, their purchasing power is low hence standard of living of people is very low. Due to very less demand of industrial products, market has become very narrow. Thus marketing and sale of product has become very difficult. Modern and advanced techniques of production, which produces superior quality goods in a greater quantity, are not available in Pakistan

2. COMPETITION WITH LOCAL & IMPORTED GOODS

In Pakistan there is monopolistic competition of industrial products. Local industries compete themselves for sale of their products. They also face competition with similar imported goods, which are of high standard, durable and cheap in price. There is smuggling of electronic and other items due to which local industry is suffering and production is declining. Pakistani's do not like locally produced goods, they prefer to buy foreign made goods. All these factors are creating problems in enhancing the sale of Pakistani industrial products.

3. TRANSPORT & COMMUNICATION PROBLEMS

Transport and communication facilities in Pakistan are less and expensive. This situation increases cost of production and creates hurdles in mobility and marketing of products.

4. QUOTA RESTRICTIONS

Many foreign countries where there is demand for our industrial goods have placed import restrictions such as quota, tariffs etc which is creating marketing problems of Pakistani industrial goods in such countries.

5. LACK OF MARKET RESEARCH & UNCERTAIN GOVT. POLICIES

Proper marketing research in national and international market is not being carried out for finding the existence of industrial products demand. Pakistan lacks with regard to international trade exhibitions and exports display centers abroad.

6. SMUGGLING OF FOREIGN PRODUCTS

In Pakistan foreign made goods are smuggled heavily. These smuggled goods are sold at a cheaper rate than domestically produced goods. People prefer to buy cheap foreign made goods than the expensive local manufactured goods.

LOCALIZATION OF INDUSTRIES

Localization means establishment of industries at a certain place. The industries are located at a particular place where the economic conditions are most suitable and viable for their progress and development. The important factors for localization of industries are as under: -

1. NEARNESS TO AVAILABILITY OF RAW MATERIAL & ELECTRICITY

Industries are established at a place where raw material is easily, cheaply and quickly available. Nearness reduces cost of transportation. For example Fish processing factories are set near harbors, dairy product factories are set up where there are cattle farms and milk is easily available, sugar mills are established close to the sugar cane fields. Industries are established in those areas where electricity, coal, and gas are easily available without which industries cannot operate.

2. CLOSENESS TO MARKETS

Industries near the consuming centers have a great pull, over those situated at a far distance places. Textile industry of Pakistan is localized in Karachi because Karachi is a big city and it has vast demand of textile goods. Karachi is an international harbor therefore goods can easily be shipped to foreign countries.

3. AVAILABILITY OF LABOR & CAPITAL

Industries are set up at a place where cheap and trained labor is available. Technically trained labor increases production and their low wages reduces cost of production that is why textiles industries of Pakistan are located in Karachi, Lahore and Faisalabad and Surgical and sports industries are in Sialkot. Better credit facilities are also a great attraction for industries. Industries will be located there where banking and insurance facilities are easily available.

4. RELIGIOUS CENTERS

Places of pilgrimage specialize in manufacture and sale of articles generally purchased by pilgrims, therefore religious centers also cause localization of industries on one particular place.

5. CLIMATE

Some industries require particular climate for production of their output, if such climate is available then many factories are established there. Wine and fruit processing factories require cold climate for production and storage of wine barrels and fruit products.

6. INFRASTRUCTURE & TAX FREE ZONES

Industries are located at places where Govt. provides basic infrastructure facilities such as water, gas, electricity, road, communication, and police protection. Some times when Govt. declares some place as Tax Free Zone, then industries are established there to avail opportunity of tax holidays.

7. LAW & ORDER SITUATION

Industries are set up in areas where there is better situation of law and order. There are no attacks on offices and factory buildings and there are no thefts and dacoits. Labor do not create problem for businessmen and there are no strikes and political disturbances. In Nooriabad Industrial Area Sindh, industries could not run efficiently because of dacoits and law and order situation etc.

PRIVATIZATION POLICY

Privatization is a process by which Govt. owned factories and services are transferred to private sector by their sale. Foreign investors can also purchase these industries and services. In order to sale Govt. enterprises open bids are invited from private sector. In some cases shares of the enterprises are sold through Stock Exchanges. Deregulation means reducing the rules and regulations and to make investment easy for local and foreign investors. Now any foreign national can set up his business anywhere in Pakistan without under going a complicated procedure of government permission. Privatization process varies somewhat depending on the nature of the asset being privatized, on the proportion of shares being offered for privatization and on whether a transfer of management is involved. Privatization Commission prepares the summary justifying the need for privatizing the property and the regulatory framework. Once endorsed by the Board of Privatization Commission, it is submitted to Cabinet for approval.

ADVANTAGES OF PRIVATIZATION

1	Increase in efficiency and profitability
2	Increase in foreign investment and export earnings
3	Broaden the base of share capital and stock market
4	Decrease in political pressure
5	Use of latest technology and know-how
6	Decrease in deficit budgeting

1. INCREASE IN EFFICIENCY & PROFITABILITY

Most of the Govt. industries and services are inefficient and are running in losses, when these will be transferred to private sector, their administration will improve and non-development expenditures will be reduced, their efficiency will increase and these enterprises will be converted into profitable ventures.

2. INCREASE IN FOREIGN INVESTMENT & EXPORT EARNINGS

Privatization will increase foreign investment when foreigners will purchase them. Their production will increase which will earn more foreign exchange for Pakistan and if these enterprises are set up by foreign loans, these loans will be repaid out of the sale proceeds, which will reduce the burden of foreign loans.

3. BROADEN THE BASE OF SHARE CAPITAL & STOCK MARKET

Sale of enterprises through stock exchanges will broaden the base of share capital hence stock market will develop, because general public will be in position to purchase their shares and investment opportunities for general public will increase

4. DECREASE IN POLITICAL PRESSURE

There are always political pressures on Govt. owned industries, banks and other institutions for employment of political workers and loan facilities from banks. When these enterprises will go in the hands of private owners these illegal pressures will be reduced to a great extent.

5. USE OF LATEST TECHNOLOGY & KNOW-HOW

Private domestic investors and foreign investors will adopt latest technology and know-how for the increase in output and their profits. This will result in the increase in national product, thus national income of the country will grow.

6. DECREASE IN DEFICIT BUDGETING & INCREASE IN INFRASTRUCTURE

Govt. enterprises usually run into losses and to keep them going, Govt. provides funds every year. After privation Govt. need not to resort to deficit financing and the funds provided to these enterprises will be utilized for construction of social infrastructure of the economy.

DISADVANTAGES OF PRIVATIZATION

1	Increase in tax evasion
2	Concentration of wealth
3	Exploitation by the private sector
4	National security endangered

1. INCREASE IN TAX EVASION

Private sector generally tries to avoid payment of taxes. Therefore privatization of enterprises will result in the decrease of tax income.

2. CONCENTRATION OF WEALTH

Privatization of large industrial units and services sector such as banks and insurance companies will increase concentration of wealth in private hands. It means only rich people will reap the fruits of industrialization and the society will be divided between 'haves and have-nots.'

3. EXPLOITATION BY THE PRIVATE SECTOR

Privatization will result in the exploitation by the rich people. They may charge more prices for their goods and services. They may terminate workers in order to reduce cost of production. Thus different types of exploitation may be started, and the concept of welfare state for Pakistan will be jeopardized.

4. NATIONAL SECURITY ENDANGERED

Telecommunication, Civil Aviation (Airlines) and railways if privatized then it would be a security risk for the country.

INDUSTRIAL LABOR

Labor Unions in developed countries are very efficient and well organized but in developing countries it is just the opposite. Whatever unions are there in Pakistan they are only in big cities. The primary function of a trade union is to improve the work conditions of labor members, to increase their wages, to provide training, education and health facilities to the workers. The trade unions of Pakistan have done nothing for the improvement of economic and social conditions of workers. The labor unions are puppets in the hands of industrialists of Pakistan.

PROBLEMS OF INDUSTRIAL LABOR

1	Lack of education, training and health conditions
2	Poor working environment
3	Difference of race, culture and language
4	Lack of job security and low bargaining power
5	Lack of good relationship with the management
6	Unorganized trade unions and untrained labor leaders

1. LACK OF EDUCATION TRAINING & HEALTH CONDITIONS

One of the biggest problems of industrial labor is that they are neither educated nor technically trained. Due to this machine breakdown and raw material wastage is very common. Due to low standard of hygienic facilities and unhealthy habits, workers unhealthy and weak. Their work efficiency is low, which results in the decrease in output thus cost of production increases.

2. POOR WORKING ENVIRONMENT

Our labor works in a very bad environment. There are no proper ventilation systems for fresh air and no proper sanitary arrangements in the factories as well as in their own houses. Life safety and fire fighting equipment are not there. Canteens are unhygienic and dirty. Clean drinking water is not available. Working hours are long. These factors reduce efficiency and their output decreases.

3. DIFFERENCE OF RACE, CULTURE & LANGUAGE

Most of the factories are located in big cities, whereas workers come from rural areas. These workers have their own race, culture and regional languages. They do not easily adjust with co-workers. Each of them makes his group and fight with each other. The tussle between the groups reduces the work efficiency. They could not adjust with the new environment of city and soon left job and go back to their rural hometowns.

4. LACK OF JOB SECURITY & LOW BARGAINING POWER

In Pakistan supply of labor is more than their demand, and due to poverty and general unemployment, industrialists pay very little wages. Since there is no alternative, workers are bound to accept low wages. Thus industrialists exploit poor workers. There is no institution in the country to look into this matter. The rule of "Survival of the fittest and weaker go to the walls." operates in Pakistan.

5. LACK OF GOOD RELATIONSHIP WITH THE MANAGEMENT

There are no good relationships between the management and the ordinary labor. There is misconception and mistrust on both sides. Both of them insist and safeguard their own interest and a general consensus for progress of industry, output, welfare of labor and development of national economy is not taken into consideration. These things result in strikes, lockouts and decrease in output, which ultimately causes reduction in employment of workers.

6. UNORGANIZED TRADE UNIONS & UNTRAINED LABOR LEADERS

There is a lack of healthy trade unionism. Organized trade unions protect the rights of labor against exploitation. Workers who belong from different races, culture and language make their own sub-groups rather than making a solid and

well organized trade union representing all workers of an industry. Labor leaders are uneducated; they are not sincere to their co-workers. They easily get into the trap of employers and political leaders. The bargaining position of trade unions of Pakistan is very weak. Labor unions have not helped in improving output and increasing employment opportunities for ordinary labor of the country.

CHAPTER -5

BANKING AND FINANCE

MONETARY POLICY

Banking and financial sector is a key element of macroeconomic stability. A weak financial sector can undermine efforts to achieve stability through prudent fiscal and monetary policies. A strong and well functioning financial and banking sector is also critical for sustained higher economic growth. They can provide credit to those investments that offer highest risk adjusted rates of return. State Bank of Pakistan has taken a number of steps in various areas to further enhance the effectiveness of banking industry in Pakistan. In order to arrest the rising trend in inflation. State Bank changed its monetary policy to aggressive tightening in April 2005 by rising interest rate from 7.5 percent to 9.0 percent. The same tight monetary policy continued during the current fiscal year despite declines in inflation. Notwithstanding the tight monetary policy State Bank continue to strike a balance between promoting growth and controlling inflation on one hand and maintaining a stable exchange rate environment on the other. Tight monetary policy is likely to continue until inflationary pressures are significantly eased out.

CREDIT PLAN FOR 2006-07

Credit Plan for 2007 envisaged a growth of 13.5 percent in monetary assets for the year, somewhat lower than both the projected nominal GDP growth of 14.2 percent for the year and realized money supply growth of 15.0 percent during 2006. While this monetary expansion is aimed at lowering inflation to 6.5 %, it is also supportive to a higher GDP growth target of 7.0 %.

The continued tight monetary stance is evident, as 2006-07 credits plan is intended to further slow the aggregate demand by encouraging more efficiency in credit allocation process which is planned to reduce credit growth to private sector from 23.5 % in 2005-06 to 18.4 % in 2006-07. A projected decline in other items of the banking system provided room to allocate a substantial Rs.390 billion during 2006-07 for private sector, which is however, marginally lower than Rs.401.8 billion credit extended to the sector in 2005-06.

A rise in budgetary borrowing is simply a reflection of additional pressures on government due to earthquake related spending and substantially enhanced developmental expenditure. The latter, in particular is necessary to sustain the current growth momentum. In contrast, contribution of external sector in monetary expansion is likely to shrink for yet another year in a row.

The increase in statutory liquidity requirements will serve to curb aggressive lending by less liquid banks. Higher cash reserve requirement will have a strong impact, significantly draining liquidity from the system. In short, the measure will

serve to moderate credit growth, without stifling economic activity. Moreover differential requirements for demand and time deposits will also signal to banks need to raise effective returns to deposits and to attract term deposits. State Bank of Pakistan will continue to focus on both of its performance objectives, i.e. price stability and growth during 2006-07. Nonetheless, the current balance of risks suggests greater focus on controlling inflation. Therefore it intends to continue with its tight monetary policy during 2006-07. However, it will continue to monitor the risk to the economy and stands ready to modify its policies appropriately in order to protect the long-term growth prospects of economy.

HIGHLIGHTS OF MONETARY POLICY OF STATE BANK

1	State Bank and the government have managed to achieve a fair degree of success in containing inflation pressures with average increase in consumer's price index to 8 percent.
2	Real GDP growth target of 7 percent for 2007 set by government seems achievable as strong aggregate demand lends confidence that investment and capacity expansion will gain further momentum in the economy.
3	Though inflation decelerated, the need to reduce volatility and achieve further reduction in inflation to 6.5 percent underscores need for continued effective economic management.
4	Banks have been incentivized through recent change in cash reserve requirements/statutory liquidity to improve returns to deposits and tighten their internal control systems, while managing their exposures effectively.
5	State Bank of Pakistan is further tightening its monetary policy by raising its police rate (SBP 3-day Repo Rate) from 9 percent by 50 basis point to 9.5 percent

BANK CREDIT TO GOVERNMENT

The net bank credit to the Government, used for financing commodity operations and budgetary expenditures amounted to Rs.7.3 billion during 2006. While credit to Govt. for commodity operations continued to decline throughout the year whereas credit to Govt. for budgetary purposes continued to rise.

BANK CREDIT TO GOVERNMENT

Despite tight monetary policy of State Bank, credit to private sector increased by 20.2% i.e. Rs.345.1 billion during 2006. Credit to private sect continued to exhibit strong demand, reflecting the confidence of private sector on the continuously improving macroeconomic fundamentals of the country There is a need to channel more bank credit to these sectors for greater job creation and poverty alleviation.

MONEY MARKET

Money market of Pakistan is engaged in short term lending and borrowing of money. To take one example a company with surplus short-term funds might deposit these funds with its bank, which in turn uses, the money to purchase treasury bills issued by the State Bank of Pakistan. Money market links the following three institutions.

1. Banks and all other financial institutions
2. Companies and trading firms,
3. Central bank .

State Bank continued to exercise tight monetary policy and therefore it intervened quite frequently in the inter bank money market to achieve the desired results. The tight money market conditions were also reflected in rising interest rates in the secondary market, particularly the short-term rates as 6 month and 12 months. The tight market conditions also led the commercial banks to raise the average deposit rate thus general deposits are benefited. Strong demand for Treasury bills continued in the current fiscal year also. The State Bank accepted Rs.688.8 billion from the primary market of treasury bills during the nine months of the current fiscal year compared to Rs.1052.0 billion in the last year (12 months).

CAPITAL MARKET

Capital markets play crucial role in investment promotion and economic development of a country. To make Pakistan's capital market an attractive window for potential investors govt. has taken a number of initiatives to streamline the taxation system especially on dividend income of foreign investors, extension of tax exemption on capital gains and permission for the private sector to launch open-end mutual funds etc. As a result of successful implementation of the successive reform measures the capital market has been growing by leaps and bounds and has emerged as one of the important pillars of the economy.

The pace of country's privatization program has gathered greater momentum as a number of public sector banks and corporations have been privatized while some other are in pipeline. Under new privatization strategy, government is selling off its shares of state controlled enterprises by listing them on the bourses as well with a view to broadening and deepening capital markets. The low interest rate environment of the last three years has been a positive development for the country's stock markets as investors seeking higher returns entered the markets with a bang; causing boom in stock exchanges.

During fiscal year 2005-06, stock market continued to maintain its strong performance and achieved new heights by creating many new records. KSE-100 index crossed the barrier of 12000 marks for the first time in the history of capital market. KSE-100 index made further inroad and reached 12274 points on April 17, 2006. Similarly total market capitalization also increased to Rs.3419.4 billion on April 2006 from Rs.2013.2 billion showing a growth of 70% over June 2005.

The improved performance of stock market can mainly be attributed to consistent and transparent economic policies resulting in strong economic growth, a successful privatization processes attracting foreign investors in prestigious organization like PTCL and National Refinery, sound monetary policy of State Bank, maintenance of fiscal discipline and capital market reforms including development measures introduced by stock exchanges with full support of Securities and Exchange Commission of Pakistan. The privatization of government units through bourses helped to broaden the equity ownership to a significant level. During July-March 2005-06 the listed capital on Karachi Stock Exchange increased from Rs.438.49 billion reflecting an increase of around 11 percent. Market capitalization increased from Rs.2071.18 billion to Rs.3257.06 billion reflecting an increase of over 57 percent in value of shares.

MUTUAL FUNDS

Mutual Fund is an institution established for investing a pool of funds in various type of securities/shares for the benefit of investors. A small investor is unable to diversify his portfolio of funds simply because of high investment required for diversification. Mutual funds provide a means of diversification of investment by small investors. Initially mutual fund collects funds from small investors and when sufficient funds are gathered, and then they are invested into securities of different types, thus diversifying the portfolio. A management company manages a mutual fund. A Portfolio Manager, whose responsibility is to satisfy the desire of the investors, manages the portfolio of mutual fund. The fund manager invests money on behalf of the investors. The fund manager is paid a management fee. If there is a profit or gain on investments, it belongs to the investors. In case there is a loss, it is also borne by the investors.

TYPES OF MUTUAL FUNDS

(1) OPEN-END MUTUAL FUNDS

An open-end fund does not have a fixed pool of money. In it subscription and redemption of shares are allowed on a continuous basis. The price at which the shares of open-end funds offered for subscription and redemption is determined

by net asset value after adjusting for any sales load or redemption fee. In Pakistan there exists 13 open-end mutual funds listed at Karachi Stock Exchange.

(2) CLOSE- END MUTUAL FUNDS

A closed-end fund has a fixed pool of money, which is collected when the fund is set up. In it shares are initially offered to public and then traded in secondary market. The trading usually occurs at a slight discount to the net asset value. Now mutual fund managers have developed a variety of investment products to cater for the requirement of investors having different needs.

A mutual fund can generate profits from three different sources i.e., (1) dividend, (2) capital gains, (3) appreciation of share price. Mutual fund generates income from dividends received from other joint stock companies whose shares the fund holds. A mutual fund uses this dividend income to distribute dividend to its own stockholders. The capital gain generated by mutual fund is also used to pay dividends to investors of the fund. Mutual funds also increase investment of their shareholder through appreciations of share price of mutual fund. In Pakistan there exists 23 close-end mutual funds listed at Karachi Stock Exchange. There is tremendous growth potential for mutual funds in the country. Most of the small investors in Pakistan have already started using mutual funds as vehicle to maximize their earnings from share-market. Commercial banks and insurance companies have also emerged as big institutional investors. Government also provides safety nets to the investors by regulating the mutual fund business.

CHARACTERISTICS OF MONEY MARKET & CAPITAL MARKET

1. These markets are very limited
2. They are unorganized
3. These markets are undeveloped
4. Their operations are inelastic
5. These markets operate only in cities
6. There is no proper coordination
7. State Bank of Pakistan's role is ineffective

Activities of both the above markets are confined in few big cities i.e. in Karachi and Lahore. Commercial banks, financial institutions and stock exchanges have no coordination with each other. Both the markets are undeveloped as compared with the developed countries of the world. Moreover only few influential businessmen, and industrialists are engaged in these markets with the result that economic power has been concentrated in few hands only.

In Pakistan following institutions are engaged in capital and banking system.

INSTITUTIONS OF CAPITAL & BANKING SYSTEM

1	State Bank of Pakistan
2	Commercial Banks
3	All Industrial Financial Institutions
4	All Agricultural Financial Institutions
5	ICP and NIT
6	Cooperative Banks
7	Insurance companies
8	Stock Exchanges

ROLE OF STATE BANK OF PAKISTAN IN ECONOMIC DEVELOPMENT

1	Development of agriculture
2	Development of industries
3	Export finance scheme
4	Banking training facilities
5	Development of capital market
6	Stability of prices
7	Islamization of financial system

1. DEVELOPMENT OF AGRICULTURE

Being the Central bank of Pakistan, it takes serious steps for development of agriculture sector of the country and in order to meet the credit requirement of this sector its contribution for setting up Agricultural Development Bank of Pakistan, Kissan Bank, and Agricultural Credit Cooperative Banks is highly commendable.

2. DEVELOPMENT OF INDUSTRIES

In order to develop industrial sector of country, State Bank contributed a lot for setting up development finance banks such as IDBP, PICIC, ICP,NIT, Small Business Finance Corporation, Khushali Bank, etc.

3. EXPORT FINANCE SCHEME

State Bank tries to improve balance of payments position of Pakistan. It has adopted several steps from time to time so that foreign exchange reserves of country may increase. It has directed commercial banks to provide finance to exporters at a low rate of interest whereas State Bank provides refinance to banks at a zero interest rate.

4. BANKING TRAINING FACILITIES

Development of banking system is a prime responsibility of State Bank, which it has performed very well. Bank provides training to bankers, it conducts research and publishes statistics pertaining to the banking and the economy of the country.

5. DEVELOPMENT OF CAPITAL MARKET

State Bank has also adopted various measures for development and progress of money market and capital market of the country. It has assisted in established of Stock Exchanges of Karachi, Lahore and Islamabad. In order to increase the base of capital investment, it has established ICP and NIT and assisted in developing Mutual Funds.

6. STABILITY OF PRICES

State Bank has tried its best to bring out equilibrium between demand and supply of money, which brings stability in general price level in economy. In short it has taken affective measures to control both inflation and deflation and gave uplift to the economy.

7. ISLAMIZATION OF FINANCIAL SYSTEM

State Bank has implemented a program of Islamic Modes of financing and is introducing various measures for interest free banking in the country. It has directed NIT and HBFC to convert is operation on interest free system. It has helped and assisted in the introduction of Modaraba mode of financing.

SOURCES OF FINANCE FOR INDUSTRIES AND AGRICULTURE

The main sources of finance for industrial and agricultural sectors are as under: -

1	Commercial banks
2	Industrial Development Bank of Pakistan
3	Pakistan Industrial Credit & Investment Corporation
4	Investment Corporation of Pakistan
5	National Investment Trust
6	Small Business Finance Corporation
7	Khushali Bank
8	Zarai Taraqiati Bank

1. COMMERCIAL BANKS

Commercial banks of Pakistan are making funds available for industrial projects. They are a major source of working- capital for industries covering purchases of short-term assets such as materials and components, financing of work in progress and the stockholding of final products. These banks are playing a dominant role in

promoting economic development by mobilizing financial resources of the community and by making them flow into industrial progress and development.

2. I. D. B. P.

Industrial Development Bank of Pakistan is playing a vital role in development and progress of private industrial sector. It provides long and short-term loans in local as well as in foreign currency for setting up new industrial units and for modernization of existing old units. Its local currency source of capital is its paid up capital and credits from Central Bank where-as it borrows foreign currency from Islamic Development Bank, Asian Development and from other international financial agencies. Bank advances loans to those projects which (1) either earn foreign exchange by exports its products, or save foreign exchange by setting up industries of import substitution, (2) Utilizes locally produced machinery (3) and the units are set up in less developed areas of the country. This bank has so far advanced loan facilities of Rs.24 Billion to about 6000 projects.

3. P. I. C. I. C.

Pakistan Industrial Credit and Investment Corporation have a crucial role in the development of private industrial sector. Its local currency source of capital is its paid-up capital in which International Finance Corporation (IFC) has also contributed. The bank borrows foreign currency from Islamic Development Bank, Asian Development Bank, World Bank and from other international financial agencies. Bank advances those projects which (1) either earn foreign exchange by exports its products, or save foreign exchange by setting up industries of import substitution, (2) Utilizes locally produced machinery (3) and the units are set up in less developed areas of country. It also provides financial and technical advisory services to those projects, which are financed by it. It provides long and short-term loans in local and in foreign currency for setting up new industrial units and for modernization of the existing old units. The loans are granted against the legal mortgage of land of the factory. It also provides working capital loans. Equity financing, lease financing, underwriting and bridge financing are its other modes of financing for the industries of country. It has provided loans facilities to the tune of Rs.26 Billion to over 1100 industries units.

4. I. C. P.

Investment Corporation of Pakistan was established to increase the base of capital investment and the development of capital market of Pakistan. It actually has helped in the increase of industrialization in country. It remains in touch with other financial institutions and organizes consortium with them in order to secure maximum participation and to distribute the risk over many financial institutions.

Its main functions are as under: -

1. Underwrites public issues of shares, provides finance in local currency by the purchase of TFC (Term Finance Certificates), and funds for the purchase of local machinery.
2. To broaden the base of share ownership it opens and maintains investment accounts.
2. It purchases and sells shares of the stock exchange in order to stabilize their prices in the Stock Exchange Market.
4. For small investors it floats Close-end Mutual Funds.

5. N. I. T.

National Investment Trust through its Open-end Mutual Fund invests only in those projects, which give reasonable dividends. It mobilizes savings of general public and thus provides finances (through purchase of their shares) to companies and industrial undertakings. It operates in stock exchanges for releasing capital gains as well as to buy shares. It participates in syndicates along with other financial institutions and commercial banks to extend underwriting support to upcoming share issues and to sanction Term Finance Certificates to industrial projects for procurement of fixed assets.

It sells its NIT Units. A layman due to his limited knowledge and skill cannot purchase profitable shares from stock exchange; he however can purchase NIT Units from the National Investment Trust. The Trust accumulates funds from general public and then purchases profit-providing shares from stock exchanges. Thus indirectly an investor becomes the shareholders of companies. NIT actually acts as agent on behalf of general public for the purchase of shares from the stock markets. Thus it not only increases savings but also provides finance for the development and progress of industrial sector.

6. S. B. F. C.

Small Business Finance Corporation provides financial assistance to those people who are educated or skilled but are unemployed. They do not have necessary capital to do any business. The main purpose of this Corporation is to eliminate unemployment and to create opportunities for income of people, so that they may participate in increase of output and growth of economy. It also provides loan to Small scale and cottage industries of the country.

7. KHUSHALI BANK

Around the globe micro-finance institutions is revolutionizing access to financial service to some of the poor and excluded segments of market and establishing a niche within financial services industry. Not only are these institutions reaching

out to the majority of population especially in our part of the world but also their performance in terms of efficiency and productivity continues to improve.

Pakistan continues to be at the forefront of these developments and the Micro-finance sector Development Program of Government of Pakistan initiated some five years ago has had a profound impact on micro-finance sector in Pakistan through the establishment of a pro-poor market based formal financial sector oriented system. The new regulatory framework has facilitated the emergence of six licensed Micro-finance Institutions at district and national levels. Khushhali Bank is the lead micro-finance institution in Pakistan and has since its establishment in August 2000 rapidly expanding its micro credit and has well established its position as the largest micro finance bank in the country in terms of its clients and portfolio. This bank now serves 250,000 clients with cumulative disbursements of over Rs.6 billion through its branch network in 75 districts with high poverty incidence. The majority of Khushhali Banks clients are in rural areas and includes very poor and roughly one-third of beneficiaries being women.

8. Z. T. B. L.

Zarai Taraqiate Bank Limited provides short-term, medium-term and long-term loans to farmers for agriculture, fisheries, forestry and agro-based industries. This is most important source of credit in agricultural sector, which meets all types of credit requirement of farmers, including agro-based cottage and small-scale industries. ZTBL has identified number of priority items i.e orchards, nurseries, production of improved seeds, oil seed crops, multi-cut-fodder, seed processing units, tube wells, production of tobacco, working capital for fruit grading, micro credit, seed processing units, tube wells, lift pumps, improvement of irrigation facilities, drip irrigation, mini dams, water desalination plants, animal breeding, green houses, on farm storage, and land developing, which contribute not only in development of agriculture sector but overall economy of the country. During 2005-06 loans of Rs2.210 billion have been disbursed for priority items.

ZTBL bank accepts deposits as well in order to create savings habits amongst farmers. It receives loans from State Bank and International Development Agency. Foreign loan is used for mechanization of agriculture. The credit system of this bank is very easy. Two credit schemes known as “ Supervisory Credit Program” and “ Model Village Scheme” are very famous and popular. The credit needs of farmers are assessed at their farms and loan and machinery is provided in their villages after completing loan formalities. The other schemes of the bank are as under: -

- | | |
|---------------------------|-----------------------------|
| (1) One window operation | (2) Farm mechanization |
| (3) Women Lending Program | (4) Small scale Enterprises |

CHAPTER -6

TRANSPORT & COMMUNICATION

TRANSPORT & COMMUNICATIONS

A strong, efficient and affordable infrastructure is a critical element of good investment climate. Transport and Communications are important elements of infrastructure services and are essential in maintaining economic growth and competitiveness. Transport and communication sector in Pakistan, account for about 11 percent of GDP, 16 percent of fixed investment, 6 percent of employment and 15 percent of the public sector development program. Transport includes: (1) Roads (2) Railways (3) Air transport (4) Shipping Communications includes: -(1) Post (2) Telegraph (3) Telephone (4) Radio (5) Television (6) Information technology/ Computer.

Importance of transport and communications can be judged from the following factors: -

1. Helps in the expansion of internal and foreign trade
2. Increases employment opportunities
3. Increases government revenues
4. Develops unity and brotherhood among the people
5. Helps in the improvement of law and order situation
6. Stabilizes the price level
7. Reduces cost of production of goods
8. Helps in the expansion of education
9. Maintains the sound defense of the country
10. Develops the political awareness.

IMPORTANCE OF ROAD TRANSPORT

Road, rail and shipping are three major components of transport infrastructure. Road transport is backbone of Pakistan's transport system, accounting for 90 percent of national passenger traffic and 96 percent of freight movement. Over the past ten years, road traffic, both passenger and freight, has grown much faster than the country's economic growth.. The 9518 km long National Highway and Motorway network contributes 3.7 % of the total road network and carries 90% of Pakistan's total traffic. Pakistan with about 155 million people has a reasonably developed transport system. However, when compared with other developed and developing countries, the road density of Pakistan is low. Road density indeed is the index of prosperity and development. With road density of 0.31km/sq. Pakistan intends to double it to 0.64 km/sq. gradually over next 10 years.

NATIONAL HIGHWAY AUTHORITY

NHA is making concerted effort to develop an efficient, safe and convenient transportation and communication network to meet the growing needs of the country. It is also encouraging the private sector to complement the efforts in

accelerating the development of transport and communications network and for improvement in accessibility and delivering of the services provided, encouragement of tourism and bringing about a qualitative improvements life style of masses in particular.

Present highway network is burdened by immense traffic and is not sufficient to meet the demanding requirements. Consolidation, preservation and improvement of existing highway asset are needed now. Gradual extension of network is also equally important to develop remote areas for better connection between economic and social population centers of Pakistan, instill inter provincial harmony & also improve cross-border transport and personal mobility of masses.

IMPORTANCE OF HIGHWAYS AND MOTORWAYS

Motorways not only provide safe and efficient transport for commuters but also reduce the vehicle operating cost. The motorway network aligned through the new corridor will hopefully instigate new areas of economic and social potential while reducing the pressure on the existing infrastructure. National Highways Authority is the custodian of 18 Pakistan's major inter-provincial links called the National Highways,. Including the Motorways. This network comprises only around 3 percent of Pakistan's total road network but country's 80 percent commercial traffic plays on it. Obviously the network is always under pressure and its utility from economic development point of view hardly needs any emphasis. The present highway and motorway network is burdened by immense traffic and is not sufficient to meet the demanding requirements. Consolidation, preservation and improvement of the existing highway and motorway asset are needed now. Gradual extension of the network is also equally important to develop remote areas for better connection between the income and social population centers of Pakistan, instill inter-provincial harmony and also improve cross-border transport and personal mobility of the masses. National Highway Authority has successfully completed the rehabilitation of 1610 Km, and the improvement of 757 Km Indus Highway. The construction of Makran Coastal Highway and 424 Km of motorways via Lahore-Islamabad and Pindi Bhattian-Faisalabad have been accomplished.

MAJOR ONGOING ROAD PROJECTS

Urban area of Karachi has received some respite with diversion of substantial heavy port traffic to Karachi-Northern Bypass. Lyari Expressway projects shall be completed during the year 2007 and work on dualization of Karachi -northern Bypass is to commence soon. Karachi-Hyderabad Super-highway is being upgraded to 6-lane motorway. Work on Islamabad-Peshawar Motorway is continuing well, Islamabad-Burhan Section and Rashakai-Charsadda Section have been completed and the entire motorway will be opened to traffic in June 2007.

IMPORTANCE OF RAILWAYS

Modern railways are one of the major sectors within transport system. Pakistan Railways, being the most effective transport system, plays a vital role in generating development opportunities. Railways has a definite and unmatched edge over road for long and bulk haulage of mass scale traffic, volume being safe, pollution free, environmental friendly and most economical as compared to any mode of transportation.

Since 2000, Pakistan Railways has launched a modernization program with rehabilitation and improvement measures both for its infrastructure and rolling stock. Pakistan Railways plans to achieve a stage of net profit from the year 2010. The emphasis would be to increase share of freight traffic for railway sector from existing 5.53 billion-ton kilometers to 10 billion-ton kilometers by 2010. In addition to this, procurement of diesel and electric locomotives as well as high capacity/ high-speed freight wagons and passenger coaches have been planned. Improvement and provision of connectivity to Iran and India, upcoming Gwader Port to Afghanistan and Turkmenistan have also been initiated. Moreover Government has planned to convert Pakistan Railways into state owned corporation beside conversion of all non-core units into autonomous bodies. The development project has overall contributed to a 21.8 percent rise in the income of Pakistan Railways. Income of Pakistan stood at Rs.17.8 billion during 2004-05 as compared to 14.6 billion in the same period last year.

PROBLEMS OF RAILWAYS

The efficiency and working of Pakistan Railways is not up to the mark because the organization is suffering from many problems, which are as under: -

1	Worn out locomotives / engines
2	Coaching vehicles are in deplorable conditions
3	Freight wagons are in poor conditions
4	Railway bridges not safe
5	Technical and managerial efficiency is very low
6	Corruption at all levels
7	Mishandling of goods and theft
8	Negative role of trade union
9	Out of date signaling system
10	Many routes due to political pressure are uneconomical

PAKISTAN'S COMMUNICATION SYSTEM

1	Postal services or Post offices
2	Telephone and Telegraph offices
3	Mobile phones
4	Radio Broadcasting and F.M. radios
5	Television and TV cable system
.6	Computers and Information technology, E-mails

1- PAKISTAN POST OFFICE

The Pakistan post office has connected its main offices located in 15 major cities through information technology. A worldwide mail system additionally links all the countries under the Universal Postal Union Rules and Regulations. The Accounts with the Foreign Postal Administrations are also settled according to the same regulatory body. In order to provide modern facilities to the customers, the Post Mails have been established at major cities such as Islamabad, Lahore, and Peshawar with its vast network spread over 12411 post offices across the country. All major GPOs have been computerized.

2- PAKISTAN BROADCASTING CORPORATION

Radio Pakistan is a most effective and popular medium with its varied and wide-ranging programs. The network of Radio Pakistan spread across the country covering 98 percent of the population. It has launched an entertainment channel FM-101 in 2002. Radio Pakistan has played a pivotal role to create awareness against discrepancies such as gender equality and women empowerment.

3- PAKISTAN TELEVISION CORPORATION

PTV is operating with four channels in the country, namely PTV-1 PTV-2 etc. The rebroadcast centers, extending the PTV signal to remote areas of the country. The government is giving priority towards the socio-economic uplift to lesser-developed areas of the country and it has been telecasting regional languages programs round the clock.

4- TELECOMMUNICATION/ CELLULAR MOBILE

After the successful completion of liberalization and deregulation process, government has adopted prudent and transparent policies, which have ultimately created healthy competition, investment friendly environment and greater employment. As a result, telecom users in Pakistan are enjoying the greater accessibility, better qualities and services, at very affordable tariffs. In the short

span of a few years, the sector has reached new heights in matters of growth and development. In fact all performance indicators of telecom sector have shown tremendous levels of growth. For a start, the overall tele-density in the country has reached 23.1 percent at the end of April 2006.

The Cellular Mobile segment is the most thriving and growth oriented sector. The introduction of new mobile companies has created great competition, resulting in the reduction of mobile tariffs, an increase in coverage and better quality of service to mobile users across Pakistan. Approximately 1.6 million subscribers are being added on cellular mobile networks each month in Pakistan, which serves as a great comparison to any Asian country. The total mobile subscribers at the end of April 2006 were 29.6 million. Two new mobile companies, Warid and Telenor grabbed about 22 percent of the market share in short span of time and both of the companies are competing with market leaders Mobilink and Ufone.

IMPORTANCE OF INFORMATION TECHNOLOGY

Computer is an amazing machine. Few tools can help us perform so many different tasks in so many areas of our life than a computer. Whether we want to track an investment, publish a newsletter, design a building, we can use computer to do it. In early 1930s, when personal computers began gaining popularity it was forecast that computer would become the nerve center of every home.

Computers have changed the way some businesses and industries function. Computers have become so fundamental to modern society that without them our economy would grind to a halt. They are such flexible tools that most people in the business community use them every day. Office workers use them to write letters, keep employee rosters, create budgets, communicate with business partners locally and internationally, find information, and manage projects and so on. You can send your letters, orders, and messages in any part of the world through e-mail, in seconds, with almost no cost. Businessman can communicate with foreign clients at any time.

Computers are very vital in accounting departments. For organizing and manipulating large sets of numbers, which accounting department do daily, computers are now considered essential. Computers are used to juggle budgets, create purchase orders, track expenses and income. Any time we go to the bank, renew a subscription, call information for a phone number or buy something out of a catalog, we are benefiting from computers.

Computers have assumed much importance in the modern world. No nation can now do without it. Now computers are used in all branches of science and Arts. In

business they process and keep record, payrolls and do other jobs. They have helped in making credit cards issued by institutions like visa. Twenty first century is definitely an age of information technology. Such technology is now needed in all walks of life. This technology has become every much sophisticated and advanced in Western countries. If we want to keep pace with other nations of the world then we have to adopt his novel technology in our every walk of life.

CHAPTER -7

**FOREIGN AID AND
ECONOMIC ASSISTANCE**

FOREIGN ECONOMIC ASSISTANCE / AID

Foreign economic assistance is a provision of financial and physical forms of assistance to the developing countries for strengthening their economies. Different loan-terms are explained below.

1	Bilateral aid means when one country provides loan to another country
2	Multilateral aid , when international agencies such as World Bank, International Monetary Fund, International Finance Corporation, International Development Agency, Asian Development Bank, Islamic Development Bank, Pakistan Development Forum, provide loans/Aid.
3	Tied aid is given provided machinery or raw material is purchased from loan given country.
4	Untied aid is given without any pre-condition, borrower can use it according to its needs and requirements and from any country.
5	Food aid is provided in terms of wheat, rice etc to overcome food shortage
6	Technical Assistance is consultancy services, technical expertise, and installation of heavy projects etc.
7	Grants are given on humanitarian grounds for help in case of famine, floods, and earthquake, which are not to be repaid to the donor country.
8	Soft loan is repaid after 25 years and interest rate from 1% to 3%.
9	Hard loan is paid within 25 years and interest rate more than 3%
10	Project Aid/Assistance loan is give for completion on one particular project
11	Direct foreign investment means foreign countries companies invest in industrial and services projects in Pakistan for the sake of profit.

ADVANTAGES OF FOREIGN AID

Foreign economic assistance is very important for economic development of Pakistan. The advantages or benefits of such assistance/aid are as under: -

1. FOREIGN LOAN BRIDGES SAVING GAP & BALANCE OF PAYMENTS

In Pakistan due to low national income and poverty, per capita income is very low hence rate of savings is very low. Low savings rate cannot help in capital formation and economic development. Similarly imports are greater than the exports therefore there is always deficit in balance of payments. The foreign loan/aid not only bridges the domestic savings gap but also helps in overcoming the balance of payments problem.

2. DEVELOPMENT REQUIREMENTS ARE MET & PRODUCTIVITY OF VARIOUS SECTORS OF ECONOMY INCREASES

Pakistan wants to develop agriculture, industry, power, and natural resources of the country but due to lack of foreign exchange, required technology couldn't be imported. Foreign aid and loan facilities help Govt. to import the required

technology and basic raw material with which different sectors of economy can develop, and due to utilization of modern machines productivity is enhanced.

3. ESTABLISHMENT OF MODERN ECONOMIC & SOCIAL INFRASTRUCTURE AND INCREASE IN EMPLOYMENT OPPORTUNITIES

Economy of a country cannot grow without the presence of economic infrastructure i.e., availability of water, gas, power, transport and communication. Similarly social infrastructure, (i.e. education, training, and health facilities), is also essential. These infrastructure facilities require local and foreign capital, which is very limited in Pakistan. Foreign aid helps government to establish these infrastructures. When construction and other development activities are started in the country, these generate employment opportunities for the people.

4. LEVEL OF TECHNOLOGY INCREASES AND HIGHER QUALITY GOODS ARE PRODUCED

With the help of foreign aid which is in the way of technical collaboration or project aid, modern machines are used, which produce super quality goods in greater numbers. Hence by using goods of high quality consumers are benefited.

5. MEETING EMERGENCIES

Foreign aid helps Pakistan in emergencies. Whenever there is an earthquake, flood, or some other natural calamities, Food Aid program provides Pakistan different types of food items such as wheat, dry milk etc.

6. DEFENSE MODERNIZATION

Pakistan wants to modernize its defense capabilities, which can only be possible provided foreign aid is available. Modern Fighter Planes, F-16, and other modern warfare technology can only be secured with the help of foreign aid and loan, as Pakistan do not have sufficient foreign exchange to finance this crucial requirement of the country.

7. INCREASE IN THE TAX REVENUE

When foreign loan is utilized for establishment of industries and social overheads then economic activities grow, goods and services are produced, foreign trade is increased, all these factors increase Govt. s income through different tax sources.

DISADVANTAGES OF FOREIGN AID

Foreign economic assistance and aid results in the following disadvantages.

1. INCREASE IN FOREIGN AID'S DEBT SERVICING

Pakistan has already borrowed too much foreign loans and is still borrowing. Now in order to pay interest Pakistan is. Thus debt burden is continuously increasing.

2. INCREASE IN PRODUCTION COST

It results in the increase in the cost of project because of interest, heavy remuneration and other fringe benefits, which are given to foreign experts.

3. HABIT OF DEPENDENCE ON FOREIGN LOAN AND MISUSE OF AID

Aid receiving countries including Pakistan do not exert and do not make policies to develop their economy with their own domestic resources. They do not pay attention for development of technology. They just become entirely dependent on others. Major portion of aid particularly commodity aid is misappropriated by the concerned Government officials.

4. EXPLOITATION BY DONOR COUNTRIES

Sometimes loan giving countries interfere in the defense and foreign affairs of Pakistan. That's why it is said that there are always political strings attached to the bilateral loans.

5. COMMODITY AID DISCOURAGES DOMESTIC AGRICULTURE OUTPUT

When aid is in terms of commodity such as wheat etc, which many times is provided at a very nominal price, discourages local production of that commodity because of higher cost of production within the country. This situation discourages local agricultural production.

6. DEPENDENCE OF IMPORTED RAW MATERIAL FROM THE DONOR COUNTRY OF IMPORTED SUBSTITUTION INDUSTRY

If donor country has assisted in establishing imported substitution industry then raw material for that industry will have to be imported from loan given country otherwise industry will not continue its production because particular raw material is not available locally. This causes heavy foreign exchange burden on economy .

7. DONOR COUNTRY MAY GIVE PROJECT TIED LOANS FOR LESS PRIORITY PROJECTS OF DEVELOPING COUNTRY

Sometimes a donor country may give project tied loans for those projects which for the time being may not be on the priority list of borrower and may not be very much feasible. In this way donor can burden the economy of borrower country because principal amount as well as interest has to be paid while project is not needed and is not worthwhile.

8. SAVINGS INVESTMENT & BALANCE OF PAYMENTS GAPS

Pakistan is obtaining foreign aid for bridging gap between domestic savings and investment and also to improve balance of payments position but till now it has

not been able to accomplish this task, rather both gaps are continuously increasing.

9. PROPORTION OF TIED AID & SEVERITY OF HARD TERMS INCREASED

As the time passes by, it is becoming difficult for Pakistan to obtain foreign aid. The donor countries have increased terms of aid by raising rate of interest, and the repayment period has reduced. Too much sureties and guarantees are now demanded from Pakistan by donor countries.

FOREIGN PRIVATE INVESTMENT

Foreign private investment or foreign direct investment is very helpful for the economic development of a host country provided they operate within certain restrictions, which are given below.

1. Limits on profit repatriation should be fixed
2. Foreign investment should have a joint venture with the local partners
3. Foreign investors should export certain proportions of their products.
4. Monopoly control/ anti-cartel laws should be enforced on foreign investors

ADVANTAGES OF FOREIGN PRIVATE INVESTMENT

1. Saving gap is fulfilled for economic growth
2. Foreign capital reduces foreign exchange trade gap
3. Government's income increases through taxes
4. Modern management, technology and skill is obtained
5. Superior value added goods are produced

DISADVANTAGES OF FOREIGN PRIVATE INVESTMENT

1. Profits and royalties are remitted which increases burden on balance of payment of Pakistan.
2. Foreign companies having superior products dominate local market therefore the growth of local enterprises suffer a lot.
3. Foreigners establish their factories in big cities for want of protection but it creates economic disparity between rural & urban areas of the country.
4. Foreigners develop friendship with politician and bureaucrats, they provide respectable jobs to their sons and relatives and then use their economic power in influencing government policies to their advantage

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5. Foreign companies having large capital and modern technology operate on monopolistic situation thus exploit consumers by charging heavy prices.
 6. Stimulate inappropriate consumption patterns through advertising, such as KFC. Pepsi cola, and Walls and Mobile phones.
 7. Foreign private investment increases foreign exchange liability by using imported raw material.

SOURCES OF FOREIGN ECONOMIC ASSISTANCE

Major sources of foreign economic assistance to Pakistan have been through the Aid to Pakistan consortium (Paris Club countries and Multilateral institutions) Non-consortium and Islamic countries. Among these, Aid-to-Pakistan consortium, formulated in 1960 and now renamed as the Pakistan Development Forum is the largest source of economic assistance to Pakistan. In 2004-05, consortium provided 75.3 percent of the total commitments; shares of non-consortium, Islamic countries and Relief Assistance for Afghan Refugees were 23.3 percent, 1.3 percent and 0.1 percent respectively. During current fiscal year 2005-06, consortium has provided 41.2% of total commitments, whereas non-consortium, Islamic countries and relief Assistance for Afghan Refugees and Earth quake contributed 0.7 percent, 3.9 percent, 0.1 percent and 54.2 percent respectively.

PAKISTAN'S EXTERNAL DEBTS AND LIABILITIES

The continuous buildup in foreign exchange reserves helped Pakistan retire its expensive debt. In 1999-2000, Pakistan paid \$3.756 billion on account of debt servicing and \$4.081 billion worth of payments were rolled over. The combination of reprofiling of Paris Club bilateral debt on a long term horizon, the substantial write-off of US bilateral debt stock, the prepayment of expensive debt worth \$1.1 billion and relative shift in contracting new loans on concessional term has begun to yield dividend. The annual debt servicing payments made during the period 1999-2000 to 2003-04 averaged just above \$5 billion per annum. This amount has drastically come down to around \$3 billion in 2004-05. An amount of \$ 2.4 billion has been paid in 2005-06.

The trend is likely to persist in the medium term and has eased the pressure on current account amidst rising trade deficit. The prudent management of external debt has enabled country to retire expensive debt but at the same time lowered the stock of external debt. The trend of lower incidence of debt servicing persisted during the first nine months of 2005-06 both the actual; paid amount as well as rolled over amount further declined to \$2.4 billion and \$1.1 billion respectively.

The analysis of dynamics of the external debt burden provides a useful lesson for the policy makers to manage the country's external debt.

- (1) The gap in the current account should be minimal so as to limit external borrowing.
- (2) Stability in exchange rate is critical for prudent debt management.
- (3) If there is need to borrow, the interest cost should be minimal. One way to keep interest rate low is to avoid going to bilateral and multilateral donors for large-scale borrowing.
- (4) The pace of foreign exchange earnings must continue to rise to increase the debt carrying capacity of the country. Center to all these lessons is the pursuance of prudent monetary, fiscal and exchange rate policies.

CHAPTER -8

FOREIGN TRADE

CHARACTERISTICS OF FOREIGN TRADE

The importance and other characteristics of foreign trade of Pakistan is as under: -

1	Export of raw material and semi finished goods
2	Import of machinery and industrial raw material
3	Import of agricultural products
4	Increased use of petroleum products
5	Import of services and other invisible expenditure
6	Limited trade relations
7	International trade by private sector
8	Unfavorable balance of payments
9	Unfavorable terms of trade

1. EXPORT OF RAW MATERIAL & SEMI FINISHED GOODS

Pakistan's exports consist of raw material and semi-finished goods, which fetch very little price in international market. Most dependence of export is on cotton; cotton textile products and basmati rice, whereas production of these goods depends upon natural factors. If natural circumstances go against the cultivation of cotton and rice then export earnings reduce drastically.

2. IMPORT OF MACHINERY & INDUSTRIAL RAW MATERIAL

Pakistan's imports consist of machinery, industrial raw material, vehicles, medicines, electronic goods and other value added items. The prices of these items are increasing in international market. Therefore the total import bill is increasing day by day.

3. IMPORT OF AGRICULTURAL PRODUCTS

Pakistan is an agricultural country but to our ill fate we import many agricultural food items such as soyabean oil, palm oil, tea, pulses, spices and many times sugar, and wheat from other countries thereby increasing our import bill.

4. INCREASED USE OF PETROLEUM PRODUCTS

In Pakistan number of motor vehicles and other means of transports are increasing. Similarly due to industrialization, use of machinery is increasing. All these factors are increasing demand of petrol and petroleum products, prices of which are rapidly increasing in the international market, causing increase in the Pakistan's import bill.

5. IMPORT OF SERVICES & OTHER INVISIBLE EXPENDITURES

Most of the export and import trade of Pakistan is carried on by foreign shipping companies, as our shipping industry is not developed and we do not have many

cargo ships. Similarly foreign banks and insurance companies render their services in international trade. Thus lot of foreign exchange is spent on such service charges.

6. LIMITED TRADE RELATIONS

Pakistan has very limited trade relations. Most of the trade is being carried out with UK, USA, Japan, Europeans Union and Middle East.

7. INTERNATIONAL TRADE BY PRIVATE SECTOR

Private sector is dominating international trade of the country. Businessmen themselves are finding export markets by sending their representatives for trade negotiations and other trade deals.

8. UNFAVORABLE BALANCE OF PAYMENTS

Balance of Trade is usually against Pakistan. Pakistan's exports earnings from raw cotton, textile goods, rice, leather and surgical products are very less where as expenses on imports of machinery, industrial raw material, petrol, and on electronic goods are greater. Pakistan receives less and pays more, which makes its balance of trade unfavorable.

Balance of Invisible is always against Pakistan. It is a statement of Pakistan's use of foreign ships, insurance companies and banks for which Pakistan has to make payments in foreign currency. Pakistani does not have ships, banks and insurance companies abroad, which may perform services and earn foreign exchange. The drain of foreign exchange is too much on this account.

Balance of Payments is always against Pakistan. It is a statement of a country's trade (visible) and financial transactions (invisible) with the rest of the world. Since both the above balances are against Pakistan, therefore final balance of payments is also against it. This is being balanced by borrowings from World Bank, IMF and friendly countries. Unfavorable balance of payment increases the debt liability of Pakistan.

9. UNFAVORABLE TERMS OF TRADE

Terms of Trade are a price index, which shows a country's exported goods prices relative to its imported goods prices. It is prepared by taking an index of prices received for exports and an index of prices for imports and then export prices are divided by the import prices. An improvement in a country's terms of trade occurs if its export prices rise at a faster rate than the import prices. Terms of trade go against a country if export prices rise very slowly whereas import prices rise fast.

Terms of trade with base year 1990-91 (equal to 100) aggregated to 73.6 during 2004-05 as compared to 78.7 of 2003-04, showing a deterioration of 6.5 percent. The increase in unit prices of petroleum, chemicals and metal groups caused terms of trade to deteriorate. This declining trend has persisted and the terms of trade during the first half of the current fiscal year worsened by 13.2 percent down to 66.4 over the level of 76.5 recorded in the same period last year. The increases in unit prices of major import items, especially edible oil, POL and chemicals, in international market have adversely impacted the terms of trade.

MAJOR EXPORTS

Important and major export items of Pakistan are as under: -

1	Raw cotton, Textile products & Cotton yarn
2	Rice
3	Leather & leather products
4	Carpets and rugs, Tents
5	Synthetic textiles
6	Surgical instruments
7	Sports goods
8	Readymade garments
9	Vegetable, fruit and fish
10	Engineering goods
11	Chemicals and Pharmaceutical products

EXPORTS OF PAKISTAN

Exports during the current fiscal year 2005-06 are up by 18.6 percent, rising from \$10183 million (last year) to \$12073 million. The exports of primary commodities are up by 22 percent; prominent among those are exports of rice (33.6%), fish and fish preparations (30.2%) and fruits (20.6%). Exports of textile manufactures grew by 19.2 percent, prominent among those are exports of bed wear (58.4%), readymade garments (31.0%), cotton yarn (29.4%), cotton cloth (16.5%) and towels (12.0%). Exports of other manufactures also registered a high double-digit growth of 19.2 percent. Within this category, exports of petroleum products grew by 80.8 percent and leather manufactures are up by 44.0 percent. In recent years, Pakistan has entered in the exports of engineering goods. Though relatively small in numbers, exports of engineering goods up by 10.3 percent.

DIRECTION OF EXPORTS OF PAKISTAN

Pakistan's exports are highly concentrated in few countries. The seven countries namely USA, Germany, Japan, UK, Hong Kong, Dubai, and Saudi Arabia account for 50 percent of its exports. The United States is the single largest export

market for Pakistan, accounting for 27 percent of its exports followed by the United Kingdom, Dubai, Germany, and Hong Kong. Japan as Pakistan's export destination is fast vanishing as less than one percent of its exports entering Japan.

MAJOR IMPORTS

Important and major import items of Pakistan are as under:

1	Machinery
2	Petroleum
3	Chemicals
4	Vehicles and spare parts
5	Edible oil
6	Wheat
7	Tea
8	Fertilizers
9	Plastic material
10	Paper board
11	Iron ore and steel
12	Pharmaceutical products

IMPORTS OF PAKISTAN

Pakistan's imports are also highly concentrated in few items namely, machinery, petroleum and petroleum products, chemicals, transport equipment, edible oil, iron and steel, fertilizer and tea. These eight categories of imports accounted for 72.5% of total imports during 2005-06. Among these categories machinery, petroleum/ petroleum products & chemicals accounted for 53.4% of total imports.

DIRECTION OF IMPORTS OF PAKISTAN

Pakistan's major imports come from a select few countries. About one-half of them continue to originate from just seven nations namely, USA, Japan, Kuwait, Saudi Arabia, Germany, UK and Malaysia. By and large, the relative shares of imports have remained almost the same during 2005-06. The shares of USA and Japan, with some fluctuations, exhibited a declining trend because of the shift in the import of machinery/capital goods and raw materials to other sources. On the other hand, the share of Pakistan's imports from Saudi Arabia has been rising due to higher imports of POL products. Malaysia's share has shown rising, as well as, falling trends over the years mainly on account of fluctuations in palm oil prices.

REASONS FOR ADVERSE BALANCE OF PAYMENTS

Main reasons for the adverse balance of payments of Pakistan are as under: -

1	Decrease in exports
2	Increase in imports
3	Lack of modernization of export oriented industries
4	Import restrictions by developed countries
5	Increase in invisible expenditures
6	Unfavorable terms of trade
7	Devaluation in currency
8	Decrease in workers foreign remittances

1. DECREASE IN EXPORTS

Export earnings of Pakistan mostly depend upon the export of few agricultural products such as raw cotton, cotton products and rice. Prices of which are continuously decreasing in international market. Pakistan has to face severe competition with Egypt, India and China for the export of cotton, cotton textiles and rice. The exportable raw material is deteriorating in quality and quantity because of the backwardness of our agricultural sector. Pakistan has not yet extended its export base and is depending on few items. Due to increase in rate of inflation, prices of exportable goods are also increasing, making it difficult to compete in international market. Political uncertainty, lack of law and order situation, strikes and lockouts resulted in production losses and exports could not be increased, hence foreign exchange earnings have reduced.

2. INCREASE IN IMPORTS

Pakistan's imports on account of machinery, industrial raw material, vehicles pharmaceuticals, electronic goods, spare parts are persistently increasing. Due to rapid increase in population demand for food grains is also increasing and Govt. have to import, wheat, edible oil, tea, spices, and even sugar. Moreover increased domestic demand and price rise of petroleum is a great pressure on foreign exchange resources of Pakistan.

3. LACK OF MODERNIZATION OF EXPORT ORIENTED INDUSTRIES

Due to lack of planning, we could not set up import substitution industries in the country. Value added goods factories are very less and development of industrial sector is unorganized. No attention is being paid on modernization of existing industries. Number of sick industries is gradually increasing. Nationalized factories are running into losses. These factors result in high cost of production and sub-standard quality, which give us low price in the international market and reduces foreign exchange earnings.

4. IMPORT RESTRICTIONS BY DEVELOPED COUNTRIES

Many countries have imposed anti-dumping duties on our cotton and cotton products. Propaganda about exploitation of child labor has also resulted in hand-made product's export. Moreover European countries have developed substitutes of cotton products such as synthetic textiles causing reduction in our exports.

5. INCREASE IN INVISIBLE EXPENDITURES

Invisible expenditures i.e. expenses on embassies, foreign education, increasing number of pilgrims for Hajj and Umra, interest and service charges of foreign banks, insurance companies, higher freight charges of shipping companies etc. are increasing foreign exchange liability of Pakistan.

6. UNFAVORABLE TERMS OF TRADE

Prices of export-goods are decreasing whereas prices of import-goods are increasing in international market, which means that terms of trade are going against Pakistan. Pakistan has to export more goods for the import of the same quantity of goods.

7. DEVALUATION OF CURRENCY

Pakistan has devalued its currency many times, which resulted in increase in of import bill (expenses on foreign exchange) whereas our export bill (earnings of foreign exchange) could not increase. Devaluation thus has badly affected balance of payments of the country.

8. DECREASE IN WORKERS FOREIGN REMITTANCES

For the last many years workers remittances from foreign countries are continuously decreasing due to the fact that construction programs have reduced in Middle East and Pakistani labor is no more needed there. Moreover very cheap labor is available to Middle East countries from India, Bangladesh, Sri-Lanka and Philippines; they therefore, are not demanding Pakistani workers.

MEASURES FOR IMPROVEMENT IN BALANCE OF PAYMENTS

1	Increase in exports by providing different incentives
2	Decrease in imports by setting up key industries
3	Increase in invisible earnings
4	Search of new markets
5	Quality and packaging of international standard
6	Revival and restoration of sick industries
7	Foreign in joint ventures
8	Promotion of labor intensive industries

1. INCREASE IN EXPORTS BY PROVIDING DIFFERENT INCENTIVES

First important step for improving balance of payments of Pakistan is to increase its exports. It is suggested that following steps should be adopted in this regard.

1. Decrease cost of production, for which rate of interest for setting up industries should be reduced.
2. Cost of transport particularly railway freight should be minimized.
3. Custom duties on the export-oriented industries should be reduced.
4. Modern techniques of production should be used.
5. Instead of exporting raw material, value added goods should be produced and exported.
6. Those industries should be encouraged and set up which use locally produced raw material.
7. Labor productivity should be enhanced by imparting education, training and providing different types of facilities of life.
8. Goods of different varieties keeping in view the demand and requirement of foreigners should be developed, produced and exported.

2. DECREASE IN IMPORTS BY SETTING UP KEY INDUSTRIES

Second important requirement for improving balance of payments is to decrease imports. It is suggested that after adopting following steps imports will be decreased.

1. Import substitution industries should be set up.
2. For production of edible oils, seeds should be grown locally.
3. Tea consumption should be discouraged.
4. Production of food grains such as wheat should be increased
5. Import of luxurious items should be banned or heavily taxed.
6. Basic and key industries should be developed which can produce machinery and spare parts for manufacturing industries.

3. INCREASE IN INVISIBLE EARNINGS

Thirdly, for improving balance of payments expenses on invisibles are to be decreased and to increase invisible earnings (exports). After adopting following steps invisibles balance can be improved.

1. National shipping company should be strengthened for assisting the international trade. Freight charges of this company will become a source of saving of foreign exchange.
2. Domestic commercial banks and insurance companies should be strengthened and be given the task for facilitating Pakistan's international trade.

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3. Expenses on our embassies abroad, which involve foreign exchange, should be reduced. VIP culture should put to an end and unnecessary tours and medical expenditure of high government officers and politicians in foreign countries hospital should be disallowed.
 4. Foreign countries visits by the general public should be discouraged in order to save the precious foreign exchange of the country.
 5. The efficiency of Trade Attaches of Pakistan Embassies should be improved. It is their duty to do their best for developing markets of Pakistani products in the countries they are posted.

4. SEARCH OF NEW MARKETS

Fourth important requirement for improving the balance of payments is the expansion of trade relations. After adopting the following steps trade relations will be expanded.

1. Govt. officials and business community should participate in trade fairs arranged by foreign countries.
2. Trade Agreements with different countries should be made.
3. Seminars and Trade Exhibition should be arranged within country in which foreign delegates should be invited to participate.
4. Booklets, brochures, pamphlets about Pakistani products and economy of Pakistan should be distributed to foreign business community.
5. Research for marketing should be conducted.

5. QUALITY & PACKAGING OF INTERNATIONAL STANDARD

Exportable Goods should be of international standard; their packaging should meet the same standard. Good packaging provides safety and security of the product and is not destroyed during handling and shifting process.

6. REVIVAL & RESTORATION OF SICK INDUSTRIES

Sick industries should be revived. This will increase output of industrial goods, which will result in the decrease of prices. The cheap goods will become a good market for buyers and they will import more from Pakistan, thus the export proceeds of the country will increase.

7. FOREIGN JOINT VENTURES

Pakistan's exports can be pushed up after collaboration of foreign investors. The foreign partners have more contacts in foreign markets and in order to increase profitability of industry, foreign partners will market the products in their countries hence Pakistan's exports will increase.

8. PROMOTION OF LABOR INTENSIVE INDUSTRIES

Small and cottage industries are labor-intensive. Products utilizing more cheap labor will have a comparative cost advantage which will help in the decrease in cost. Industries such as carpets, leather goods, readymade garments, surgical instruments and sports goods should be developed for export purpose.

TRADE POLICY

Since 1999 Pakistan has embarked on an export-led growth strategy, which is being managed through successive trade policies. Government believes that consistency and continuity in policies allied with facilitation, is the key to all successful initiatives in trade related areas. This has translated into emphasis on liberalization of our import regime and facilitation of our stakeholders i.e. businessmen and exporters so that the cost of doing business for them was reduced and they could create exportable surpluses after adding value. Having put Pakistan on a continuous path as far as exports are concerned the new objective is to significantly increase rate of export growth by adopting a Rapid Export Growth Strategy which has been drawn-up and is based on the following five pillars: -

1. Improved market access through trade diplomacy with selected priority countries.
2. Focusing on regions neglected by Pakistani exporters i.e. regions like Africa, Latin America, Eastern Europe, Central Asia and the Far East.
3. Strengthening of trade promotion infrastructure of the government including Export Promotion Bureau and the trade offices abroad.
4. Improving skill development and productivity through provision of large-scale training.
5. Provision of state of the art physical infrastructure by the government to spur investment.

These five basic areas need to be concentrated upon to enhance Pakistani exports in a highly competitive post quota era. Of course for any strategic thrusts to be taken forward, tactical focus with specific proposals have to be formulated and these have been done under eight areas as below.

HOW PAKISTAN'S EXPORTS CAN BE INCREASED

1	Diversification of exports
2	Trade facilitation
3	Increased market access
4	Enhancing export competitiveness by reducing cost of doing business
5	Capacity building on WTO and trade negotiations
6	Developing export of services
7	Improving compliance of quality infrastructure
8	Techno-legal proposals

The implementation status of different trade policy initiatives announced in Trade Policy 2005-06 is given below.

The Trade Policy 2005-06 is being implemented with letter and spirit. For rapid growth of export, Ministry of Commerce have taken following steps out of which some have already been implemented and other in process of implementation.

1. FOCUS ON NEGLECTED REGIONS/COUNTRIES

Trade policy 2005-06 aimed at focusing on neglected regions/countries. The Ministry of Foreign Affairs in consultation with the Ministry of Commerce has appointed Honorary Counsels General in important cities of the region to focus on trade matters to boost export. In this regard the Board of EMDF has approved the funds for Pakistan's Embassies to hire local marketing executives to be funded from Export Market Development Fund. This aspect already stands implemented.

2. MARKETING EFFORTS IN USA AND EUROPEAN UNION.

Another important point of the current trade policy was to boost trade with USA and EU. For this purpose, Market Company for EU and Consultants for USA have been hired and this aspect has also been implemented.

WORLD TRADE ORGANIZATION

WTO is involved in rule making in areas that go beyond the narrowly conceived confines of international trade. Globalization is the extraordinary explosion of both technology and information, finance, trade in goods and services in ways that have considerably reduced the twin concepts of time and space. It refers to global economic integration of many formerly national economies into one global economy, mainly by free trade and free capital mobilization. Globalization is open up countries but is also marginalizing those who cannot survive within the new competitive framework. The pragmatic counter arguments to this view are that the WTO offers both challenges and opportunities for developing countries to

expand trade, access advanced production and communication technologies and restructure their economies towards promoting economic development with a better quality of life for more people. Under WTO rules use of quantitative restrictions are discouraged unless as a safeguard measure by developing countries for emergency purposes if they can justify that they are using it to prevent serious injury to their domestic industries

EXPORTS OF PAKISTAN AND W.T.O.

1. Since quota restrictions will be eliminated, the demand of cotton yarn, cotton fabrics, bed sheets, terry towels of Pakistan in the international market will increase and its price will also go up.
2. The demand of leather and leather products of Pakistan may decrease because of restriction on their imports in foreign countries due to environmental issues. Hence Pakistan will have to find out pollution problem of this industry.
3. Under WTO regime international standard of production and packaging have to be observed otherwise exports of rice, fruits and vegetables are likely to decrease due to their low and sub-standard product.
4. Pakistan will be benefited from the export of its agricultural products such as rice, fruits and vegetables as these goods are highly demanded in the international market.

CHAPTER -9

BUDGETING

FISCAL POLICY

Fiscal policy of Govt. of Pakistan primarily deals with levels and composition of taxation, spending and borrowing by Government. Fiscal policy encompasses several fundamental policy issues, including the proper role and size of the State, role of Government in promoting growth, creating jobs, social development and redistribution of benefits of economic growth, nature and extent of public services and fairness between the present and the future generations.

Government's fiscal policy has both micro and macroeconomic objectives.

Micro economic objectives include an improved distribution of income and wealth, equitable access to social services, meeting the basic needs of poor, promoting investment in public goods and enhancing efficiency with which public and private sectors produce goods & services and their responsiveness to the needs of consumers.

Macroeconomic objectives relate to evolution of the economy as a whole—national income and output, jobs, inflation and balance of payments. Fiscal policy must also ensure that level and structure of taxes promote equality and redistribution, and do not interfere unduly in people's investment and consumption decisions.

Central objective of government's economic policy therefore, is to build a strong economy with a view to creating employment opportunities for all and improve the standards of living of the people of Pakistan. The policies pursued thus far have injected fiscal discipline, reduced the country's debt burden, created a stable macroeconomic environment, revived economic activity and most importantly have created a strong platform of economic stability which is vital for building prosperity and achieving social justice. Economic stability allows businesses, individuals and the government to plan more effectively for the long-term improvement in the quantity and quality of investment. The Government is committed to locking in stability and investing in the country's future, enabling it to meet the challenges and rise to the opportunities of the global economy.

A sound fiscal policy is essential for preventing macroeconomic imbalances and realizing the full growth potential. Pakistan has witnessed serious macroeconomic imbalances in 1990s mainly on account of its fiscal profligacy. Persistence of large fiscal deficit resulted in unsustainable levels of public debt, adversely affecting country's macroeconomic environment. Pakistan accordingly paid a heavy price for its fiscal indiscipline in terms of deceleration in economic growth and investment, and the associated rise in poverty. Considerable efforts have been made to inculcate financial discipline by pursuing a sound fiscal policy.

Pakistan's hard earned macro economic stability is underpinned by fiscal discipline.

IMPORTANCE OF FISCAL POLICY

Importance of fiscal policy or importance of Budget of Pakistan is as under: -

1	Attainment of maximum welfare of common man
2	Increase in the employment opportunities
3	Equitable distribution of national wealth
4	Development of rural areas and reduction in disparity
5	Control on inflation/price level
6	Provision / development of health / education facilities
7	Reduction in non-development expenditure
8	Encouragement of private investment
9	Fuller utilization of national resources
10	Improvement in balance of payments position

TAX SYSTEM

Tax policy is concerned with the design of a tax system that is capable of financing the necessary level of public spending in the most efficient and equitable way possible. An efficient tax system should raise enough revenue to finance essential expenditures without recourse to excessive public sector borrowing and raise the revenue in ways that are equitable and that minimize its disincentive effects on economic activities. In developing countries, including Pakistan, the establishment of effective and efficient tax system faces some formidable challenges. The first of these challenges is the structure of the economy that makes it difficult to impose and collect certain taxes. For example, the economy of Pakistan is often characterized by a large share of agriculture in total output and employment, by large informal sector activities and occupations by many small establishments, by a small share of wages in total national income and so on. All these characteristics reduce the possibility of relying on certain modern taxes such as income tax and to a much lesser extent on sales tax.

The structure of economy of Pakistan in association with low literacy and low human capital makes it difficult to develop a good tax administration. When the staff of tax administration is not well educated and well trained, when resources to pay good salary and to buy necessary equipments are limited, when the tax payers have limited ability to keep accounts, when the use of modern communication network is limited, it is difficult to create an efficient tax administration. The consequence of this situation is that Pakistan; often end up with too many small tax sources, too heavy reliance on foreign trade taxes and relatively insignificant use personnel income taxes. The non-availability of reliable statistics from the

businesses makes it even more difficult for tax administration to assess the potential taxes that need to be collected. Uneven income distribution is also a major constraint in Pakistan's efficient tax system. To generate higher tax revenue, the top deciles are supposed to be taxed significantly more proportionately than low deciles. But economic and political powers are concentrated in the top deciles, which makes the task of tax department rather more difficult to collect taxes from top deciles/rich people. This is one major reason that the number of income tax payers in Pakistan is very low.

PRINCIPLES OF TAX POLICY

Guiding principles of effective and efficient tax system of Pakistan are:

- (1)- Widening the tax base by reducing exemptions, incentives and concessions-
- (2)- reducing multiplicity of rates,
- (3)- lowering tax rates,
- (4)- shifting the incidence of tax burden from production to consumption,
- (5)- moving away from excessive reliance on manufacturing,
- (6)- taxing all value additions including services,
- (7)- enhancing neutrality between present and future consumption,
- (8)- enhancing neutrality of tax system to forms of business organizations and sources of finance and
- (9)- reengineering business process of tax system to overcome the culture of tax avoidance and evasion,
- (10)- changes in tax administration.

DEFICIT FINANCING

Deficit budget means that Govt. expenditure is more than its income from taxes and fee etc. Resources for deficit budget are met by borrowing, which is called Deficit Financing. In Pakistan deficit financing is needed because development programs require huge finance whereas domestic savings and income from taxes are not sufficient enough for this purpose. Increasing savings habits, population control, elimination of corruption, decrease in non-productive expenditure and increase in agricultural and industrial products can remove budget deficit.

NEED OR REASONS FOR DEFICIT FINANCING IN PAKISTAN

1	Increase in development programs
2	Lack of saving habits
3	Increase in population
4	Lack of fiscal discipline
5	Political instability
6	Low output of agricultural sector
7	Tax evasion and corruption
8	Increase in non-productive expenditure

SOURCES OF DEFICIT FINANCING

1. Government utilizes the past accumulated cash balances.
2. Issuance of new currency notes by State Bank for the borrowed amount.
3. Govt. sales Treasury Bills, short-term bonds, Defense saving certificates.

ADVANTAGES OF DEFICIT FINANCING

Govt. uses borrowed money for increase in the social and economic infrastructure such as schools, hospitals, power projects, dams, canals, railways, and a host of other development programs, which helps in the improvement and productivity of various other sectors of economy. This expenditure of Govt. increases money supply, which increases the price level in the economy. Increase in prices, increases profit margins of the private investors and industrialists, who in order to gain profit further accelerate their investment. New factories are established and capital formation increases. Govt. expenditure and private capital formation creates more jobs opportunities, in the economy increases. Increase in employment on the one side increases demand for goods and services and on the other side it fosters savings as well, which again is utilized for further investment. Thus cycle of progress & prosperity keeps on moving ahead.

DISADVANTAGES OF DEFICIT FINANCING

There is always a time lag between Govt. investment and the output from the projects. Increase in supply of money creates inflation, by which poor people are badly affected. Their purchasing power reduces to a greater extent whereas profit margin of businessmen increases their income and wealth. Society is divided between haves and have-nots. Increase in prices of domestic goods causes imports of cheap goods whereas domestically produced goods high price reduces the export earnings, which results in the adverse balance of payments position. Cost of production of industrial goods increases with the increase in prices of raw material etc therefore, foreign investment in the country becomes less attractive.

DOMESTIC DEBT

The domestic debt in Pakistan consists of permanent debt (medium and long-term), floating debt (short-term) and un-funded debt (medium and long-term, mostly national saving scheme-related). During the decade of the 1990s, domestic debt grew at an average rate of more than 16 percent per annum. Considerable improvement on the fiscal side during the last five years has succeeded in arresting the rising trend in domestic debt; domestic debt is estimated at Rs.2028.4 billion by the end of 2003-04, against Rs.1879.2 billion in 2002-03 (an increase of Rs.149.2 billion or 7.9%). During the first nine months (July-March) of the current fiscal year, domestic debt grew by 3.4 % or Rs.64 billion.

There are indications that domestic debt may remain below budget estimates. As a percent of GDP, domestic debt is expected to decline from 39 percent to 37 percent this year. The structure of domestic debt has undergone considerable changes during the last five years. The share of unfounded debt in domestic debt has increased from 40.7 percent in 1999-2000 to 48.4 percent in 2002-03. By the end of 2003-04 its share is likely to decline to 44.1 percent, mainly because of the rationalization of interest rates in various instruments of the national savings schemes. The share of floating debt has declined sharply from 39 percent to 27 percent over the last five years and mostly consisting of short-term instruments. The share of permanent debt, mostly medium to long-run, increased almost 10 percentage points, from 20 percent to 29 percent in the last five years. The maturity profile of domestic debt has also undergone considerable changes over the last five years. The share of short-term debt has declined by almost 11 percentage points, from 45 percent to 34 percent. Accordingly, the share of long-term debt has increased by the same margin. More importantly the maturity profile of domestic debt has shifted sharply from short term (less than one year) to longer term (greater than one year) during the last five years. Changing the profile of debt from shorter-end maturity to longer-end has been the critical element of the debt reduction strategy. As stated above, Pakistan has made considerable progress towards this end. As a result of prudent fiscal management over the last 5 years, the burden of interest payments on the domestic budget has declined sharply, thereby, releasing resources for development and social sector programs.

Similarly, share in total expenditure declined from 30 percent to 17 percent during the same period. Most importantly as percentage of GDP interest payments declined from 6 percent to 3.0 percent in the last six years. Pakistan has made considerable gain on fiscal side. The overall budget deficit has been narrowed, the revenue deficit has almost been eliminated and a primary surplus has been maintained. Resultantly, Public debt is fast moving towards a sustainable level. However, much more remains to be done, and this is that critical juncture when maintaining the momentum is both vital and challenging. Reforms in the tax administration and efforts to broaden the tax base must be accelerated.

BUDGET SPEECH 2006-07 (MAIN POINTS)

Budget, that I am going to present, before assembly today, has a consolidated value of more than Rs.1500 billion. Of this the expenditure estimates of the federal govt. is Rs.1314.8 billion. We could budget expenditures of this magnitude because of revenue collection, especially tax collection made by CBR, which this year will exceed by Rs.704 billion. Keeping this in view, for financial year 2006-07, we have set a target of Rs.8.35 billion for CBR. In this manner

overall fiscal deficit is estimated at Rs.373.5 billion which is equivalent to 4.5 percent of the GDP. If the expenditure likely to be incurred on earthquake related activities are taken out, the deficit comes down to 3.7 percent of GDP.

DEFENSE

In any eventuality we will ensure that armed forces of Pakistan are equipped with latest armament and all other needs are met. For this purpose we have budgeted Rs.250 billion in next budget, which is 3 percent of GDP. Next year we will spend Rs.415 billion for development of our homeland. Last year Rs.68 billion were budgeted for development programs of the provinces. During 2006-07, provinces will spend Rs.115 billion on their development programs.

PROVINCIAL SHARE

Under national finance award the provinces are getting maximum share in national income. Compared to budget estimates of 2005-06, in 2006-07 an additional amount of Rs.94 billion will be transferred to provinces. During 2006-07, provinces will get 45 percent of the divisible pool of national resources but within five years their share will increase to 50 percent.

RELIEF TO EMPLOYEES

During 2005-06 the GDP of the country increased at a rate of 6.6 percent. From 1st July 2006 all government servants will get a dearness allowance of 15 percent. For government servants who retired before May 1977 their pensions would be increased by 20 percent and who retired after 1977, the increase would be 15 percent. The overtime of drivers and dispatch riders and conveyance charges of non-gazette employees are being increased by 50 percent. Those who get their pension under Employees Old Age Benefit Act, 1976, will have their pension increased from Rs.1000 to Rs.1300. The grant admissible to workers for marriage of each daughter from Workers Welfare Fund has been increased from Rs.30,000 to Rs.50,000. To provide low-income citizens in private sector some relief, the minimum wages of workers has been increased from Rs.3000 to Rs.4000.

To provide relief to small investors, pensioners and widows, rate of profit on savings schemes and prize bonds within the range of 0.5 percent to 1.5 percent has been increased. Prize money of prize bonds is being increased. Up till now, civil servants with a total annual income of Rs.100,000 were exempt from payment of taxes. This limit has been increased to Rs150,000 per year. Previous tax rate was 3.5 percent to 30 percent and this rate has been reduced from 0.25 percent to 20 %. This would provide an additional relief to government servants.

PRICE CONTROL

Cement price has been reduced from Rs.400 to Rs.300 per bag. Govt. has

provided a subsidy of Rs.2.5 billion to make cheaper daal available. Utility stores will make available daal channa at Rs.30, Dall massor at Rs.31, Daal moong at Rs.33 and daal mash at Rs.58 per kilo. Govt. has imported 7 lakh tons of sugar while private sector has imported 5 lak tons. Govt. is offering 33 tons sugar from Utility Stores at a rate of Rs.27.50 per kilo. Price Magistrates are being appointed who would be responsible for keeping unjustified increases in prices.

AGRICULTURE

About 45 percent of the labor work force is affiliated with agriculture. Agricultural production was 2.5 percent higher than the last year. Last year livestock grew at a rate of 8 percent. It is hoped that rapidly growing livestock sector will change destiny of rural areas. Agriculture is going through a mechanical revolution and during last years, the number of tractors manufactured in Pakistan has tripled. Agricultural credit has increased to Rs.130 billion per year. In next financial year the government on providing cheap fertilizer to the farmers will spend Rs.12.3 billion.

SMALL INDUSTRIES

Small industries are undergoing an exemplary development. Within a period three years the share of small industries in manufacturing has increased from 24 percent to 30 percent. During last two years output of small industries has increased by 70 percent. Production of television sets has undergone a sevenfold increase, the cement has increased by 72 percent, cotton yarn by 70 percent and motorcycles fivefold. To promote industrial development concessions are being offered in taxes especially in the rate of customs duty and duty on many industries is being reduced which include aluminum processing, chemicals, plastic industry and iron and steel industry. If we have to maintain pace of development and are to become a developed nation then we would have to prepare a skilled national. For this purpose at federal level a technical and vocational training program has been launched under which additional 3 lakh people would be given vocational and skilled training each year.

GROWTH OF ECONOMY

The size of national economy has increased from dollars 63 billion to dollars 129 billion, the national debt that was 100 percent of GDP had declined to 51 percent of GDP. Economic growth of Pakistan is 6-8 percent, whereas investment to GDP ration is 20 percent.

BUDGET - 2006-07

RECEIPTS		EXPENDITURE	
		1- CURRENT EXPENDITURE	
(a) Tax revenue	+ 840,923	General Public Administration	504,288
(b) Non-tax revenue	+ 241,887	Defense	250,182
Gross revenue receipts	= 1082,810	Public Order, safety affairs, Police etc	22,463
Less provincial receipts	- 378,360	Economic affairs	74,663
1. Net revenue receipts	= 704,550	Environment protection	167
		Housing and community	1,040
		Health services	4,728
2. Net capital receipts	16,387	Recreational, Culture services	2,741
3. External Resources	239,309	Education	18,778
4. Self financing of PSDP by provinces	85,621	Social protection	728
5. Change in Provincial cash balance	53,817	TOTAL (1)	879,778
6. Privatization proceeds	75,000	2-DEVELOPMENTEXPENDITURE	
7. Bank borrowing	140,093	Federal Government	320,000
		Provincial Government	115,000
		TOTAL (2)	435,000
Total resources	= 1314,778	Total expenditure (1 and 2)	= 1314,78

SALIENT FEATURES OF BUDGET 2006-07

1	The total outlay of budget 2006-07 is Rs.1315 billion; this size is 19.7 percent higher than the size of budget 2005-06.
2	The resource availability during 2006-07 has been estimated at Rs.1100 billion against Rs.980 billion in the budget estimates of 2005-06.
3	Net revenue receipts for 2006-07 have been estimated at Rs.705 billion indicating an increase of 9.6 percent over the budget of 2006-06.

4	The provincial share in federal revenue receipts is estimated at Rs.378 billion during 2006-07, which is 33 percent higher than the budget for 2005-06.
5	The capital receipts net for 2006-07 have been estimated at Rs.16 billion against the budget estimates of Rs.51 billion in 2005-06.
6	The external receipts in 2006-07 are estimated at Rs.239 billion. This shows an increase of 12.7 percent over the budget for 2005-06
	The overall expenditure during 2006-07 has been estimated at Rs.1315 billion of which the current expenditure is Rs.880 billion and development expenditure

7	Rs.435 billion. Current expenditure shows a decrease of 4 percent over the revised estimates of 2005-06 while development expenditure will increase by 39 percent in 2006-07 over the revised estimates of 2005-06.
8	The share of current expenditure in total budgetary outlay for 2006-07 is 66.9 percent as compared to 74.5 percent in revised estimates for 2005-06.
9	The expenditure on General public service inclusive of debt servicing, transfer payments and superannuation allowance is estimated at Rs.504 billion which 57.3 percent of the current expenditure.
10	The size of Public sector development program for 2006-07 is Rs.435 billion. This shows an increase of 59.9 percent and 38.7 percent over the budget and revised estimates 2005-06 respectively.
11	The provinces have been allocated an enhanced allocation for budget estimates 2006-07 in their PSDP. The increase is Rs.47000 million when compared with budget estimates 2005-06.
12	An amount of Rs.50000 million has been allocated to Earthquake Reconstruction and Rehabilitation Authority in the PSDP.

CHAPTER -10

**ECONOMIC
PLANNING IN PAKISTAN**

ECONOMIC PLANNING

Economic planning is the making of major economic decisions—what and how much is to be produced and to whom it is to be allocated by the conscious decision of a determinate authority, on the basis of a comprehensive survey of the economic system as a whole. Planning is a technique for achieving certain self-defined and pre-determined goals laid down by a central planning authority. It is a conceiving, initiating, regulating and controlling economic activity by the State according to set priorities with a view to achieving well-defined objectives within a given time. It is planning alone which can guarantee quick economic growth in under-developed countries.

OBJECTIVES OF ECONOMIC PLANNING

The main objectives of economic planning of Pakistan are as under: -

1	Increase in the rate of economic development
2	Diversification of economy
3	Price stability
4	Higher standard of living
5	Improving the balance of payments

1. INCREASE IN THE RATE OF ECONOMIC DEVELOPMENT

One of the most important objectives of Economic Planning is to increase the rate of economic development. Capital formation should be carried out. Infrastructure facilities should be extended and social overhead such as education, technical training and health facilities should be increased. Planning in Pakistan should be done keeping in mind that country is populous and there are too many people looking for jobs, hence labor intensive projects should be given priority, which will absorb labor force and employment opportunities will increase. Increase in employment will increase national income and per capita income. Standard of living of people will raise and rate of domestic savings will increase.

2. DIVERSIFICATION OF ECONOMY

All the sectors of economy should be given proper importance. No sector of the economy should be neglected. Pakistan is an agrarian country, the development of industry of Pakistan depends upon agriculture, and therefore more emphasis should be given to agriculture. Since population is too much and it is further increasing at a fast rate, therefore production of food grains should be increased.

3. PRICE STABILITY

Increase in price level hits the poor and fixed income people very much, whereas decrease in price reduces profit margins of the businessmen, which causes

reduction in investment. One of the objects of economic planning is to maintain the price stability. Through planning equal distribution of national wealth be made. The society should not be divided between “Haves and Have-nots”

4. HIGHER STANDARD OF LIVING

Economic Planning should ensure that good education; technical training and better medical facilities are available to all the people of the country. Every one should be provided a reasonable accommodation. Thus policy should increase standard of living of the masses.

5. IMPROVING BALANCE OF PAYMENTS

All out efforts should be done under planning that balance of payments continue to improve. Export oriented and import substitutions industries should be given importance. Luxurious goods should be banned and small and agro-based industries should be given concessions and facilities. Imports should be reduced & exports increased, in order to improve foreign exchange earnings. Dependence on foreign aid & grants should be curtailed.

FACTORS INHIBITING PLANNING

The overall performance of the Five year Plans of Pakistan is very disappointing Following factors are responsible for this discouraging performance.

1	Lack of statistical data and trained staff
2	Lack of stable Govt. and non cooperation of public
3	Non cooperation of donor countries
4	Natural catastrophes
5	Over ambitious targets of the plans

1. LACK STATISTICAL DATA & TRAINED STAFF

Reliable data on different aspects of economy of Pakistan is not available therefore plans resources and targets are just based on assumptions. Moreover the technical staff with vast experience of development planning is not attached with the Planning Commission. Most important and highly professional job of framing and executing the plans is usually assigned to bureaucrats who are non-professional personnel. Since government officers are not competent enough in this regard, Plans have much inherent weakness, which results in their failure.

2. LACK OF STABLE GOVT. & NON-COOPERATION OF PUBLIC

Governments are not stable. There are frequent changes in the political setup. According to the manifesto of political parties there are changes in the economic policies of governments. Moreover general public and business community is neither consulted nor is taken into confidence at the time of preparation of plans.

Criticisms and suggestion made over performance of plans are not given due weight. Both these factors resulted in failure of five- year plans.

3. NON-COOPERATION OF DONOR COUNTRIES

The aid donor countries do not finance the plans of the developing countries for mutual help motives. They have their own political and economic motives. Often it has been happened that the aid either has been delayed or reduced, consequently most of the plans could not complete the required targets.

4. NATURAL CATASTROPHES

Agricultural production could not be achieved as per targets of plans due to floods, famines, storms, shortage of rains and pest attacks. In order to overcome shortage of food grains, their imports increased. Many times the plans were revised haphazardly. All these factors ultimately resulted in failure of the plans.

5. OVER AMBITIOUS TARGETS OF THE PLANS

Targets and objectives of the plans were over ambitious but unluckily these were not achieved. The general public and business community was disappointed and they showed their resentment against the planners and the Government.

SECOND FIVE-YEAR PLAN OF PAKISTAN

Important features of Second Five Year Plan 1960-65 of Pakistan are as under: -

1. SIZE OF PLAN

The size of plan was Rs.2300 crore out of which Rs.1240 crore were allocated for public sector, Rs.380 crore for semi-public and Rs.680 crore for private sector.

2. OBJECTIVES OF PLAN

- 1- To increase National income by 24% and per capita income by 12%.
- 2- To increase production of agriculture by 14% and food-grains by 21%.
- 3- To increase production of large-scale industries by 60%, small-scale by 20%.
- 4- To create new job opportunities for 30 lac peoples.
- 5- To increase foreign exchange earnings by 15%.
- 6- To increase domestic savings up to 15% of GNP.
- 7- To increase production of electricity from 7 lac kw to 13 lac kw.
- 8- To increase education, medical and social facilities.
- 9- To accelerate of pace of economic development in underdeveloped area.

REASONS FOR SUCCESS OF SECOND FIVE YEAR PLAN

1. Due to sound political stability in the country during the period 1960-65 the total development expenditures increased from the targeted amount of Rs.2300 to Rs.2754. Thus more development programs were completed in this plan period.
2. National income was to increase by 24 percent but during the plan period it has jumped to 30 percent.
3. Per capita income to planned to increase by 12 percent but it increased to 15 percent.
4. Agricultural output increased by 18 percent instead of targeted 14 percent. Food grains increased by 27 % instead of a target of 21 %.
5. Production of Large-scale industries increased by 85 percent instead of 60 percent, however small scale industries output increased by 14 percent against the target of 20 percent.
6. Employment opportunities were targeted at 30 lacs whereas it rose to 36 lacs.
7. Domestic savings increased from 6 percent of gross domestic product to 10.5 percent, whereas it was targeted as 9 percent.
8. Exports of the country increased to Rs.1323 whereas the target of exports was Rs.1125 crores.

Keeping in view the above facts and figures we can say that Second Five Year Plan 1960-65 was a very successful plan in the history of economic planning of Pakistan.

CHAPTER -11

**SOLUTION OF PREVIOUS YEARS
QUESTION PAPERS**

B. COM – 2002
REGULAR & EXTERNAL

For details of each question please see relevant Chapter

Q-1 (a) = Define economic development. Explain factors responsible for economic development.

DEFINITION OF ECONOMIC DEVELOPMENT

Economic development means increase in output of goods and services in an economy. Economic development is more important than economic growth because economic development is wider and more comprehensive process than economic growth. Economic development is a process of economic transition involving structural transformation of an economy through industrialization, raising gross national product and per capita income. Economic development is a **qualitative terms** because it indicates continuous increase in the real national income and structural changes in the economy of a country.

FACTORS RESPONSIBLE FOR ECONOMIC DEVELOPMENT

Factors, which are necessary for economic development, are economic factors and non-economic factors. Both of these have been further divided into many sub-factors. Economic development of a country is not possible without these factors.

ECONOMIC FACTORS

1. Nature resources
2. Capital formation
3. Specialization
4. Technology
5. Transport and communication
6. Entrepreneurship

NON- ECONOMIC FACTORS

1. Social values, attitudes and attitudes
2. Political stability
3. Administrative efficiency
4. Economic freedom
5. Right of private property

Q-1 (b) = What are obstacles to economic development of Pakistan

OBSTACLES IN THE ECONOMIC DEVELOPMENT OF PAKISTAN

Obstacles in the economic development of Pakistan are too many. These have been divided into economic, social and political obstacles.

ECONOMIC OBSTACLES

1. Lack of capital
2. Under utilization of natural resources
3. Rapid population growth
6. Shortage of modern technology
7. Dependence on agriculture
6. Lack of infrastructure
7. Inefficient banking and financial sector

SOCIAL OBSTACLES

1. Caste system
2. Heavy consumption
3. People are conservative
4. High illiteracy rate
5. Non-materialistic approach of life
6. No economic participation of women

POLITICAL OBSTACLES

1. Political instability
2. Lack of continuity in economic policies
3. Negative role of bureaucracy
4. Corruption in government departments
5. Lack of professional efficiency

SUGGESTIONS

There are many other obstacles as well in the economic development of underdeveloped countries like Pakistan. These obstacles have been divided into three major groups, which have been mentioned above. It is therefore suggested that the above obstacles should be removed from the developing countries like Pakistan if economic development and prosperity is required. The details of the above points have been discussed in the chapter of “ characteristics of developing countries”.

Q-2 (a) = What are reasons of agricultural backwardness in Pakistan

REASONS OF AGRICULTURAL BACKWARDNESS

Main reasons for agricultural backwardness in Pakistan are as under: -

1. Under utilization of cultivatable land
2. Uneconomic land holdings
3. Concentration of land ownership
4. Lack of irrigation facilities
5. Old methods of cultivation
6. Shortage of finance
7. Inadequate supply of inputs
8. Water logging and salinity

-
9. Soil erosion
 10. Natural calamities
 11. Absence of regulated markets
 12. Lack of education and training
 13. Improper agricultural research
 14. Lack of alternative occupations

Q-2 (b) = Suggest measures to resolve problems of agricultural marketing

MEASURES FOR AGRICULTURAL MARKETING

In order to resolve problems of agricultural marketing following steps should be adopted.

1. Setting up of department of agricultural marketing
2. Construction of farm to market roads
3. Price awareness
4. General stores and cold storages
5. Regulated markets and uniform standards of weights and measurements
6. Education and training

Q-3 = Name sources of industrial financial institutions and discuss their role in economic development of Pakistan

INDUSTRIAL FINANCIAL INSTITUTIONS

Major sources of industrial finance are as under: -

1. Commercial banks
2. Industrial Development bank of Pakistan
3. Pakistan Industrial Credits and Investment Corporation
4. Investment Corporation of Pakistan
5. National Investment Trust
6. Small Business Finance Corporation
7. Khushali Bank
8. Micro Finance Bank

Q-4 (a) = What are causes of persistent deficit in balance of payments.

CAUSES OF DEFICIT IN BALANCE OF PAYMENTS

Main causes of deficit in balance of payments of Pakistan are as under: -

1. Decrease in exports
2. Increase in imports
3. Lack of modernization of export oriented industries
4. Import restrictions by developed countries
5. Increase in invisible expenditures
6. Unfavorable terms of trade
7. Devaluation of currency
8. Fall in workers foreign remittances

Q-4 (b) = What measures should be taken to correct adverse balance of payments

MEASURES FOR CORRECTING BALANCE OF PAYMENTS

Following measures should be taken to correct adverse balance of payments of Pakistan

1. Increase in exports
2. Decrease in imports
3. Increase in invisible earnings
4. Search of new markets
5. Improvement in quality and packaging of international standard
6. Revival and restoration of sick industries
7. Foreign joint ventures
8. Promotion of labor intensive industries

Q-5 (a) = What are different means of transport and communications in Pakistan.

DIFFERENT MEANS OF TRANSPORT AND COMMUNICATIONS

A strong, efficient and affordable infrastructure is a critical element of good investment climate and therefore, is a precondition to sustain the growth momentum. Transport and Communications are important elements of infrastructure services and are essential in maintaining economic growth and competitiveness. Transport and communication sector in Pakistan, account for about 11 percent of GDP, 16 percent of fixed investment, 6 percent of employment and 15 percent of public sector development program.

Transport includes:

- (1) Roads (2) Railways (3) Air transport (4) Shipping

Communications includes:

- (1) Post (2) Telegraph (3) Telephone (4) Radio (5) Television (6) Information technology

Q-5 (b) = Discuss role of computer in economic development of Pakistan

ROLE OF COMPUTER IN ECONOMIC DEVELOPMENT

Computer is an amazing machine. Few tools can help us perform so many different tasks in so many areas of our life than a computer. Whether we want to track an investment, publish a newsletter, design a building, we can use computer to do it. In early 1930s, when personal computers began gaining popularity it was forecast that computer would become the nerve center of every home. Now computers have changed the way some businesses and industries function. Computers have become so fundamental to modern society that without them our economy would grind to a halt. They are such flexible tools that most people in business community use them every day. Office workers use them to write letters, keep employee rosters, create budgets, communicate with business partners locally and internationally, find information, and manage projects and so on. You can send your letters, orders, and messages in any part of world through e-mail, in seconds, with almost no cost. Businessman can communicate with foreign clients at any time.

Computers are very vital in accounting departments. For organizing and manipulating large sets of numbers, which accounting department do daily, computers are now considered essential. Computers are used to juggle budgets, create purchase orders, track expenses and income. Any time we go to the bank, renew a subscription, call information for a phone number or buy something out of a catalog, we are benefiting from computers. Computers have assumed much importance in the modern world. No nation can now do without it. Now computers are used in all branches of science and Arts. In business they process and keep record, payrolls and do other jobs. They have helped in making credit cards issued by institutions like visa. Twenty first century is definitely an age of information technology. Such technology is now needed in all walks of life. This technology has become every much sophisticated and advanced in Western countries. If we want to keep pace with other nations of the world then we have to adopt his novel technology in our every walk of life.

Q-6 (a) = Discuss salient features of population of Pakistan

SALIENT FEATURES OF POPULATION

Salient features of population of Pakistan can be divided into two factors: -

QUANTITATIVE FEATURES OF POPULATION

1. Population
2. Growth rate of population
3. Density
4. Average age
5. Literacy rate
6. Sex distribution
7. Age distribution

QUALITATIVE FEATURES OF POPULATION

1. Joint Family system
2. Class conflicts
3. Poor health
4. Customs and traditions
5. Lack of education and training
6. Contended nature
7. Dependence on agriculture

Q-6 (b) = How rapidly growing population affects economy of Pakistan

EFFECTS OF RAPIDLY GROWING POPULATION ON ECONOMY

Growing population of Pakistan is affecting economy in the following way: -

1. Decrease in per capita income
2. Increase in unemployment
3. Increase in general price level

-
4. Decrease in savings and investment
 5. Increase in pollution
 6. Decrease in agricultural output
 7. Shortage in health and education facilities.

Q-7 = How budget deficit can be removed

DEFICIT BUDGETING

Deficit budgeting means that Govt. expenditure is more than its income from taxes and fee etc. Resources for deficit budget are met by borrowing, which is called Deficit Financing. In Pakistan deficit financing is needed because development programs require huge finance whereas domestic savings and income from taxes are not sufficient enough for this purpose. Increasing savings habits, population control, elimination of corruption, decrease in non-productive expenditure and increase in agricultural and industrial products can remove budget deficit.

MEASURES FOR REMOVING DEFICIT BUDGET

1. Saving habits should be increased
2. Output of agricultural and industrial sectors should be increased
3. Non-productive expenditures should be decreased
4. Political stability should be maintained
5. Economic policies should have continuity
6. Tax department should be strengthened and tax collection be increased
7. Fiscal discipline should be maintained
8. Population growth should be checked

Q-8 (a) = Why capital formation is important for economic development

IMPORTANCE OF CAPITAL FORMATION

Capital formation consists of both tangible items like plants, tools and machinery and intangible items such as high standard of education, health and scientific research. It is the process of adding to the net physical capital stock of an economy in an attempt to achieve greater output. The rate of accumulation of an economy's physical stock of capital is an important determinant of the rate of growth of an economy. It creates productive potential for future production. It has three stages namely savings, existence of financial institutions and capital market for mobilization of savings and thirdly actual investment in capital goods. Capital formation results in increase in employment opportunities increase in output of goods and services and the use of new and most modern technology.

Following is the importance of capital formation:

1. Vicious circle of poverty is broken
2. Increase in productivity
3. Market expansion
4. Increase in export earnings

-
5. Technological development
 6. Increase in employment
 7. Decrease in general price level
 8. Improvement in health and education facilities
 9. Increase in the pace of industrialization
 10. Increase in the economic growth rate

Q-8 (b) = Which are main sources of capital formation in a developing country like Pakistan. What measures are to be taken to increase Capital Formation

SOURCES OF CAPITAL FORMATION

Sources of capital formation can be divided into two that is internal and external sources. Both of them have divided into other sub-sources.

INTERNAL SOURCES

1. Voluntary savings
2. Taxes
3. Government borrowing
4. Use of idle resources
5. Deficit financing

EXTERNAL SOURCES

1. Foreign aid and grants
2. Foreign loans
3. Foreign direct investment

Foreign aids, grants, loans and foreign private investment are important source of capital formation. Foreign aid may be obtained from foreign countries and from international institutions, such as World Bank, IMF, Asian Development Bank, and donor countries.

MEASURES FOR INCREASING CAPITAL FORMATION

1. Control on inflation
2. Discouraging consumption
3. Increase in interest rate on savings
4. Reduction in inequality of income and wealth
5. Increase in education and foresightedness
6. Increase in infrastructure facilities
7. Setting up of basic industries

Q-9 a =Discuss importance of foreign assistance in economic development of Pakistan

IMPORTANCE OF FOREIGN ECONOMIC ASSISTANCE

Foreign economic assistance is very important for economic development of Pakistan. The benefits of such assistance/aid are as under: -

-
1. Foreign loan bridges savings gap as well as balance of payments gap.
 2. Development requirements are met and productivity of various sectors of economy increases.
 3. Establishment of modern economic and social infrastructure and increase in employment opportunities.
 4. Level of technology increases and higher quality goods are produced.
 5. Emergency requirements are met.
 6. Defense is modernized.
 7. Increase in tax revenue.

Q-10 = Write notes on any two of the following

(1)= Problems of cottage industries (2)= Main exports and imports of Pakistan

(3)= Privatization policy of Pakistan

(1)-----PROBLEMS OF COTTAGE INDUSTRIES

Problems of cottage industries are as under: -

1. Old methods of production
2. Difficulties in getting raw material
3. High cost of production
4. Shortage of finance
5. Lack of local consumers support
6. Lack of proper marketing
7. Shortage of finance

(2)-----MAIN EXPORTS OF PAKISTAN

1	Raw cotton, Textile products & Cotton yarn
2	Rice
3	Leather & leather products
4	Carpets and rugs, Tents
5	Synthetic textiles
6	Surgical instruments
7	Sports goods
8	Readymade garments
9	Vegetable, fruit and fish
10	Engineering goods
11	Chemicals and Pharmaceutical products

MAIN IMPORTS OF PAKISTAN

1	Machinery
2	Petroleum
3	Chemicals
4	Vehicles and spare parts
5	Edible oil
6	Wheat

7	Tea
8	Fertilizers
9	Plastic material
10	Paper board
11	Iron ore and steel
12	Pharmaceutical products

(3)-----PRIVATIZATION POLICY

Privatization is a process by which Govt. owned factories and services are transferred to private sector by their sale. Foreign investors can also purchase these industries and services. In order to sale Government enterprises open bids are invited from private sector. In some cases shares of enterprises are sold through Stock Exchanges. Deregulation means reducing rules and regulations and to make investments easy for local and foreign investors. Now foreign nationals can set up their factories anywhere in Pakistan without going through a complicated procedure of government permission.

ADVANTAGES OF PRIVATIZATION

1. Increase in efficiency and profitability
2. Increase in foreign investment and in export earnings
3. Broadening the base of share capital and stock market
4. Decrease in political pressure on the administration of enterprises
5. Use of latest technology and know-how by private owners
6. Decrease in deficit financing
7. Increase in infrastructure facilities

B. COM – 2003
REGULAR & EXTERNAL

For details of each question please see relevant Chapter

Q-1 (a) = Differentiate between economic growth and economic development
What are pre-requisites of economic development?

DIFFERENCE BETWEEN ECONOMIC DEVELOPMENT AND GROWTH

Economic development means increase in output of goods and services in an economy. Economic development is more important than economic growth because economic development is wider and more comprehensive process than economic growth. Economic development is a process of economic transition involving structural transformation of an economy through industrialization, raising gross national product and per capita income. Economic development is a **qualitative terms** because it indicates continuous increase in the real national income and structural changes in the economy of a country.

Economic growth is a **quantitative term** because it represents quantitative increase in production of goods and services in an economy. Economic Growth is a steady process by which the productive capacity of an economy increases overtime to bring about rising levels of national output and income. Economic growth is the name of more production. Growth is measured in terms of an increase in real gross national product (GNP or GDP) over time or an increase in per capita income.

PRE-REQUISITES FOR DEVELOPMENT

Following factors are needed for economic development of a country: -

ECONOMIC FACTORS

1	Natural resources
2	Capital formation
3	Specialization
4	Technology
5	Transport and communication
6	Entrepreneurship

NON- ECONOMIC FACTORS

1	Social values and attitudes
2	Political stability
3	Administrative efficiency
4	Economic freedom
5	Right of private property

Q-1 (b) = Discuss economic, political and social obstacles in development of Pakistan's economy.

OBSTACLES IN ECONOMIC DEVELOPMENT OF PAKISTAN

Obstacles in economic development of Pakistan are too many. These have been divided into economic, social and political obstacles.

ECONOMIC OBSTACLES

1. Lack of capital
2. Under utilization of natural resources
3. Rapid population growth
8. Shortage of modern technology
9. Dependence on agriculture
6. Lack of infrastructure
7. Inefficient banking and financial sector

SOCIAL OBSTACLES

1. Caste system
2. Heavy consumption
3. People are conservative
4. High illiteracy rate
5. Non-materialistic approach of life
6. No economic participation of women

POLITICAL OBSTACLES

1. Political instability
2. Lack of continuity in economic policies
3. Negative role of bureaucracy
4. Corruption in government departments
5. Lack of professional efficiency

SUGGESTIONS

There are many other obstacles in economic development of underdeveloped countries like Pakistan. These obstacles have been divided into three major groups, which are mentioned above. It is therefore suggested that the above obstacles should be removed from developing countries like Pakistan. The details of the above points have been discussed in the chapter of "characteristics of developing countries".

Q-2 = Industrial development is basis of economic development. Discuss with reference to Pakistan

INDUSTRIAL DEVELOPMENT IS BASIS OF ECONOMIC DEVELOPMENT

Industries play a dominant role in economic development of a country. The standard of living of the people of western countries is very high. They enjoy all comforts and luxuries of life due, to higher productivity of goods and services in their countries. This is due to industrialization. Unfortunately there were no industries when Pakistan came into

being but now with the efforts of government and the people there is an improvement in this regard however more is required to be done.

ROLE OF INDUSTRIES IN ECONOMIC DEVELOPMENT

1	Increase in national income
2	Increase in employment opportunities
3	Increase in productive capacity
4	Development in agriculture
5	Increase in government revenues
6	Improvement in balance of payments
7	Economic stability and political domination

Q-3 (a) = Improper utilization of credit and financial resources had badly affected agricultural sector of Pakistan. Do you agree?

IMPROPER UTILIZATION OF CREDIT RESOURCES

Planning Commission of Pakistan has mentioned that village development program cannot be successfully implemented unless and until credit needs of farmers are fulfilled. Due to agricultural backwardness and low income of farmers, they need money not only for development purpose but also for their day today requirements. They need credit in order to increase efficiency and agricultural productivity. When the crop is destroyed by the attack of pests and insects, or by floods and droughts even then farmer needs credit. Our farmers are custom bound people, they will have to fulfill their customary traditions hence require credit. The credit money is used for construction of houses, for performing religious and customary ceremonies and on marriages of their children. Farmers are usually engaged in various court cases therefore they need money for litigation purpose. This entire situation results in the decrease in output per hectare. The credit provided to farmers is not properly used for development of agriculture rather it is misused which has badly affected agricultural sector of the economy.

Q-3 (b) = Discuss importance of mechanization of agriculture. How far it is successful in Pakistan.

MECHANIZATION OF AGRICULTURE

Mechanized farming means the use of mechanical appliances and scientific techniques for boosting agricultural production. In it tractors, bulldozers, tube wells, trolleys and harvesters are included. Mechanization as a tool for modernization of agriculture has been well recognized. Mechanization generates greater cropping intensity thus improves productivity. It also results in considerable saving of fodder and feed through a reduction in bullock population. Thus, a transition from subsistence farming to commercial farming can only be achieved through transfer of the most efficient and cost effective technology to farming system. The efficient use of scarce agriculture resources and accelerated agriculture mechanization is, therefore, vital and very important. In consideration of the role of precision in farm operations, the use of machinery has been encouraged through

provision of credit availability by commercial banks. Demand for tractors has outstripped local production. Time lag in delivery of tractors is reportedly 3-4 months. As such shortage of 10,000 – 15,000 tractors per annum has been noted in the country against the existing production capacity of manufacturing units. In order to meet tractor's demand, new investors have been engaged in order to enhance local production for meeting rising demand of farmers.

USEFULNESS OF MECHANIZATION

1	Increase in output
2	Increase in standard of living
3	Facility in transportation
4	Multiple cropping
5	Increase in job opportunities

SUGGESTIONS TO INCREASE MECHANIZED FARMING

Government should adopt the following measures for mechanizing agriculture: -

1. Reduce prices of machines/equipments used in agricultural sector.
2. Provide electricity at a low rate for tube wells.
3. Set up workshops for repairs of machinery.
4. Establish technical training centers in rural areas.
5. Provide loan facilities to farmers at a low interest rate.
6. Cooperative farming should be started to control fragmentation of land.

Q-4 (a) = Foreign aid is unavoidable for Pakistan. Comment

IMPORTANCE OF FOREIGN AID

Foreign economic assistance is very important for economic development of Pakistan.

The benefits of such assistance/aid are as under: -

1. Foreign loan bridges saving gap and balance of payments gap.
2. Development requirements are met and productivity of various sectors of economy increases.
3. Establishment of modern economic and social infrastructure.
4. Aid increases employment opportunities.
5. Level of technology increases and higher quality goods are produced.
6. Emergency requirements are met such as food supply in natural disaster.
7. Defense is modernized.
8. Increase in the tax revenue.

Q-4 (b) = What are main sources of foreign assistance in Pakistan.

SOURCES OF FOREIGN ECONOMIC ASSISTANCE

1	Foreign loans and credits
2	Foreign Grant assistance
3	Foreign Aid

Foreign assistance or External resources mainly comprise of,
(i) loans and credits from friendly countries and specialized international agencies and
(ii) grant assistance under specific country programs.

Foreign Aid (loans, credits and grants) is broadly categorized as project aid, commodity aid, food aid and other aid. Project aid, which generally takes the shape of foreign loans and grants for procurement of project equipment and supply of services etc. Commodity aid is utilized for commercial imports. Goods imported under this aid are generally industrial raw materials, equipment, consumer goods, chemicals, fertilizers and such other commodities as may be specified or generally agreed to or, if the aid is untied, as the country may actually need. Commodity aid also helps to generate rupee funds, which augment the country's rupee resources to meet its development needs. Food aid comprises of foodstuffs such as wheat and edible oils etc. In most cases, the net sale proceeds of food aid are deposited as c counterpart funds, which are further utilized for development purposes. The assistance under Other Aid comprises of loans and grants from non-traditional sources generally by way of balance of payment support.

Loan and grants may be obtained from Asian Development Bank, International Bank for Reconstruction and Development, Islamic Development Bank, International Development Association, World Food Program, European Economic Community, United States Agency for International Development, and different countries.

SUMMARY OF EXTERNAL RESOURCES

		Rs. In Million Budget 2006-07
1	Project Aid	82,165,800
2	Commodity Aid (Non-food)	96,037,700
3	Food Aid	605,000
4	Other Aid	60,500,000
	Total resources	239,308,500

Major sources of foreign economic assistance to Pakistan have been through the Aid to Pakistan consortium (Paris Club countries and Multilateral institutions) Non-consortium and Islamic countries. Among these, Aid-to-Pakistan consortium, formulated in 1960 and now renamed as the Pakistan Development Forum is the largest source of economic assistance to Pakistan. In 2004-05, consortium provided 75.3 percent of the total commitments; shares of non-consortium, Islamic countries and Relief Assistance for Afghan Refugees were 23.3 %, 1.3 percent and 0.1 percent respectively. During current fiscal year 2005-06, consortium has provided 41.2% of total commitments, whereas non-consortium, Islamic countries and relief Assistance for Afghan Refugees and Earth quake contributed 0.7 percent, 3.9 percent, 0.1 percent and 54.2 percent respectively

Q-5 (a) = Computer has become main source of communication in modern days.
Describe its effective role as a means of communication in Pakistan.

COMPUTER --A MAIN SOURCE OF COMMUNICATION

Computer is an amazing machine. Few tools can help us perform so many different tasks in so many areas of our life than a computer. Whether we want to track an investment, publish a newsletter, design a building, we can use computer to do it. In early 1930s, when personal computers began gaining popularity it was forecast that computer would become the nerve center of every home. Now computers have changed the way some businesses and industries function. Computers have become so fundamental to modern society that without them our economy would grind to a halt. They are such flexible tools that most people in the business community use them every day. Office workers use them to write letters, keep employee rosters, create budgets, communicate with business partners locally and internationally, find information, and manage projects and so on. You can send your letters, orders, and messages in any part of the world through e-mail, in seconds, with almost no cost. Businessman can communicate with foreign clients at any place and at any time.

Computers are very vital in accounting departments. For organizing and manipulating large sets of numbers, which accounting department do daily, computers are now considered essential. Computers are used to juggle budgets, create purchase orders, track expenses and income. Any time we go to the bank, renew a subscription, call information for a phone number or buy something out of a catalog, we are benefiting from computers.

Computers have assumed much importance in the modern world. No nation can now do without it. Now computers are used in all branches of science and Arts. In business they process and keep record, payrolls and do other jobs. They have helped in making credit cards issued by institutions like visa. Twenty first century is definitely an age of information technology. Such technology is now needed in all walks of life. This technology has become every much sophisticated and advanced in Western countries. If we want to keep pace with other nations of the world then we have to adopt his novel technology in our every walk of life.

Q-5 (b) = About 70% of population of Pakistan depends on road transport. In the light of above statement, describe measures adopted by Govt. to promote road transport.

IMPORTANCE OF ROAD TRANSPORT

The quality and reliability of transport infrastructure are critical to maintaining growth and competitiveness. Road, rail and shipping are three major components of transport infrastructure. Road transport is backbone of Pakistan's transport system, accounting for 90 percent of national passenger traffic and 96 percent of freight movement. Over the past ten years, road traffic, both passenger and freight, has grown much faster than the country's economic growth. The 9518 km long National Highway and Motorway network contributes 3.7 percent of the total road network and carries 90 percent of

Pakistan's total traffic. Pakistan with about 155 million people has a reasonably developed transport system. However, when compared with other developed and developing countries, the road density of Pakistan is low. Road density indeed is the index of prosperity and development. With road density of 0.31- km/sq. km Pakistan intends to double it to 0.64- km/sq. km gradually over next 10 years.

MEASURES TO PROMOTE ROAD TRANSPORT :

NATIONAL HIGHWAY AUTHORITY

N.H.A. is making concerted effort to develop an efficient, safe and convenient transportation and communication network to meet the growing needs of the country. It is also encouraging private sector to complement the efforts in accelerating development of transport and communications network and for improvement in accessibility and delivering of the services provided, encouragement of tourism and bringing about a qualitative improvements life style of masses in particular.

Present highway network is burdened by immense traffic and is not sufficient to meet the demanding requirements. Consolidation, preservation and improvement of existing highway asset are needed now. Gradual extension of network is also equally important to develop remote areas for better connection between economic and social population centers of Pakistan, instill inter provincial harmony & also improve cross-border transport and personal mobility of masses.

HIGHWAYS AND MOTORWAYS

Motorways not only provide safe and efficient transport for commuters but also reduce the vehicle operating cost. The motorway network aligned through the new corridor will hopefully instigate new areas of economic and social potential while reducing the pressure on the existing infrastructure. National Highways Authority is the custodian of 18 Pakistan's major inter-provincial links called the National Highways, including the Motorways. This network comprises only around 3 percent of Pakistan's total road network but country's 80 percent commercial traffic plays on it. Obviously the network is always under pressure and its utility from economic development point of view hardly needs any emphasis. The present highway and motorway network is burdened by immense traffic and is not sufficient to meet the demanding requirements. Consolidation, preservation and improvement of the existing highway and motorway asset are needed now. Gradual extension of the network is also equally important to develop remote areas for better connection between the income and social population centers of Pakistan, instill inter-provincial harmony and also improve cross-border transport and personal mobility of the masses. National Highway Authority has successfully completed the rehabilitation of 1610 Km, and the improvement of 757 Km Indus Highway. The construction of Makran Coastal Highway and 424 Km of motorways via Lahore-Islamabad and Pindi Bhattian-Faisalabad have been accomplished.

Q-6 = Why privatization became necessary for Pakistan.

WHY PRIVATIZATION?

Privatization is a process by which government owned factories and services are transferred to private sector by their sale. The foreign investors can also purchase these industries and services. In order to sell government enterprises open bids are invited from the private sector. In some cases shares of the enterprises are sold through Stock Exchanges. Deregulation means reducing the rules and regulations and to make investments easy for the local and foreign investors. Now any foreign national can set up his factory anywhere in Pakistan without going through a complicated procedure of government permission.

ADVANTAGES OF PRIVATIZATION

1. Increase in efficiency and profitability
2. Increase in foreign investment and in export earnings
3. Broadening the base of share capital and stock market
4. Decrease in political pressure on the management of enterprises
5. Use of latest technology and know-how by private sector
6. Decrease in deficit financing, no more government funding will be needed
7. Increase in infrastructure facilities by private businessmen themselves

Q-7 = Explain role of small scale and cottage industries in an agrarian economy.
What steps Government has taken to promote these industries.

ROLE OF COTTAGE AND SMALL SCALE INDUSTRIES

Small and Medium Enterprises (SMEs) is a new name given to cottage and small-scale industries. It is one and the same thing. Cottage industries are located in homes, operated by only family members and in which hand-made tools and equipment are used. Important cottage and small-scale industries of Pakistan are sports goods, surgical instruments, leather goods, handloom products, silver and gold ornaments, handicrafts, carpets, furniture making, embroidery and tailoring, bangles making etc. In rural areas the most important ones are poultry farming, sericulture, and bee keeping.

Small and Medium Enterprises (SMEs) constitute the bulk of Pakistan's business landscape. Nothing portrays the reality of Pakistan business environment better than the nature and complexion of its SME sector. The Economic Census of Pakistan-2005 lists 3.2 million business enterprises and SMEs constitute over 99 percent of all. Their share in industrial employment is estimated at 78 percent, in value addition approximately 28 percent and in manufacturing exports earnings at 25 percent. Nearly 53 percent of all SME activity is in retail trade, wholesale, restaurants and the hotel business whereas the contribution of industrial establishments and those involved in service provision is 20 percent and 22 percent respectively. Among the SMEs involved in retail, wholesale and restaurant business, 98 percent employ less than 5 persons and 99 percent less than 10 persons. Manufacturing and other sectors also follow a similar pattern with 87 percent

employing less than 5 persons and 98 percent less than 10 persons. All in all tremendous room for further growth, rebalancing and productivity enhances exists in the SME sector.

IMPORTANCE OF COTTAGE AND SMALL-SCALE INDUSTRIES

1	Use of local machinery and local raw material
2	Employment opportunities
3	Increase in standard of living
4	Increase in export earnings
5	Act as by-product and subsidiary industries
6	Expansion in home market
7	Diversification in industrial products

STEPS OF GOVT. FOR DEVELOPMENT OF COTTAGE / SMALL INDUSTRIES

1	Establishment of Industrial Estates
2	Loan facility, Micro Finance Bank/ Khushali Bank
3	Small Industries Corporations
4	Small Industries Advisory Services
5	Carpet Training Development Centers
6	Handicrafts Shops
7	Handicrafts Development Centers
8	Displays in international exhibitions
9	Small and Medium Enterprises Development Authority

Small Industries Corporations have been set up by the government in all the four provinces of Pakistan for progress and development of small-scale and cottage industries. These corporations have established industrial estates in almost all the important cities where all infrastructure facilities have been provided. Small industries Advisory Services have been set up in order to provide counseling and guidance to newcomers. Carpet Training Centers are providing training to the carpet weavers. Handicrafts shops have been opened in all the big cities and towns in order to develop and extend the marketing of their products. Through Export Promotion Bureau, the small-scale industries products are being placed in international exhibitions. Financial assistance is also being provided through Micro Finance Bank the progress and development of these industries. SMEDA has been established which looks after the affairs of cottage and small industries.

Q-7 (b) = How budget deficit can be removed.
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DEFICIT BUDGETING

Deficit budget means that Govt. expenditure is more than its income from taxes and fee etc. Resources for deficit budget are met by borrowing, which is called Deficit Financing. In Pakistan deficit financing is needed because development programs require huge finance whereas domestic savings and income from taxes are not sufficient enough for this purpose. Increasing savings habits, population control, elimination of corruption,

decrease in non-productive expenditure and increase in agricultural and industrial products can remove budget deficit.

HOW BUDGET DEFICIT CAN BE REMOVED

1. Saving habits should be increased
2. Output of agricultural and industrial sectors should be increased
3. Non-productive expenditures should be decreased
4. Political stability should be maintained
5. Economic policies should have continuity
6. Tax department should be strengthened and tax collection be increased
7. Fiscal discipline should be maintained
8. Population growth should be checked

Q-8 (a) = The qualitative improvement of growing population affect positively on economic development. How far it is true with Pakistan.
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QUALITATIVE IMPROVEMENT OF POPULATION RESOURCES

Human resources are very important for economic development of a country. If the people are educated, well trained, skillful and healthy then they would be in a position to utilize the country's natural resources in such a way that output of goods and services will enhance. There will be prosperity in the country and standard of living of the masses will increase. The country will become prosperous and will be developing by leaps and bounds. The best example in this regard is Japan. In Japan, natural resources are very less but the Japanese are well-educated, technically highly trained and hard -working. That is the reason that Japan has developed economically. Similarly Singapore is a very small country with is no natural resources, yet it has developed. . The reason is that the people are very well educated, skillful and hardworking.

Human capital formation means the process of acquiring and increasing the number of persons who have kills, education and experience, which are critical for the economic and political development of a country. Human capital formation is thus associated with investment in man and his development as a creative and productive resource. Human capital formation means increase in productive potential and skills of the manpower. This is possible by providing education, training, expertise and better health facilities to the people. If people of a country are well educated, trained and healthy, they can develop their own techniques and efficient methods of production within the parameters of their own environment and culture. They can better use the available national resources; can utilize the foreign aid and grants more efficiently for economic progress and prosperity of the country. Since there is general unemployment in developing countries, the human capital formation removes unemployment from the country. Educated and trained people become a source of increase in productivity and national income of the country. All these factors increase their standard of living as well as social and cultural values of the people.

Q-8 (b) = Is population control necessary for Pakistan. How far it is true with Pakistan.

Population control in Pakistan is necessary due to the following reasons: -

REASONS FOR POPULATION CONTROL

1	Decrease in per capita income
2	Increase in unemployment
3	Increase in general price level
4	Decrease in savings and investment
5	Increase in pollution
6	Decrease in agricultural output
7	Shortage in health and education facilities

If population increases at a very high rate than rate of increase of national income, then the per capita income decreases. No doubt national income of the country is continuously increasing but at the same time rate of increase in population is much higher, the net result is that per capita income is decreasing. Thus standard of living is deteriorating. Increase in population means more supply of working force, which needs job. In the country investment opportunities are very less, job seekers are more than available jobs, hence people remain unemployed or those who luckily get jobs their wages are very low. Unemployment creates frustrations in the country. Increase in population causes increase in demand for goods and services, which results in rise in general price level by which poor people are hit more and they could not get the basic necessities of life. People of Pakistan are living from hand to mouth. Due to unemployment and lack of other sources of income people cannot save, therefore the overall national savings are very low. Low savings reduces investment in the country hence capital formation is not possible. This state of affairs further aggravates the economic situation of the country.

In order to earn their livelihood people are cutting forest to convert them into arable lands. Many people are migrating from villages to already crowded cities of the country. Drinking water is less in supply than its demand; people are forced to use dirty water from polluted sources. Increase in population is resulting in water, noise and air pollution. Increase in population particularly in agricultural sector is resulting division and sub division of plots of agricultural land thus making it into uneconomic holding. Due to inheritance system land is divided amongst sons and daughters, it becomes very difficult to adopt the improved techniques on small plots of land, hence total agricultural output of Pakistan is decreasing. This situation is also causing food shortage in country.

Increase in population results in increase in the demand for health, education, housing and transport facilities. Since resources with the government are not sufficient enough, these facilities cannot be increased. The whole pressure of increased population is on existing facilities. The result is that education; health and transport facilities are deteriorating at an alarming rate

Q-9 = What are main objectives of Fiscal policy of Pakistan. How budget deficit can be controlled.

FISCAL POLICY OF PAKISTAN

Fiscal policy of Government of Pakistan primarily deals with taxation, spending and borrowing. Fiscal policy encompasses several fundamental policy issues, including the proper role of Government in promoting growth, creating jobs, social development and redistribution of benefits of economic growth, nature and extent of public services and fairness between the present and the future generations.

OBJECTIVES OF FISCAL POLICY

Government's fiscal policy has both microeconomic and macroeconomic objectives.

(1)-**Microeconomic objectives** include an improved distribution of income and wealth, equitable access to social services, meeting the basic needs of the poor, promoting investment in public goods and enhancing efficiency with which public and private sectors produce goods and services and their responsiveness to the needs of consumers.

(2)-**Macroeconomic objectives** relate to evolution of the economy as a whole—national income and output, jobs, inflation and the balance of payments. Fiscal policy must also ensure that the level and structure of taxes promote equality and redistribution, and do not interfere unduly in people's investment and consumption decisions.

OBJECTIVES OF FISCAL POLICY

1	Attainment of maximum welfare of common man
2	Increase in the employment opportunities
3	Equitable distribution of national wealth
4	Development of rural areas and reduction in disparity
5	Control on inflation/price level
6	Provision / development of health / education facilities
7	Reduction in non-development expenditure
8	Encouragement of private investment
9	Improvement in balance of payments position

HOW BUDGET DEFICIT CAN BE REMOVED

1. Saving habits should be increased
2. Output of agricultural and industrial sectors should be increased
3. Non-productive expenditures should be decreased
4. Political stability should be maintained
5. Economic policies should have continuity
6. Tax department should be strengthened and tax collection be increased
7. Fiscal discipline should be maintained
8. Population growth should be checked

Q-10 = Write notes on any two of the following

(1)= Industrial Development Bank of Pakistan (2)= Problems of industrial labor

(3)= Export Promotion Bureau

(4) = Pakistan's balance of payments

(1)----INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

Industrial Development Bank of Pakistan is playing a vital role in development and progress of private industrial sector. It provides long and short-term loans in local as well as in foreign currency for setting up new industrial units and for modernization of existing old units. Its local currency source of capital is its paid up capital and credits from Central Bank where-as it borrows foreign currency from Islamic Development Bank, Asian Development Bank and from other international financial agencies.

Bank advances loans to those projects which

- (1)-- either earn foreign exchange by exports its products, or save foreign exchange by setting up industries of import substitution,
- (2)-- Utilizes locally produced machinery
- (3)-- Units are set up in less developed areas of the country. This bank has so far advanced loan facilities of Rs.24 Billion to about 6000 projects

(2)----PROBLEMS INDUSTRIAL LABOR

1	Lack of education, training and health conditions
2	Poor working environment
3	Difference of race, culture and language
4	Lack of job security and low bargaining power
5	Lack of good relationship with the management
6	Unorganized trade unions and untrained labor leaders

Labor Unions in developed countries are very efficient and well organized but in developing countries it is just the opposite. Whatever unions are there in Pakistan they are only in big cities. The primary function of a trade union is to improve the work conditions of labor members, to increase their wages, to provide training, education and health facilities to the workers. The trade unions of Pakistan have done nothing for the improvement of economic and social condition of workers.

(3)----EXPORT PROMOTION BUREAU

This Government department helps in the exports of locally produced goods by arranging exhibition, seminars and inviting prospective foreign investors. It also arranges exhibitions of Pakistani products in international markets and disseminates different types of information for progress and development of industrial sector. Investment Promotion Bureau provides the names and addresses of the prospective foreign importers of the Pakistani goods to the local manufacturers, so that they may contact them. It remains in contact with the trade and commercial counselors of the embassies for introducing them the locally manufactured goods.

(4)-----PAKISTAN'S BALANCE OF PAYMENTS

Pakistan's balance of payment is usually against it and the main causes of deficit in the balance of payments of Pakistan are as under: -

1. Decrease in exports
2. Increase in imports
3. Lack of modernization of export oriented industries
4. Import restrictions by developed countries
5. Increase in invisible expenditures
6. Unfavorable terms of trade
7. Devaluation of currency
8. Fall in workers foreign remittances

MEASURES FOR CORRECTING BALANCE OF PAYMENTS

Following measures should be taken up to correct adverse balance of payments Pakistan

1. Increase in exports
2. Decrease in imports
3. Increase in invisible earnings
4. Search of new markets
5. Improvement in quality and packaging of international standard
6. Revival and restoration of sick industries
7. Foreign joint ventures
8. Promotion of labor-intensive industries

B. COM – 2004
EXTERNAL

For details of each question please see relevant Chapter

Q-1 (a) = Besides poverty, developing countries share many characteristics.
Elaborate this statement.

Characteristics of a developing country like Pakistan are as under: -

CHARACTERISTICS OF A DEVELOPING COUNTRY

1	Agrarian economy
2	Undeveloped agriculture and feudal system
3	Population pressure
4	General unemployment and disguised unemployment
5	Low per capita income and general poverty
6	Unequal distribution of national income
7	High inflation rate (general prices are very high)
8	Low level technology
9	Insufficient infrastructure
10	Undeveloped institutional system
11	Industries are not sufficient enough
12	Shortage of entrepreneurial skills
13	Deficit balance of payments & dependence on aids
14	Natural resources are unexploited and unutilized
15	Lack of continuity in economic policies
16	Unsatisfactory law and order situation

Q-2 (a) = Discuss importance of power resources in development of a country

IMPORTANCE OF POWER RESOURCES

It is universally recognized that energy is one of the most important inputs of economic growth and development of an economy. The consumption of energy is one of the critical indicators of the level of development of any country. Developed countries use more energy per unit of economic output and far more energy per capita than developing countries. For economic growth Pakistan need energy. The per capita energy consumption in Pakistan is currently low as compared to Malaysia and China. Govt. is making concerted efforts to ensure that progress of energy resources continues to contribute to the nation's development.

1. No industry can run without power or energy. All machines require energy to operate.
2. No agricultural machine function without it. Tube wells, tractors, trolleys, threshers all require energy/ petrol etc.

-
3. No transport and communication service such as trucks, cars, railways or aero plane can operate without energy/petrol/diesel etc.
 4. No domestic appliances such as electric bulbs, television, fridge, juicer and blenders can function without the use of energy/electricity.

Q-2 (b) = Examine main power resources of Pakistan

MAIN POWER SOURCES OF PAKISTAN

1	Hydel power
2	Natural gas
3	Petroleum
4	Coal
5	Atomic energy

Q-3 = Population growth is an asset and not liability for attainment of economic well being of people in Pakistan. Do you agree with this view? Explain why.

POPULATION GROWTH AS AN ASSET

Human resources are very important for the economic development of a country. If the people are educated, well trained, skillful and healthy then they would be in a position to utilize the country's natural resources in such a way that output of goods and services will enhance. There will be prosperity in the country and standard of living of the masses will increase. The country will become prosperous and will be developing by leaps and bounds. The best example in this regard is Japan. In Japan, natural resources are very less but the Japanese are well educated, technically highly trained and hard working. That is the reason that Japan has developed economically. Similarly Singapore is a very small country and there are no natural resources, yet it has developed the reason is that the people are very well educated, skillful and hardworking.

Human capital formation means the process of acquiring and increasing the number of persons who have skills, education and experience, which are critical for the economic and political development of a country. Human capital formation is thus associated with investment in man and his development as a creative and productive resource. Human capital formation means increase in productive potential and skills of the manpower. This is possible by providing education, training, expertise and better health facilities to the people. If people of a country are well educated, trained and healthy, they can develop their own techniques and efficient methods of production within the parameters of their own environment and culture. They can better use the available national resources; can utilize the foreign aid and grants more efficiently for economic progress and prosperity of the country. Since there is general unemployment in developing countries, the human capital formation removes unemployment from the country. Educated and trained people become a source of increase in productivity and national income of the country. All these factors increase their standard of living as well as social and cultural values of the people.

Q-4 = Agricultural production during last decade has increased mainly through increase in productivity rather than increase in area. Comment
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Agricultural production in Pakistan has increased due to increase in the productivity of agriculture. The reasons of which are as under: -

1. Mechanization
2. Subsidized fertilizers
3. Better quality of seeds
4. Availability of pesticides and insecticides
5. Multiple cropping
6. Construction of big storage facilities and cold storage houses
7. Regulated markets
8. Fixation of minimum prices/ subsidy policy of government
9. Regular supply of water through irrigation and tube wells
10. Availability of agricultural credit
11. Construction of farm to market roads
12. Transportation facilities
13. Price awareness through television and radio
14. Education and training

Q-5 = Discuss in brief arguments in favor and against imposition of tax on agricultural income in Pakistan
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AGRICULTURAL INCOME TAX

Various Commissions and Committees appointed by the Government have recommended about the levy of agricultural income tax but nothing has been done so far and this issue is yet to be resolved.

ARGUMENTS IN FAVOR OF AGRICULTURAL INCOME TAX

1	Principle of equity
2	Agricultural income has increased
3	Industries income is shown as income from agriculture
4	Illegal income is used in partnership with landlords
5	Development expenditures of Govt. on agriculture

ARGUMENTS AGAINST AGRICULTURAL INCOME TAX

1	Tax collection is not economical
2	Facilities of subsidies are not available to farmers
3	Discourage investment in agriculture
4	Reduce the standard of living

Q-6 = Examine socio-economic implications of industrial development on economy of Pakistan.

Socio-economic implications of industrial development of Pakistan areas under -

ECONOMIC IMPLICATIONS

1. Lack of capital
2. Under utilization of natural resources
3. Rapid population growth
10. Shortage of modern technology
11. Dependence on agriculture
6. Lack of infrastructure
7. Inefficient banking and financial sector

SOCIAL IMPLICATIONS

1. Caste system
2. Heavy consumption
3. People are conservative
4. High illiteracy rate
5. Non-materialistic approach of life
6. No economic participation of women

Industries play a dominant role in the economic development of a country. Western countries standard of living is very high. They enjoy all comforts and luxuries of life due to higher productivity of goods and services in their countries. This is because of industrialization. Unfortunately there were no industries when Pakistan came into being but now with the efforts of Government and the people there is an improvement in this regard however more is required to be done. The overall manufacturing sector continued its positive trend during the current fiscal year.

Overall manufacturing recorded an impressive and broad based growth of 8.6 percent. There has been a slight decline in growth in the manufacturing sector due to multiple reasons like reduced production of cotton crop, sugar shortage, steel and iron problems and the last but not the least global oil prices. All of these reasons contributed to reduced growth in 2005-06 but high levels of liquidity in the banking system, an investment friendly interest rate environment, a stable exchange rate, low inflation, comfortable foreign exchange reserves, stronger domestic demand for consumer durable and high business confidence among other things will again boost the manufacturing sector growth rate up to a reasonable level

The production and sale of industrial goods are taken as an indirect measure to ascertain the standard of living of the middle class of Pakistan.

Q-7 = What are costs and benefits of foreign economic assistance. Analyze it in the light of Pakistan's economy.

BENEFITS OF FOREIGN AID

Foreign economic assistance is very important for economic development of Pakistan.

The benefits of such assistance/aid are as under: -

1. Foreign loan/assistance bridges savings gap and that of balance of payments gap
2. Development needs are met and productivity of various economic sector increases
3. Establishment of modern economic and social infrastructure
4. Due to industrialization employment opportunities increase
5. Level of technology increases and higher quality goods are produced
6. Emergency requirements are fulfilled particularly food items are obtained
7. Country's defense requirements are met
8. Tax revenue is increased

COSTS / DISADVANTAGES OF FOREIGN AID

Foreign economic assistance and aid results in the following disadvantages.

1. Increases foreign Aid's debt servicing
2. Production cost increases
3. Habit of dependence on foreign loan develops
4. Foreign aid is misused
5. Exploitation of donor countries
6. Commodity aid discourages local agricultural output
7. Dependence of imported raw material from the donor country industry
8. Donor countries may give project tied loans for less priority projects of country
9. Proportion of tied aid and severity of hard terms increases.

Q-8 = Describe main heads of revenue and expenditure of Government of Pakistan

MAIN HEADS OF REVENUE OF GOVT. OF PAKISTAN

1. Tax revenue—(CBR)
2. Non- tax revenue
3. Net capital receipts
4. External Resources
5. Self-financing of PSDP by provinces
6. Change in Provincial cash balance
7. Privatization proceeds
8. Bank borrowing

MAIN HEADS OF EXPENDITURE OF GOVT. OF PAKISTAN

1. General Public Administration
2. Defense
3. Public Order, safety affairs, Police etc
4. Economic affairs
5. Environment protection

-
6. Housing and community
 7. Health services
 8. Recreational, Culture services
 9. Education
 10. Social protection
 11. Development expenditure of Federal Government
 12. Development expenditure of Provincial Government

Q-9 (a) = What is present position of Pakistan's balance of payments.

PRESENT POSITION OF BALANCE OF PAYMENTS

Pakistan's current account balance remained in deficit in 2005-06 with gap continued to widen due to higher oil import bill on the back of high global crude oil prices and hefty rise in non-oil imports fueled by strong demand. Apart from further widening of trade deficit, higher freight charges by international shipping lines as a result of sharp increase in global trade and higher fuel cost, and growth in personal travel due to the rising level of income of middle and high-income groups have also contributed to the widening of current account gap. Deceleration in the growth of net transfers is also responsible for widening of the current account deficit. The current account deficit, excluding official transfers, stood at \$ 4696 million in first nine months of the 2005-06. Although trade deficit almost doubled over the last year and services balance deteriorated by 27.5 percent, the strong inflows under private transfer fueled by rising worker's remittances and resident foreign currency account offset some of the negatives with current account deficit standing at \$ 4696 million. The flow under long-term capital improved markedly and rose to \$ 3905 million from \$ 1633 million last year.

POSITION OF BALANCE OF PAYMENTS

		(in \$ million)
1	Imports	17,958
2	Exports	11,854
3	Balance of Trade	- 6,104
4	Services	- 5,393
5	Private transfers	+ 6,801
6	Workers remittances	+ 3,228
7	Current account balance Excluding official transfers	- 4,695
8	Long term capital	+ 3,905
9	Basic balance	- 790
10	Errors and omissions	+ 480
11	Balance requiring official financing	- 383
12	Official assistance and Debt Relief	+ 562
13	Medium and short term capital	- 180
14	Other short term assets and liabilities	+ 742
15	Exceptional financing	- 55
16	Change in reserves	- 124

CAUSES OF DEFICIT IN BALANCE OF PAYMENTS

The balance of payments position of Pakistan is usually against it and the main causes of deficit in the balance of payments of Pakistan are as under: -

1. Decrease in exports
2. Increase in imports
3. Lack of modernization of export oriented industries
4. Import restrictions by developed countries
5. Increase in invisible expenditures
6. Unfavorable terms of trade
7. Devaluation of currency
8. Fall in workers foreign remittances

Q-9 (b) = What measures do you suggest to improve balance of payments.

MEASURES FOR IMPROVING BALANCE OF PAYMENTS

Following measures should be taken up to correct adverse balance of payments Pakistan

1. Increase in exports
2. Decrease in imports
3. Increase in invisible earnings
4. Search of new markets
5. Improvement in quality and packaging of international standard
6. Revival and restoration of sick industries
7. Foreign joint ventures
8. Promotion of labor-intensive industries

Q-10 = Write notes on any two of the following

- (1) = Cottage industries (2) = Problems of industrial labor
(3) = Economic obstacles in the development of Pakistan
(4) = Importance of motorways

(1)---COTTAGE INDUSTRIES

Small and Medium Enterprises (SMEs) is a new name given to cottage and small-scale industries. It is one and the same thing. Small-scale industry is an industrial project whose fixed assets cost (excluding land and buildings), does not exceed Rs.10 million and which have less than 20 workers. Cottage industries are located in homes, operated by only family members and in which hand-made tools and equipment are used. Important cottage and small-scale industries of Pakistan are sports goods, surgical instruments, leather goods, handloom products, silver and gold ornaments, handicrafts, carpets, furniture making, embroidery and tailoring, bangles making etc. In rural areas the most important ones are poultry farming, sericulture, and bee keeping.

Small and Medium Enterprises (SMEs) constitute the bulk of Pakistan's business landscape. Nothing portrays the reality of Pakistan business environment better than the

nature and complexion of its SME sector. The Economic Census of Pakistan-2005 lists 3.2 million business enterprises and SMEs constitute over 99 percent of all. Their share in industrial employment is estimated at 78 percent, in value addition approximately 28 percent and in manufacturing exports earnings at 25 percent. Nearly 53 percent of all SME activity is in retail trade, wholesale, restaurants and hotel business whereas contribution of industrial establishments and those involved in service provision is 20 percent and 22 percent respectively. Among the SMEs involved in retail, wholesale and restaurant business, 98 percent employ less than 5 persons and 99 percent less than 10 persons. Manufacturing and other sectors also follow a similar pattern with 87 percent employing less than 5 persons and 98 percent less than 10 persons. All in all tremendous room for further growth, rebalancing and productivity enhances exists in the SME sector.

IMPORTANCE OF COTTAGE INDUSTRIES

1	Use of local machinery and local raw material
2	Employment opportunities
3	Increase in standard of living
4	Increase in export earnings
5	Act as by-product and subsidiary industries
6	Expansion in home market
7	Diversification in industrial products

MEASURES FOR DEVELOPMENT OF SMALL INDUSTRIES

Small Industries Corporations have been set up by the government in all the four provinces of Pakistan for the progress and development of small-scale and cottage industries. These corporations have established industrial estates in almost all the important cities where all infrastructure facilities have been provided. Small industries Advisory Services have been set up in order to provide counseling and guidance to newcomers. Carpet Training Centers are providing training to the carpet weavers. Handicrafts shops have been opened in all the big cities and towns in order to develop and extend the marketing of their products. Through Export Promotion Bureau, the small-scale industries products are being placed in the international exhibitions. Financial assistance is also being provided for the progress and development of these industries.

SMEDA has also been established for the development of the small and medium enterprises

(2)—PROBLEMS OF -INDUSTRIAL LABOR OF PAKISTAN

1	Lack of education, training and health conditions
2	Poor working environment
3	Difference of race, culture and language
4	Lack of job security and low bargaining power
5	Lack of good relationship with the management
6	Unorganized trade unions and untrained labor leaders

Labor Unions in developed countries are very efficient and well organized but in developing countries it is just the reverse. Whatever unions are there in Pakistan they are

only in big cities. The primary function of a trade union is to improve the work conditions of labor members, to increase their wages, to provide training, education and health facilities to the workers. The trade unions of Pakistan have done nothing for the improvement of economic and social condition of workers.

(3)---ECONOMIC OBSTACLES IN ECONOMIC DEVELOPMENT

Economic obstacles in the economic development of Pakistan are too many, however some of them are as under: -

1. Undeveloped agriculture and feudal system
2. Population pressure and structure of population
3. General unemployment and disguised unemployment
4. Lower per capital income and poverty
5. Unequal distribution of national income
6. Inflation rate/Higher prices
7. Low level of technology
8. Insufficient infrastructure
9. Undeveloped institutional system
10. Industries are not sufficient enough
11. Shortage of entrepreneur skills
12. Deficit balance of payment
13. Dependence on foreign aid and grants
14. Natural resources are not properly exploited

(4) ----IMPORTANCE OF MOTORWAYS

Motorways not only provide safe and efficient transport for commuters but also reduce the vehicle operating cost. The motorway network aligned through the new corridor will hopefully instigate new areas of economic and social potential while reducing the pressure on the existing infrastructure. National Highways Authority is the custodian of 18 Pakistan's major inter-provincial links called the National Highways,. Including the Motorways. This network comprises only around 3 percent of Pakistan's total road network but country's 80 percent commercial traffic plays on it. Obviously the network is always under pressure and its utility from economic development point of view hardly needs any emphasis. The present highway and motorway network is burdened by immense traffic and is not sufficient to meet the demanding requirements. Consolidation, preservation and improvement of the existing highway and motorway asset are needed now. Gradual extension of the network is also equally important to develop remote areas for better connection between the income and social population centers of Pakistan, instill inter-provincial harmony and also improve cross-border transport and personal mobility of the masses. National Highway Authority has successfully completed the rehabilitation of 1610 Km, and the improvement of 757 Km Indus Highway. The construction of Makran Coastal Highway and 424 Km of motorways via Lahore-Islamabad and Pindi Bhattian-Faisalabad have been accomplished.

B. COM – 2004
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For details of each question please see relevant Chapter

Q-1 = To emerge as an economically strong and viable nation in the 21st century, Pakistan must build new dams and generate cheap electricity. Discuss.

POWER RESOURCES

It is universally recognized that energy is one of the most important inputs of economic growth and development of an economy. The consumption of energy is one of the critical indicators of the level of development of any country. Developed countries use more energy per unit of economic output and far more energy per capita than developing countries. For economic growth Pakistan need energy. The per capita energy consumption in Pakistan is currently low as compared to Malaysia and China. Govt. is making concerted efforts to ensure that progress of energy resources continues to contribute to the nation's development.

IMPORTANCE OF POWER/ENERGY

1. No industry can run without power or energy. All machines require energy to operate.
2. No agricultural machine function without it. Tube wells, tractors, trolleys, threshers all require energy/ petrol etc.
3. No transport and communication service such as trucks, cars, railways or aero plane can operate without energy/petrol/diesel etc.
4. No domestic appliances such as electric bulbs, television, fridge, juicer and blenders can function without the use of energy/electricity.

Keeping in view so much importance of power/energy for the economy of Pakistan, it is very important that many new dams should be constructed in the country so that cheap power may be available both for industrial and domestic requirements of the country. This will not only save the precious foreign exchange of the country rather cost of production of industrial goods will also be reduced, which will augment the export earnings of the country.

Q-2 = It is quality and not quantity of manpower that would determine the direction of Pakistan's future economic development. Elaborate

QUALITATIVE IMPROVEMENT OF MANPOWER

Manpower resources are very important for economic development of a country. If the people are educated, well trained, skillful and healthy then they would be in a position to utilize country's natural resources in such a way that output of goods and services will enhance. There will be prosperity in the country and standard of living of masses will increase. The country will become prosperous and will be developing by leaps and

bounds. The best example in this regard is Japan. In Japan, natural resources are very less but the Japanese are well educated, technically highly trained and hard working. That is the reason that Japan has developed economically. Similarly Singapore is a very small country and there are no natural resources, yet it has developed, the reason is that the people are very well educated, skillful and hardworking.

Human capital formation is the process of acquiring and increasing the number of persons who have skills, education and experience, which are critical for the economic and political development of a country. Human capital formation is thus associated with investment in man and his development as a creative and productive resource. Human capital formation means increase in productive potential and skills of the manpower. This is possible by providing education, training, expertise and better health facilities to the people. If people of a country are well educated, trained and healthy, they can develop their own techniques and efficient methods of production within the parameters of their own environment and culture. They can better use the available national resources; can utilize the foreign aid and grants more efficiently for economic progress and prosperity of the country. Since there is general unemployment in developing countries, the human capital formation removes unemployment from the country. Educated and trained people become a source of increase in productivity and national income of the country. All these factors increase their standard of living as well as social and cultural values of the people.

Q-3 = Lack of consistency and credibility in our industrial policies in the past has adversely affected the pace of Pakistan's industrial development. Critically examine

SALIENT FEATURES OF A GOOD INDUSTRIAL POLICY

Industrial policy refers to the behavior which a govt. adopts in relation to industrial sector. This policy is a collection of measures and strategies adopted by govt. from time to time for establishment, promotion and development of industries in the country and due to which a country enables to cater her industrial needs.

1. A good industrial policy should guarantee the development and promotion of all kinds of industries.
2. It should be free from any confusion, rules and regulations should be very much clear.
3. It discourages concentration of industries on a few places because localization of industries damages social, economic and political effects.
4. It promotes large-scale investment.
5. It should curb inequalities and ownership of industries should be expanded.
6. The industries should be coordinated and linked in a manner that they could mutually be helpful for one another.

In the past the pace of Pakistan's industrial development was badly affected due to lack of consistency and credibility in industrial policies. During the period of 1971 and afterwards government shifted its emphasis from private to public sector and nationalized all industries. The private sector was forced to lose its factories thus morale of private sector was shattered. The area of activities for private sector in industrial field was

narrowed down. This act of the government shattered confidence of private investors. This process had further increased by industrial indiscipline by trade unions leading to stagnation in industrial output. Consequently the performance was very disappointing and the average annual growth rate reduced too much. The efficiency of industries destroyed, because the government servants made no efforts to run the industrial units on profitable grounds. The era of 1970's was of low industrial progress

The decade of 1980 witnessed industrial sector growing again at a low rate. This happened mainly due to the fact that the role of private sector was seriously reconsidered. However the attitude of private sector remained cautious. Despite all efforts, confidence of private investors could not be fully revived.

In 1990, reforms in economic, financial, fiscal and banking fields were adopted and confidence building approach among investors through privatization policy was followed. In strategy of disinvestments, deregulation and denationalization was adopted. Besides local investors, foreigner investors were also encouraged through various incentives. The major instrument of government intervention, such as, industrial licensing, exchange control and other regulatory controls has been eased to a large extent. But so far due to ineffective economic governance, political imbalances desired results could not be achieved. However it is hoped that pace of industrial development will increase in the country if the industrial policy is improved and its implementation continues.

Q-4 = Agricultural marketing and Farm mechanization are the twin issues that hamper free flow of benefits of increased production to poor peasants in Pakistan Comment
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AGRICULTURAL MARKETING

Agricultural marketing is the performance of business activity that directs the flow of agricultural goods from producer to consumer. Agricultural produce cannot be stored for long time as these are perishable and are destroyed very quickly. Farmer has weak bargaining position, he cannot wait, and he is bound to dispose off his produce at an unfavorable price, at an unfavorable time and on unfavorable terms and conditions. There is imperfect market system, which has created marketing problems, which are as under.

PROBLEMS OF AGRICULTURAL MARKETING

1	Low quality of output
2	Shortage of storage facilities
3	Heavy transportation expenses
4	Unawareness about markets and prices
5	No standard weights
6	Chain of middle men

MECHANIZATION OF AGRICULTURE

Mechanized farming means the use of mechanical appliances and scientific techniques for boosting agricultural production. In it tractors, bulldozers, tube wells, trolleys and harvesters are included. Mechanization as a tool for modernization of agriculture has

been well recognized. Mechanization generates greater cropping intensity thus improves productivity. It also results in considerable saving of fodder and feed through a reduction in bullock population. Thus, a transition from subsistence farming to commercial farming can only be achieved through transfer of the most efficient and cost effective technology to farming system. The efficient use of scarce agriculture resources and accelerated agriculture mechanization is, therefore, vital and very important.

SUGGESTIONS TO INCREASE MECHANIZED FARMING

Government should adopt the following measures for mechanizing agriculture: -

1. Reduce prices of machines/equipments used in agricultural sector.
2. Provide electricity at a low rate for tube wells.
3. Set up workshops for repairs of machinery.
4. Establish technical training centers in rural areas.
5. Provide loan facilities to farmers at a low interest rate.
6. Cooperative farming should be started to control fragmentation of land.

If the problems and defects of both of them i.e agricultural marketing and mechanization are not removed then the benefits of both of them will not be positive and in will not be in favor of our farmer.

Q-5 (a) = What are major objectives of economic planning in Pakistan.

ECONOMIC PLANNING IN PAKISTAN

Economic planning is the making of major economic decisions—what and how much is to be produced and to whom it is to be allocated by the conscious decision of a determinate authority, on the basis of a comprehensive survey of the economic system as a whole. Planning is a technique for achieving certain self-defined and pre-determined goals laid down by a central planning authority. It is a conceiving, initiating, regulating and controlling economic activity by the State according to set priorities with a view to achieve well-defined objectives within a given time. It is planning alone which can guarantee quick economic growth in the under-developed countries.

OBJECTIVES OF ECONOMIC PLANNING

1	Increase in the rate of economic development
2	Diversification of economy
3	Price stability
4	Higher standard of living
5	Improving the balance of payments

Q-5 (b) = The 2 nd Five year plan is considered as the most successful one. Why?

REASONS FOR SUCCESS OF SECOND FIVE YEAR PLAN

1. Due to sound political stability in the country during the period 1960-65 the total

-
- development expenditures increased from the targeted amount of Rs.2300 to Rs.2754. Thus more development programs were completed in this plan period.
2. National income was to increase by 24 percent but during the plan period it has jumped to 30 percent.
 3. Per capita income to planned to increase by 12 percent but it increased to 15 percent.
 4. Agricultural output increased by 18 percent instead of targeted 14 percent.
Food grains, increased by 27 percent instead of a target of 21 percent.
 5. Production of Large-scale industries increased by 85 percent instead of 60 percent, however small scale industries output increased by 14 percent against the target of 20 percent.
 6. Employment opportunities were targeted at 30 lacs whereas it rose to 36 lacs.
 7. Domestic savings increased from 6 percent of gross domestic product to 10.5 percent, whereas it was targeted as 9 percent.
 8. Exports of the country increased to Rs.1323 whereas the target of exports was Rs.1125 crores.
- Keeping in view the above facts and figures we can say that Second Five Year Plan 1960-65 was a very successful plan in the history of economic planning of Pakistan.

Q-6 = Foreign aid with strings and its misuse in the past has misguided the direction and priorities of Pakistan's economic development. Argue

MISUSE OF FOREIGN AID AND ASSISTANCE

Foreign economic assistance and aid in the past has misguided the direction and priorities of Pakistan economic development and instead of developing the economy of the country it has brought many bad effects Foreign aid with strings and its misuse brings the following disadvantages it instead of benefits become a heavy cost and burden on the economy of the country.

1. Increases foreign Aid's debt servicing
2. Production cost increases
3. Habit of dependence on foreign loan develops
4. Foreign aid is misused
5. Exploitation of donor countries
6. Commodity aid discourages local agricultural output
7. Dependence of imported raw material from the donor country industry
8. Donor countries may give project tied loans for less priority projects of country
9. Proportion of tied aid and severity of hard terms increases

Q-7 = Privatization of state owned enterprises offers the only hope for revival of our industrial sectors. Elucidate

PRIVATIZATION POLICY OF PAKISTAN

Privatization is a process by which Government owned factories and services are transferred to private sector by their sale. The foreign investors can also purchase these industries and services. In order to sale Government enterprises open bids are invited from the private sector. In some cases shares of the enterprises are sold through Stock

Exchanges. Deregulation means reducing the rules and regulations and to make investments easy for the local and foreign investors. Now any foreign national can set up his factory anywhere in Pakistan without going through a complicated procedure of government permission.

ADVANTAGES OF PRIVATIZATION

1. Increase in efficiency and profitability
2. Increase in foreign investment and in export earnings
3. Broadening the base of share capital and stock market
4. Decrease in political pressure
5. Use of latest technology and know-how
6. Decrease in deficit financing
7. Increase in infrastructure facilities

Q-8 (a)= Examine factors which contribute towards persistent adverse balance of payments in Pakistan

FACTORS FOR ADVERSE BALANCE OF PAYMENTS

The main causes of deficit in the balance of payments of Pakistan are as under: -

1. Decrease in exports
2. Increase in imports
3. Lack of modernization of export oriented industries
4. Import restrictions by developed countries
5. Increase in invisible expenditures
6. Unfavorable terms of trade
7. Devaluation of currency
8. Fall in workers foreign remittances

Q-8 (b) = Explain measures for correcting adverse balance of payments in Pakistan

MEASURES FOR CORRECTING ADVERSE BALANCE OF PAYMENT

Following measures should be taken to correct adverse balance of payments of Pakistan

1. Increase in exports
2. Decrease in imports
3. Increase in invisible earnings
4. Search of new markets
5. Improvement in quality and packaging of international standard
6. Revival and restoration of sick industries
7. Foreign joint ventures
9. Promotion of labor-intensive industries

Q-9 (a) = Highlight problems of railways in Pakistan

IMPORTANCE OF RAILWAYS

Modern railways are one of the major sectors within transport system. Pakistan Railways, being the most effective transport system, plays a vital role in generating development opportunities. Railways has a definite and unmatched edge over road for long and bulk haulage of mass scale traffic, volume being safe, pollution free, environmental friendly and most economical as compared to any mode of transportation.

PROBLEMS OF RAILWAYS

The efficiency and working of Pakistan Railways is not up to the mark because the organization is suffering from many problems, which are as under: -

1	Worn out locomotives / engines
2	Coaching vehicles are in deplorable conditions
3	Freight wagons are in poor conditions
4	Railway bridges not safe
5	Technical and managerial efficiency is very low
6	Corruption at all levels
7	Mishandling of goods and theft
8	Negative role of trade union
9	Out of date signaling system
10	Many routes due to political pressure are uneconomical

Q-10 =Write notes on any two of the following:-

- (1)= W.T.O (2)= Heads of income and expenditure of Federal Govt.
(3)= SMEDA (4)=Agricultural credit

(1) ----- WORLD TRADE ORGANIZATION

WTO is involved in rule making in areas that go beyond the narrowly conceived confines of international trade. Globalization is the extraordinary explosion of both technology and information, finance, trade in goods and services in ways that have considerably reduced the twin concepts of time and space. It refers to global economic integration of many formerly national economies into one global economy, mainly by free trade and free capital mobilization. Globalization is open up countries but is also marginalizing those who cannot survive within the new competitive framework. The pragmatic counter arguments to this view are that the WTO offers both challenges and opportunities for developing countries to expand trade, access advanced production and communication technologies and restructure their economies towards promoting economic development with a better quality of life for more people. Under WTO rules use of quantitative restrictions are discouraged unless as a safeguard measure by developing countries for emergency purposes if they can justify that they are using it to prevent serious injury to their domestic industries

EXPORTS OF PAKISTAN AND W.T.O.

1. Since quota restrictions will be eliminated, the demand of cotton yarn, cotton fabrics, bed sheets, terry towels of Pakistan in the international market will increase and its price will also go up.

2. The demand of leather and leather products of Pakistan may decrease because of restriction on their imports in foreign countries due to environmental issues. Hence Pakistan will have to find out pollution problem of this industry.

3. Under WTO regime international standard of production and packaging have to be observed otherwise exports of rice, fruits and vegetables are likely to decrease due to their low and sub-standard product.

4. Pakistan will be benefited from the export of its agricultural products such as rice, fruits and vegetables as these goods are highly demanded in the international market.

(2) ---- HEAD OF INCOME AND EXPENDITURE OF FEDERAL GOVT.

MAIN HEADS OF INCOME

1. Tax revenue CBR
2. Non- tax revenue
3. Net capital receipts
4. External Resources
5. Self-financing of PSDP by provinces
6. Change in Provincial cash balance
7. Privatization proceeds
8. Bank borrowing

MAIN HEADS OF EXPENDITURE

13. General Public Administration
14. Defense
15. Public Order, safety affairs, Police etc
16. Economic affairs
17. Environment protection
18. Housing and community
19. Health services
20. Recreational, Culture services
21. Education
22. Social protection
23. Development expenditure of Federal Government
24. Development expenditure of Provincial Government

(3)—SMEDA--SMALL & MEDIUM ENTERPRISES DEVELOPMENT AUTHORITY

Historically, Govt. has not distinguished between large and small enterprises in industry. Industrial and Commerce policies have been uniform for all scales of enterprises. As a consequence of which specific needs of Small and Medium Enterprises could not be addressed. SMEDA which was established in 1998, is creating the sense of importance of SMEs (Small and Medium Enterprises) within the Government for this crucial sector of the economy which provides low cost employment opportunities and helps the economy in two valuable ways: One for boosting exports and two in poverty reduction. Also, a strong SME presence provides the resilience to the economy from global economic fluctuations that the large business enterprises are unable to respond quickly.

SMEDA has embraced upon aggressive SME development strategy by focusing on 7 priority sectors. These sectors are gems and jewellery, dairy and agro-processing, fisheries, furniture, sports goods, light engineering, marble and granite. These sectors have been selected with the intention of developing sector strategies and proposing regulatory reforms to stimulate growth on the sole criterion of SME presence. The growth of SMEs has mainly been hampered by the non-availability of credit in the past. Realizing this constraint the government has opened two specialized non-credit banks namely, the SME Bank and Khushali Bank.

FUNCTIONS OF SMEDA

1. To provide and facilitate support services to SMEs and to serve as a key resource base for them.
2. To prepare a plan of action to revitalize the role of small business in the development of the country.
3. To act as voice of small business within the government and to ensure participation of private sector in the policy making process.
4. To generate massive employment opportunities at significantly low cost
5. To drive industrial growth towards value added exports.
6. To coordinate Small Business Finance Corporation and Micro Finance Banks, SME Bank and Khushhali Bank in arranging finance for self-employment schemes.

(4)----AGRICULTURAL CREDIT

The Planning Commission of Pakistan has mentioned that village development program cannot be successfully implemented unless and until credit needs of our farmers is fulfilled. Due to agricultural backwardness and low income of farmers, they need money not only for development purpose but also for their day today requirements. They need credit in order to increase efficiency and agricultural productivity. The credit can be classified into three groups i.e. short term, medium term and long term credit. The credit is required for various purposes as has been shown in the following table.

	Short term loan Up to one year needed for
1	Seeds
2	Fertilizers
3	Insecticides
4	Animal fodder
5	Natural calamities
6	Land revenue
7	Customs, traditions and litigation

	Medium term loan Up to 5 years needed for
1	Cattle
2	Tools and equipment
3	Water courses
4	Repairs of wells
5	Land leveling

	Long term loan Over 5 years need for
1	Purchase of new lands
2	Agricultural machinery
3	Sinking of tube wells
4	Land reclamation
5	Horticulture

SOURCES OF AGRICULTURAL CREDIT

	Non-Institutional sources
1	Relatives
2	Friends
3	Local shopkeepers
4	Commission Agents

	Institutional sources
1	Taccavi Govt Loans
2	Agricultural Bank
3	Commercial Banks
4	Cooperative Society

Under these source moneylenders, relatives, friends, shopkeepers and commission agents provide short-term loan to the farmer, which is repaid after the harvest. Moneylenders charge very high rate of interest. Commission agents know the farmers very well and do not demand much security for the loans advanced by them. The credit available from these sources is not sufficient enough for the requirement of agricultural development. Institutional sources are very important ones for meeting the credit requirement of our farmers.

B. COM – 2005
REGULAR

For details of each question please see relevant Chapter

Q-1 (a) = What are the determinants of economic development. How far they are applicable in Pakistan's economy. Explain

ECONOMIC DETERMINANTS FOR DEVELOPMENT

1. Nature resources
2. Capital formation
3. Specialization
4. Technology
5. Transport and communication
6. Entrepreneurship

NON- ECONOMIC DETERMINANTS FOR DEVELOPMENT

1. Social values, attitudes and attitudes
2. Political stability
3. Administrative efficiency
4. Economic freedom
5. Right of private property

HOW FAR THESE FACTORS ARE APPLICABLE TO PAKISTAN

All of the above determinants are not available in Pakistan; that is the reason that country is not developing fast. Obstacles in economic development of Pakistan are too many. These have been divided into economic, social and political obstacles. There is lack of capital, shortage of modern technology, lack of infrastructure, higher illiteracy rate, conservatism of people, lack of continuity in economic policies and political instability. It is therefore suggested that the above obstacles should be removed from the developing countries like Pakistan. The details of the above points have been discussed in the chapter of "characteristics of developing countries".

Q-1 (b) =What do you understand by Poverty. What strategy government adopted to eliminate poverty in Pakistan?

POVERTY IN PAKISTAN

Poverty means that people with a certain income may not be in a position to fulfill their basic needs of life, which include food, clothing, shelter, education and transport. In Pakistan poverty rate is 24 % and is continuously increasing. There are many reasons for the increase of poverty rate in Pakistan. The population is increasing at a very fast rate whereas resources of country are not sufficient enough to fulfill the needs of the people. Government is neglecting their social welfare programs. Since it is not providing state education and health facilities. Expenditure of the people on this account is increasing day-by-day making poor people poorer. Due to increase in population and lack of

industrialization and other development activities, unemployment is increasing which is causing poverty. Administrative machinery is very weak to control general prices.

MEASUREMENT OF POVERTY IN PAKISTAN

The Household Integrated Economic Survey is designed to monitor poverty status of population by collecting information on consumption expenditure at household level. With a representative sample size of 14706 households, it covered 5808 and 8898 households in urban and rural areas respectively. The Survey was started in July 2004 and completed in June 2005. Information of consumption / expenditure of 196 items including 89 food items were collected from each household. Consumption items include food items, frequently used, non-food expenses (household laundry, cleaning, personal care product, utilities, fuel, energy and transportation), other non-food expenses such as clothing, footwear, education, health and house rents. The poverty line is based on 2350 calories per adult per day.

The latest poverty line is Rs.878.64 per person per month. Head count ratio that is percentage of poverty line of population living below poverty line is 23.9. The percentage of population living below poverty line in rural areas has declined from 39.26% to 28.10 percent while those in urban areas has declined from 22.69 to 14.9 percent.

GENERAL CAUSES OF POVERTY IN PAKISTAN

1	Increase in population
2	Increase in prices of general commodities
3	Social welfare programs are neglected
4	Lack of employment opportunities
5	Uneven distribution of national wealth
6	Poor law and order situation

MEASURES TO REDUCE POVERTY

1	Utility Stores Corporation
2	Food stamps scheme
3	Zakat distribution system
4	Integrated public works program
5	Micro Finance bank

In order to reduce poverty from Pakistan, government is adopting several measures. Utility Stores Corporation is providing daily use items at subsidized rate. Its stores have been set up in different cities of the country. Government is also distributing cash money through zakat and Ushr mechanism. Under Integrated Public Works Program construction work of roads, canals, bridges and reclamation of land has already started which provides job opportunities. Price Control system has been strengthened and the government officials carry out frequent checking and inspection so that prices of essential goods may not increase. Measures to reduce poverty have been given as under: -

Pakistan's poverty reduction strategy has yielded handsome result in the shape of reduction in poverty. Although poverty has declined but the fact remains that 23.9 percent people of Pakistan still live below the poverty line. Further reduction in poverty is a major challenge for government. A clear lesson from the past is that sustained growth on a consistent basis is needed to reduce poverty. Macro economic stability is a prerequisite for sustained economic growth that brings poverty reduction and rising living standards that Pakistanis want to see. But macroeconomic stability is not sufficient. Rather it is the foundation on which to build a thriving economy. Successfully targeted social programs, fair and broad based fiscal regimes, labor markets that promote job creation and high quality education opportunities are also key to poverty reduction.

Q-2 (a) = Give salient features of population in Pakistan. Is growing population always a hindrance to economic development? Discuss.

SALIENT FEATURES OF POPULATION

Salient features of population of Pakistan can be divided into quantitative and qualitative ones, the same are as under: -

QUANTITATIVE FEATURES OF POPULATION

1. Population
2. Growth rate of population
3. Density
4. Average age
5. Literacy rate
6. Sex distribution
7. Age distribution

QUALITATIVE FEATURES OF POPULATION

1. Joint Family system
2. Class conflicts
3. Poor health
4. Customs and traditions
5. Lack of education and training
6. Contended nature
7. Dependence on agriculture

GROWING POPULATION IS NOT ALWAYS A HINDRANCE

Human resources are very important for economic development of a country. If the people are educated, well trained, skillful and healthy then they would be in a position to utilize country's natural resources in such a way that output of goods and services will enhance. There will be prosperity in the country and standard of living of the masses will increase. The country will become prosperous and will be developing by leaps and bounds. The best example in this regard is Japan. In Japan, natural resources are very less but Japanese are well educated, technically highly trained and hard working. That is the reason that Japan has developed economically. Similarly Singapore is a very small country and there are no natural resources, yet it has developed, the reason is that the people are very well educated, skillful and hardworking.

Human capital formation is the process of acquiring and increasing the number of persons who have skills, education and experience, which are critical for the economic development of a country. Human capital formation is thus associated with investment in man and his development as a creative and productive resource. Human capital formation means increase in productive potential and skills of the manpower. This is possible by providing education, training, expertise and better health facilities to the people. If people of a country are well educated, trained and healthy, they can develop their own techniques and efficient methods of production within the parameters of their own environment and culture. They can better use the national resources; can utilize foreign aid and grants more efficiently for economic progress the country. Since there is general unemployment in developing countries, human capital formation removes unemployment from the country. Educated and trained people become a source of increase in productivity and national income of the country. All these factors increase their standard of living as well as social and cultural values of the people. Thus we can conclude that growing population is not always a hindrance to the economic development of a country.

OR = What are the problems faced by the industrial labor in Pakistan. Explain. Write down the steps taken by the government to solve these problems

Problems faced by the industrial labor of Pakistan are as under: -

PROBLEMS OF INDUSTRIAL LABOR

1	Lack of education, training and health conditions
2	Poor working environment
3	Difference of race, culture and language
4	Lack of job security and low bargaining power
5	Lack of good relationship with the management
6	Unorganized trade unions and untrained labor leaders

STEPS ADOPTED BY GOVT. TO SOLVE LABOR PROBLEMS

1	Education and training
2	Medical facilities
3	Share in profit
4	Payment of bonus
5	Payment of gratuity
6	Pension benefits
7	Compensation of injuries
8	Security of service
9	Compulsory group insurance
10	Lay off benefits
11	Minimum wage.

The government has fixed minimum wages of Rs.4000 per month and after retirement he will get Rs.1300 monthly from the Social Security department. Labor will be provided

medical facilities through social securities hospital and in case of injury employer will pay compensation. In case of closure of industry labor will be paid layoff benefit. He will also get bonus and at least one of his child will be provided education. Training and education facilities will also be arranged for the labor himself.

Q-3 (a) = Why industrial sector of Pakistan is backward.

The industrial backwardness is due to the following reasons: -

REASONS OF INDUSTRIAL BACKWARDNESS

1	Shortage of investment capital
2	Shortage of infrastructure facilities
3	Lack of technical knowledge
4	Lack of by-product and subsidiary industries
5	Insufficient spare parts and repair workshops
6	Racial disturbances and political instability
7	Non-cooperative behavior of general public
8	Lack of industrial research
9	Poor and unskilled level of management
10	Over capitalization

Q-3 (b) = Describe role of cottage and small scale industries in economic development of Pakistan

COTTAGE INDUSTRIES

Small and Medium Enterprises (SMEs) is a new name given to cottage and small-scale industries. It is one and the same thing. Cottage industries are located in homes, operated by only family members and in which hand-made tools and equipment are used. Important cottage and small-scale industries of Pakistan are sports goods, surgical instruments, leather goods, handloom products, silver and gold ornaments, handicrafts, carpets, furniture making, embroidery and tailoring, bangles making etc.

Small and Medium Enterprises (SMEs) constitute the bulk of Pakistan's business landscape. The Economic Census of Pakistan-2005 lists 3.2 million business enterprises and SMEs constitute over 99 percent of all. Their share in industrial employment is estimated at 78 percent, in value addition approximately 28 percent and in manufacturing exports earnings at 25 percent. Nearly 53 percent of all SME activity is in retail trade, wholesale, restaurants and hotel business whereas contribution of industrial establishments and those involved in service provision is 20 percent and 22 percent respectively. Among the SMEs involved in retail, wholesale and restaurant business, 98 percent employ less than 5 persons and 99 percent less than 10 persons. Manufacturing and other sectors also follow a similar pattern with 87 percent employing less than 5 persons and 98 percent less than 10 persons. All in all tremendous room for further

growth, rebalancing and productivity enhances exists in the SME sector

ROLE OF COTTAGE INDUSTRIES

1	Use of local machinery and local raw material
2	Employment opportunities
3	Increase in standard of living
4	Increase in export earnings
5	Act as by-product and subsidiary industries
6	Expansion in home market
7	Diversification in industrial products

Small Industries Corporations have been set up by the government in all the four provinces of Pakistan for the progress and development of small and cottage industries. These corporations have established industrial estates in almost all the important cities where all infrastructure facilities have been provided. Small Industries Advisory Services have been set up in order to provide counseling and guidance to newcomers. Carpet Training Centers are providing training to the carpet weavers. Handicrafts shops have been opened in all the big cities and towns in order to develop and extend the marketing of their products. SMEDA has been established to look after the affairs of small and medium size enterprises in the country.

Q-4 Privatization of industries in Pakistan is the only solution for increasing efficiency of industrial sector.
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PRIVATIZATION POLICY

Privatization is a process by which Govt. owned factories and services are transferred to private sector by their sale. The foreign businessmen /investors can also purchase these industries and services. In order to sale Govt. enterprises open bids are invited from the private sector. In some cases shares of the enterprises are sold through Stock Exchanges. Deregulation means reducing the rules and regulations and to make investments easy for the local and foreign investors. Now any foreign national can set up his factory anywhere in Pakistan without going through a complicated procedure of government permission.

ADVANTAGES OF PRIVATIZATION

1. Increase in efficiency and profitability
2. Increase in foreign investment and in export earnings
3. Broadening the base of share capital and stock market
4. Decrease in political pressure
5. Use of latest technology and know-how
6. Decrease in deficit financing
7. Increase in infrastructure facilities

Q-5 = Discuss problems of capital formation in Pakistan

CAPITAL RESOURCES

Capital formation consists of both tangible goods like plants and machinery and intangible goods like high standards of education, health, scientific tradition and research. It is the process of adding to the net physical capital stock of an economy in an attempt to achieve greater total output. The rate of accumulation of an economy's physical stock of capital is an important determinant of the rate of growth of an economy. It creates productive potential for future production. It has three stages namely savings, existence of financial institutions and capital market for mobilization of savings and finally act of investment in capital goods. Capital formation results in increase in employment opportunities increase in output of goods and services and the use of new and most modern technology. Following is the importance of capital formation

IMPORTANCE OF CAPITAL FORMATION

1	Vicious circle of poverty is broken
2	Increase in productivity
3	Increase in export earnings
4	Technological development
5	Increase in employment
6	Increase in the pace of industrialization
7	Increase in the economic growth rate

Capital formation results in improvement of economy. With the increase in machine and equipment total output increases, hence national income increases, hence national income and per capita income increases. This increases purchasing power and standard of living of masses. Since output of goods and services increases, price level goes down, which in turn increases welfare of the people. Employment opportunities also increase. Due to increase in local production, foreign imports are reduced, which in turn reduces burden on foreign exchange payments, rather balance of payments is improved. Since capital formation is carried on in all sectors of economy, including health, education and technical training facilities, the work-efficiency of manpower increases. In nutshell Capital formation quickens the pace of economic growth of the country.

PROBLEMS OF CAPITAL FORMATION

1	Low technology and lack of basic industries
2	Shortage of basic infrastructure facilities
3	Low level of education and technical knowledge
4	Lack of continuity in economic policies of government
5	Increasing foreign debt liability
6	Low rate of domestic savings

Q-6 = Examine role of foreign investment in industrial development of Pakistan

FOREIGN PRIVATE INVESTMENT

Foreign private investment or foreign direct investment is very helpful for the economic development of a host country provided they operate within certain restrictions, which are given below.

1. Limits on profit repatriation should be fixed
2. Foreign investment should have a joint venture with the local partners
3. Foreign investors should export certain proportions of their products.
4. Monopoly control/ anti-cartel laws should be enforced on foreign investors

ROLE OF FOREIGN PRIVATE INVESTMENT

1. Saving gap is fulfilled for economic growth
2. Foreign capital reduces foreign exchange trade gap
3. Government's income increases through taxes
4. Modern management, technology and skill is obtained
5. Superior value added goods are produced

Q-7 = Discuss role of mechanization in Agricultural development of Pakistan

ROLE OF MECHANIZATION IN AGRICULTURAL DEVELOPMENT

Mechanized farming means the use of mechanical appliances and scientific techniques for boosting agricultural production. In it mechanical tractors), hydrological, (tube wells) and chemical technologies (fertilizers), biotechnology (new varieties of seeds) are included. Mechanization as a tool for modernization of agriculture has been well recognized. Mechanization generates greater cropping intensity and as such improves productivity. It also results in considerable saving of fodder and feed through a reduction in bullock population. Thus, a transition from subsistence farming to commercial farming can only be achieved through transfer of the most efficient and cost effective technology to farming system. The efficient use of scarce agriculture resources and accelerated agriculture mechanization is, therefore, vital and demand comprehensive strategic planning for the future. In consideration of the role of precision in farm operations, the use of machinery has been encouraged through provision of credit availability by commercial banks. Demand for tractors has outstripped local production. In order to meet tractor's demand, new investors have been engaged in order to enhance local production for meeting rising demand of farmers.

USEFULNESS OF MECHANIZATION

1	Increase in output
2	Increase in standard of living
3	Facility in transportation
4	Multiple cropping
5	Increase in job opportunities

DEMERITS OF MECHANIZATION

1	Lack of financial resources
2	Lack of technical training
3	Urbanization problem
4	Foreign exchange burden
5	Diversion of capital resources
6	Socio economic disparity

SUGGESTIONS TO INCREASE MECHANIZED FARMING

Government should adopt the following measures for mechanizing agriculture: -

1. Reduce the prices of machines/equipments used in agricultural sector.
2. Provide electricity (used or tube wells) at a low rate.
3. Set up workshops for repairs of machinery.
4. Establish technical training centers in villages.
5. Provide loan facilities to the farmers at a low interest rate.
6. Cooperative farming should be started to control fragmentation of land.

Q-8 (a) = Define budget and explain the main sources of revenue budget
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WHAT IS BUDGET?

Budget is an annual statement of expenditures and revenues of the federal government, which is prepared by Ministry of Finance in consultation with other government departments, Planning commission, and the provincial governments. After preparation the budget is presented in the National Assembly for discussion and approval. The main aim of the budget is to finance the current expenditures of the Federal government such as salaries to employees, maintenance of law and order situation, and to create infra structure and to complete development schemes needed for economic development of the country. It has two components, which are as under: -

1- REVENUE BUDGET

It covers revenue from direct and indirect taxes i.e. income tax, custom duty, excise duty, and corporate tax etc. It is prepared with the consultation of provincial governments.

2. DEVELOPMENT BUDGET

It includes expenditures on the development programs i.e. construction of dams, roads, railways and irrigation projects etc. Development budget is prepared in consultations with provincial governments and Planning Commission of Pakistan, because Planning Commission prepares the development projects.

MAIN SOURCES OF REVENUE BUDGET OF GOVT. OF PAKISTAN.

1. Tax revenue, CBR
2. Non- tax revenue
3. Net capital receipts
4. External Resources

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5. Self-financing of PSDP by provinces
 6. Change in Provincial cash balance
 7. Privatization proceeds
 8. Bank borrowing

Q-8 (b) = Explain the reasons for deficit financing

REASONS FOR DEFICIT BUDGETING

Deficit budget means that Govt. expenditure is more than its income from taxes and fee etc. Resources for deficit budget are met by borrowing, which is called Deficit Financing. In Pakistan deficit financing is needed because Development programs require huge finance whereas domestic savings and income from taxes are not sufficient enough for this purpose. Increasing savings habits, population control, elimination of corruption, decrease in non-productive expenditure and increase in agricultural and industrial products can remove budget deficit.

MEASURES FOR REMOVING DEFICIT BUDGET

1. Saving habits should be increased
2. Output of agricultural and industrial sectors should be increased
3. Non-productive expenditures should be decreased
4. Political stability should be maintained
5. Economic policies should have continuity
6. Tax department should be strengthened and tax collection be increased
7. Fiscal discipline should be maintained
8. Population growth should be checked

Q-9 (a) = What is meant by economic planning. Discuss need and role of planning.

ECONOMIC PLANNING IN PAKISTAN

Economic planning is the making of major economic decisions—what and how much is to be produced and to whom it is to be allocated by the conscious decision of a determinate authority, on the basis of a comprehensive survey of the economic system as a whole. Planning is a technique for achieving certain self-defined and pre-determined goals laid down by a central planning authority. It is a conceiving, initiating, regulating and controlling economic activity by the State according to set priorities with a view to achieving well-defined objectives within a given time. It is planning alone which can guarantee quick economic growth in the under-developed countries.

NEED OF ECONOMIC PLANNING

1	Increase in the rate of economic development
2	Diversification of economy
3	Price stability
4	Higher standard of living
5	Improving the balance of payments

Q-9 (b) = What measures have been taken by the government of Pakistan to promote exports. Elaborate

Following measures have been taken by the government to promote exports: -

Since 1999 Pakistan has embarked on an export-led growth strategy, which is being managed through successive trade policies. Government believes that consistency and continuity in policies allied with facilitation, is the key to all successful initiatives in trade related areas. This has translated into emphasis on liberalization of our import regime and facilitation of our stakeholders i.e. businessmen and exporters so that the cost of doing business for them was reduced and they could create exportable surpluses after adding value. Having put Pakistan on a continuous path as far as exports are concerned the new objective is to significantly increase rate of export growth by adopting a Rapid Export Growth Strategy which has been drawn-up and is based on the following five pillars: -

MEASURES FOR INCREASE IN EXPORTS

The Trade Policy 2005-06 is being implemented with letter and spirit. For rapid growth of export, government has taken following steps out of which some have already been implemented and other in process of implementation so that the exports may increase.

1	Increase in exports by providing different incentives
3	Increase in invisible earnings
4	Search of new markets
5	Quality and packaging of international standard
6	Revival and restoration of sick industries
7	Foreign in joint ventures
8	Promotion of labor intensive industries
9	Diversification of exports
10	Trade facilitation
11	Increased market access
12	Enhancing export competitiveness by reducing cost of doing business
13	Capacity building on WTO and trade negotiations
14	Developing export of services
15	Improving compliance of quality infrastructure
16	Setting up and improving the working of Export Promotion Bureau
17	Establishing the Export Processing Zones

1. -----Decrease in cost of production, for which rate of interest for setting up exports oriented industries has been reduced.
2. -----Cost of transport particularly railway freight has been minimized.
3. -----Custom duties on the export-oriented industries have been reduced.
4. -----Modern techniques of production are being used.
5. -----Instead of exporting raw material, value added goods are produced and exported.

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6. ----Goods of different varieties keeping in view demand and requirement of foreigners is being developed, produced and exported.
 7. ----Efficiency of Trade Attaches of Pakistan Embassies has been improved. It is their duty to do their best for developing markets for Pakistani products in the countries they are posted.
 8. ----Domestic commercial banks and insurance companies have been strengthened and have been given the task for facilitating Pakistan's international trade.
 9. ----Govt. officials and business community is participating in trade fairs arranged by foreign countries.
 10. ---Trade Agreements with different countries have been made.
 11. ---Seminars & Trade Exhibition are arranged within country in which foreign delegates are invited to participate.
 12. ---Booklets, brochures, pamphlets about Pakistani products and economy of Pakistan are being distributed to foreign business community.
 13. ---Research for marketing is being conducted.
 14. -- Exportable Goods of international standard and their packaging should meet the same standard. Good packaging provides safety and security of the product and is not destroyed during handling and shifting process.
 15. ---Pakistan's exports can be pushed up after collaboration with foreign investors. The foreign partners have more contacts in foreign markets and in order to increase profitability of industry, foreign partners will market the products in their countries hence Pakistan's exports will increase.
 - 16.---Small and cottage industries are labor-intensive. Products utilizing more cheap labor will have a comparative cost advantage, which will help in the decrease in cost. Industries such as carpets, leather goods, readymade garments, surgical instruments and sports goods have been developed for export purpose.
 17. -- Focusing on regions neglected by Pakistani exporters i.e. regions like Africa, Latin America, Eastern Europe, Central Asia and the Far East.
 18. ---Provision of physical infrastructure by the government to spur investment

Q-10 = Write notes on any two of the following :-

- (1)= Export processing zone
- (2)= Balance of trade and balance of payments
- (3)= Natural resources and economic development
- (4)= Role of communication in economic development

(1)----EXPORT PROCESSING AUTHORITY / ZONES

Govt. has established Export Processing Zones Authority in 1980 with the mandate to plan, develop and manage export-processing zones in Pakistan. The objectives of the authority are as under: -

1. To attract foreign capital, technology, modern management skill for exports industrial growth.
2. To provide new employment opportunities for Pakistanis and to upgrade their managerial and technical skill.

-
3. To provide a growing market at home for country's raw material, semi manufactured goods, sub-contracting and service industries
 4. To increase the foreign exchange earnings of the country by export of value added items.
 5. To provide a show window for displaying the ability and enterprise of country's work force to attract foreign investment in the country.
 6. To create a source of supply for such components and parts as are imported for domestic needs whether industrial or otherwise.

Export processing zones have been established for those industries, which are engaged in the production of exportable goods. The entire infrastructure is made available their and all facilities are given to these industries in order to increase export earnings of the country. Karachi Export Processing Zone has developed 211 acres of land.

(2)----BALANCE OF TRADE AND BALANCE OF PAYMENTS

Balance of Trade is a statement of imports and exports of goods. Balance of trade is usually against Pakistan. Pakistan's exports earnings from raw cotton, textile goods, rice, leather and surgical products are very less where as expenses on imports of machinery, industrial raw material, petrol, and on electronic goods are greater. Pakistan receives less and pays more, which makes its balance of trade unfavorable.

Balance of Invisible is always against Pakistan. It is a statement of Pakistan's use of foreign ships, insurance companies and banks for which Pakistan has to make payments in foreign currency. Pakistani does not have ships, banks and insurance companies abroad, which may perform services and earn foreign exchange. The drain of foreign exchange is too much on this account.

Balance of Payments is always against Pakistan. It is a statement of a country's trade (visible) and financial transactions (invisible) with the rest of the world. Since both the above balances are against Pakistan, therefore final balance of payments is also against it. This is being balanced by borrowings from World Bank, IMF and friendly countries. Unfavorable balance of payment increases the debt liability of Pakistan.

(3)---NATURAL RESOURCES AND ECONOMIC DEVELOPMENT

Natural resources are backbone for the industrial development of a country. These resources play a dominant role in accelerating the pace of progress and prosperity. Natural resources are divided into minerals, forests and hydle power/energy. Natural gas is used in domestic cooking, thermal power stations, and steel furnaces and as a raw material for fertilizer industry and in CNG kits for transport purpose. It is used almost in every industry. Petroleum or Crude oil is used in transport, power-generating stations, in iron and steel furnaces. Petroleum is known as black liquid gold. Of the total requirement only 40 percent is produced within the country and the rest is imported from abroad. Coal is used in thermal power stations and in furnaces for making bricks. About 80 percent of cement industry has now switched over to indigenious coal from furnace oil that has saved considerable foreign exchange being spent on the import of furnace oil. Quality of coal is

not very good. Chromites are used in making engineering tools and stainless steel. Copper is used in electrical equipment, power and communication transmission lines. Gypsum is used in the manufacture of cement, fertilizers and plaster of paris. Iron ore is used in making steel and engineering products. Quality of iron ore is not of good standard. Rock salt is used for cooking as well as in the manufacture of soda ash. It is also used in textile and tanning industries. Marble is used for decoration in construction industry. It is available in great quantities at various places of the country. Limestone is used in manufacture of cement, bleaching powder, and glass and paint industries. It has rich deposits in the country

(4) –ROLE OF COMMUNICATION IN ECONOMIC DEVELOPMENT

PAKISTAN'S COMMUNICATION SYSTEM

1	Postal services or Post offices
2	Telephone and Telegraph offices
3	Mobile phones
4	Radio Broadcasting and F.M. radios
5	Television and TV cable system
.6	Computers and Information technology, E-mails

IMPORTANCE OF COMMUNICATIONS

Most modern means of communications are mobile phones and information technology. Computer has become the nerve center of every business. Now computers have changed the way some businesses and industries function. Computers have become so fundamental to modern society that without them our economy would grind to a halt. They are such flexible tools that most people in the business community use them every day. Office workers use them to write letters, keep employee rosters, create budgets, communicate with business partners locally and internationally, find information, and manage projects and so on. You can send your letters, orders, and messages in any part of the world through e-mail, in seconds, with almost no cost. Businessman can communicate with foreign clients at any time. Computers are very vital in accounting departments. For organizing and manipulating large sets of numbers, which accounting department do daily, computers are now considered essential. Computers are used to juggle budgets, create purchase orders, track expenses and income. Any time we go to the bank, renew a subscription, call information for a phone number or buy something out of a catalog, we are benefiting from computers.

Computers have assumed much importance in the modern business world.. In business they process and keep record, payrolls and do other jobs. They have helped in making credit cards issued by institutions like visa. Twenty first century is definitely an age of information technology. Such technology is now needed in all walks of life. This technology has become every much sophisticated and advanced in Western countries. If we want to keep pace with other nations of the world then we have to adopt his novel technology in our every walk of life.

B. COM – 2005

EXTERNAL

For details of each question please see relevant Chapter

Q-1 (a) = Differentiate between economic growth and economic development.
Explain factors responsible for economic development.

DIFFERENCE BETWEEN ECONOMIC DEVELOPMENT AND GROWTH

Economic development means increase in output of goods and services in an economy. Economic development is more important than economic growth because economic development is wider and more comprehensive process than economic growth. Economic development is a process of economic transition involving structural transformation of an economy through industrialization, raising gross national product and per capita income. Economic development is a **qualitative terms** because it indicates continuous increase in the real national income and structural changes in the economy of a country.

Economic growth is a **quantitative term** because it represents quantitative increase in production of goods and services in an economy. Economic Growth is a steady process by which the productive capacity of an economy increases overtime to bring about rising levels of national output and income. Economic growth is the name of more production. Growth is measured in terms of an increase in real gross national product (GNP or GDP) over time or an increase in per capita income.

FACTORS RESPONSIBLE FOR DEVELOPMENT

Following factors are required for the economic development of a country: -

ECONOMIC FACTORS FOR DEVELOPMENT

1	Natural resources
2	Capital formation
3	Specialization
4	Technology
5	Transport and communication
6	Entrepreneurship

NON- ECONOMIC FACTORS FOR DEVELOPMENT

1	Social values and attitudes
2	Political stability
3	Administrative efficiency
4	Economic freedom
5	Right of private property

Q-1 (b) =Discuss main obstacles in economic development of Pakistan

MAIN OBSTACLES IN ECONOMIC DEVELOPMENT

Obstacles in the economic development of Pakistan are too many, some of them have been given as under: -

1. Undeveloped agriculture
2. Population pressure
3. General and disguised unemployment
4. Lower per capital income and poverty
5. Unequal distribution of national income
6. High Inflation rate/Higher prices
7. Low level of technology
8. Insufficient infrastructure
9. Undeveloped institutional system
10. Industries are not sufficient enough
11. Shortage of entrepreneur skills
12. Deficit balance of payment
13. Dependence on foreign aid and grants
14. Natural resources are not properly exploited
15. Lack of continuity in economic policies

Q-2 = Describe reasons of power shortage in Pakistan. What steps the Govt. of Pakistan has taken to develop these resources. Elaborate

REASONS OF POWER SHORTAGE

On an average the household sector has been the largest consumer of power electricity, accounting for 44.3% of total electricity consumption, industries 29.1%, agriculture 12.8 %, government sector 7.3 %, commercial 5.8 %, and street lights 0.6 %. The number of electricity consumers has increased over the years due to rapid extension of electric supply to villages and fast urbanization. The number of consumer has increased to 15.6 million till March 2006 showing an increase of 5 % over last year. Another reason the line losses.

Village electrification program is an integral part of the total power sector development program as an attempt to increase the productive capacity and socio-economic standard of population living the far-flung areas of the country. Govt. has planned to electrify all the villages in the country by 2007. Moreover due to rapid industrial program, more industries are being set up which use electricity/power. Due to increase in general welfare and standard of living of the people more electrical domestic appliances are used which results in increase in the consumption of power.

DAM-POWER DEVELOPMENT PROGRAM

The optimal utilization of hydroelectric potential is prioritized in the power development program. Govt. has approved construction of hydroelectric projects/ new dams under the

Vision-2005 program. Additional gas turbines at Shahdara, 80MW from Sugar Mills 50 MW and Will Mill Project of 100 MW are planned to be commissioned in 2006-07 and various other hydro development projects are under way.

KARACHI ELECTRIC SUPPLY CORPORATION

The installed capacity of KESC is 1756 MW where as its demand is 2063 MW. The projects to be undertaken in the near future of KESC include an increase in generation capacity by 1,000 MW, addition to network capacity and enforcements of standard operation procedures.

NUCLEAR POWER ENERGY

Two nuclear power plants at Karachi and Chashma are in operation. Another project at Chashma is under progress. Kanupp at Karachi has generated 143 million Kwh electricity while Chashma project has generated 1681 million kwh during 2005-06, In order t o meet increasing demand of power, Govt. has approved of an Energy Security Plan in 2005. This plan envisages a nuclear capacity of 8800 MW by 2030 and according to this plan the share of nuclear electricity is expected to increase to 8 % in 2030 from the 3.3 percent

Q-3 = Identify the problems of agricultural sector in Pakistan. What measures do you suggest for their improvement. Explain

PROBLEMS OF AGRICULTURE

Problems of agriculture sector in Pakistan are the following: -

1	Under utilization of cultivatable land
2	Uneconomic holdings
3	Concentration of land ownership
4	Lack of irrigation facilities
5	Old methods of cultivation
6	Shortage of finance
7	Inadequate supply of inputs
8	Water logging and salinity
9	Soil erosion
10	Natural calamities
11	Insufficient infrastructure
12	Absence of regulated markets
13	Lack of education and training
14	Improper agricultural research
15	Lack of alternative occupations

SUGGESTIONS FOR IMPROVEMENT IN AGRICULTURAL SECTOR

In my opinion the government for improvement in agricultural sector should adopt following measures: -

1. CONTROL OF WATER LOGGING

Agricultural productivity can be increased provided water logging is controlled and already affected lands are reclaimed. More tube-wells should be installed in affected areas. Increasing the cultivatable area can increase the agriculture product. Using the barren lands and reducing the water logging can increase output thus, more land should be developed and brought under cultivation.

2. SUPPLY OF INPUTS

Govt. should provide adequate supply of better quality seeds and fertilizers at a subsidized rate. Seed Testing Laboratories should be improved.

3. MECHANIZATION

Mechanized farming results in greater production hence there is a need of modern technology for increase in agricultural product. Bulldozers, tractors and trolleys should be made available to farmers at low prices.

4. CREDIT FACILITIES

Govt. should establish branches of financial institutions in villages and should provide loans at a very low interest to the farmers.

5. PRICE SUPPLY POLICY

Govt. should fix reasonable prices of wheat; rice, cotton, sugar and other agricultural products so that farmers may not suffer rather their financial position are improved.

6. CONSTRUCTION OF FARM TO MARKET ROADS

It is suggested that Govt. should construct roads and bridges to link farms with the markets in order to reduce time and cost of transportation. Quick and easy accessibility of markets increases income of farmers thus their economic position will improve.

7. PRICE AWARENESS

Govt. should provide information about the prevailing prices of the products relating with the agricultural sector in different markets through newspapers, radio and TV and radio programs should be presented for awareness about modern techniques of cultivation.

8. BIG STORES AND COLD STORAGES

Big stores and cold storages should be constructed in regulated markets so that the farmers' output is properly and safely stored and no damage is done to it. Tax concessions be given to those people who construct these stores.

9. REGULATED MARKETS AND UNIFORM WEIGHTS

Regulated markets be set in all part of the country and where uniform weights and measurements system should be introduced so that the farmers may not be cheated and they may get the proper return of their produce.

10. DEVELOPMENT OF IRRIGATION WATER

Water shortage is a great problem to our agriculture. More water dams, canals and tube wells and cemented watercourses should be constructed.

11. PLANT PROTECTION DEPARTMENT

Plant Protection Department should be developed to protect crops from various kinds of pests and insecticides

Q-4 = Distinguish between balance of payments and balance of trade. What are main reasons of unfavorable balance of payments of Pakistan? Suggest measures to correct it.

BALANCE OF TRADE AND BALANCE OF PAYMENTS

Balance of Trade is a statement of imports and exports of goods. Balance of trade is usually against Pakistan. Pakistan's exports earnings from raw cotton, textile goods, rice, leather and surgical products are very less where as expenses on imports of machinery, industrial raw material, petrol, and on electronic goods are greater. Pakistan receives less and pays more, which makes its balance of trade unfavorable.

Balance of Payments is always against Pakistan. It is a statement of a country's trade (visible) and financial transactions (invisible) with the rest of the world. Since both the above balances are against Pakistan, therefore final balance of payments is also against it. This is being balanced by borrowings from World Bank, IMF and friendly countries. Unfavorable balance of payment increases the debt liability of Pakistan.

MAIN REASONS FOR UNFAVORABLE BALANCE OF PAYMENTS

The main causes of deficit in the balance of payments of Pakistan are as under: -

1. Decrease in exports
2. Increase in imports
3. Lack of modernization of export oriented industries
4. Import restrictions by developed countries
5. Increase in invisible expenditures
6. Unfavorable terms of trade
7. Devaluation of currency
8. Fall in workers foreign remittances

MEASURES FOR CORRECTING BALANCE OF PAYMENTS

Following measures should be taken to correct adverse balance of payments Pakistan

1. Increase in exports
2. Decrease in imports
3. Increase in invisible earnings
4. Search of new markets
5. Improvement in quality and packaging of international standard
6. Revival and restoration of sick industries
7. Foreign joint ventures
8. Promotion of labor-intensive industries

Q-5 (a) = Discuss importance of Human Capital

IMPORTANCE OF HUMAN CAPITAL

Human capital is very important for the economic development of a country. If the people are educated, well trained, skillful and healthy then they would be in a position to utilize the country's natural resources in such a way that output of goods and services will enhance. There will be prosperity in the country and standard of living of the masses will increase. The country will become prosperous and will be developing by leaps and bounds. The best example in this regard is Japan. In Japan, natural resources are very less but the Japanese are well educated, technically highly trained and hard working. That is the reason that Japan has developed economically. Similarly Singapore is a very small country and there are no natural resources, yet it has developed the reason is that the people are very well educated, skillful and hardworking.

Human capital formation means the process of acquiring and increasing the number of persons who have skills, education and experience, which are critical for the economic and political development of a country. Human capital formation is thus associated with investment in man and his development as a creative and productive resource. Human capital formation means increase in productive potential and skills of the manpower. This is possible by providing education, training, expertise and better health facilities to the people. If people of a country are well educated, trained and healthy, they can develop their own techniques and efficient methods of production within the parameters of their own environment and culture. They can better use the available national resources; can utilize the foreign aid and grants more efficiently for economic progress and prosperity of the country. Since there is general unemployment in developing countries, the human capital formation removes unemployment from the country. Educated and trained people become a source of increase in productivity and national income of the country. All these factors increase their standard of living as well as social and cultural values of the people

Q-5 (b) = Examine role of small & cottage industries in economic development of Pakistan

ROLE OF SMALL AND COTTAGE INDUSTRIES

Small and Medium Enterprises (SMEs) is a new name given to cottage and small-scale industries. It is one and the same thing. . Cottage industries are located in homes, operated by only family members and in which hand-made tools and equipment are used. Important cottage and small-scale industries of Pakistan are sports goods, surgical instruments, leather goods, handloom products, silver and gold ornaments, handicrafts, carpets, furniture making, embroidery and tailoring, bangles making etc. In rural areas the most important ones are poultry farming, sericulture, and bee keeping.

Small and Medium Enterprises (SMEs) constitute the bulk of Pakistan's business landscape.. The Economic Census of Pakistan-2005 lists 3.2 million business enterprises and SMEs constitute over 99 percent of all. Their share in industrial employment is

estimated at 78 percent, in value addition approximately 28 percent and in manufacturing exports earnings at 25 percent. Nearly 53 percent of all SME activity is in retail trade, wholesale, and hotel business whereas contribution of industrial establishments and those involved in service provision is 20 percent and 22 percent respectively. Among the SMEs involved in retail, wholesale and restaurant business, 98 percent employ less than 5 persons and 99 percent less than 10 persons. Manufacturing and other sectors also follow a similar pattern with 87% employing less than 5 persons and 98 % less than 10 persons.

ROLE OF SMALL AND COTTAGE INDUSTRIES

1	Use of local machinery and local raw material
2	Employment opportunities
3	Increase in standard of living
4	Increase in export earnings
5	Act as by-product and subsidiary industries
6	Expansion in home market
7	Diversification in industrial products

Small Industries Corporations have been set up by the government in all the four provinces of Pakistan for the progress and development of small-scale and cottage industries. These corporations have established industrial estates in almost all the important cities where all infrastructure facilities have been provided. Small industries Advisory Services have been set up in order to provide counseling and guidance to newcomers. Carpet Training Centers are providing training to the carpet weavers. Handicrafts shops have been opened in all the big cities and towns in order to develop and extend the marketing of their products.

Q-6 = What is importance of industries in Pakistan. Discuss features of a good industrial policy in a country like Pakistan.

IMPORTANCE OF INDUSTRIES

Industries play a dominant role in economic development of a country. Western countries standard of living is very high. They enjoy all comforts and luxuries of life due to higher productivity of goods and services in their countries. This is because of industrialization. There were no industries when Pakistan came into being but now with the efforts of Govt. and the people there is an improvement in this regard.

The overall manufacturing sector continued its positive trend during the current fiscal year. Overall manufacturing recorded an impressive and broad based growth of 8.6 percent. There has been a slight decline in growth in the manufacturing sector due to multiple reasons like reduced production of cotton crop, sugar shortage, steel and iron problems and the last but not the least global oil prices. All of these reasons contributed to reduced growth in 2005-06 but high levels of liquidity in the banking system, an investment friendly interest rate environment, a stable exchange rate, low inflation, comfortable foreign exchange reserves, stronger domestic demand for consumer durable

and high business confidence among other things will again boost the manufacturing sector growth rate up to a reasonable level

IMPORTANCE OF INDUSTRIES IN ECONOMIC DEVELOPMENT

1	Increase in national income
2	Increase in employment opportunities
3	Increase in productive capacity
4	Development in agriculture
5	Increase in government revenues
6	Improvement in balance of payments
7	Economic stability and political domination

SALIENT FEATURES OF A GOOD INDUSTRIAL POLICY

Industrial policy refers to the behavior which a govt. adopts in relation to industrial sector. This policy is a collection of measures and strategies adopted by govt. from time to time for establishment, promotion and development of industries in the country and due to which a country enables to cater her industrial needs.

1. ----A good industrial policy should guarantee the development and promotion of all kinds of industries.
2. ----It should be free from any confusion and rules and regulations should be very much clear.
3. --- It discourages concentration of industries on a few places because localization of industries damages social, economic and political effects.
4. --- It promotes large-scale investment.
5. --- It should curb inequalities and owner's ship of industries should be expanded.
6. --- The industries should be coordinated and linked in a manner that they could mutually be helpful for one another.

In the past the pace of Pakistan's industrial development was badly affected due to lack of consistency and credibility in industrial policies. During the period of 1971 and afterwards government shifted her emphasis from private to public sector and nationalized large-scale industries including agro-based industries. The private sector was forced to lose its factories thus morale of private sector was shattered. The area of activities for private sector in industrial field was narrowed down. This act of the government shattered confidence of private industrial investors.

Q-7 (a) = Discuss the different means of transport and communication in Pakistan.

MEANS OF TRANSPORT AND COMMUNICATIONS

A strong, efficient and affordable infrastructure is a critical element of good investment climate and therefore, is a precondition to sustain the growth momentum. Transport and

Communications are important elements of infrastructure services and are essential in maintaining economic growth and competitiveness. Transport and communication sector in Pakistan, account for about 11 percent of GDP, 16 percent of fixed investment, 6 percent of employment and 15 percent of the public sector development program.

Transport includes:

(1) Roads (2) Railways (3) Air transport (4) Shipping

Communications includes:

(1) Post (2) Telegraph (3) Telephone (4) Radio (5) Television (6) Information technology

IMPORTANCE OF TRANSPORT AND COMMUNICATIONS

1. ---Helps in the expansion of internal and foreign trade
2. --- Increases employment opportunities
3. ----Increases government revenues
4. ----Develops unity and brotherhood among the people
5. ----Helps in the improvement of law and order situation
6. ----Stabilizes the price level
7. ----Reduces cost of production of goods
8. ----Helps in the expansion of education
9. ----Maintains the sound defense of the country
10. ---Develops the political awareness

IMPORTANCE OF ROAD TRANSPORT

The quality and reliability of transport infrastructure are critical to maintaining growth and competitiveness. Road, rail and shipping are three major components of transport infrastructure. Road transport is backbone of Pakistan's transport system, accounting for 90 percent of national passenger traffic and 96 percent of freight movement. Over the past ten years, road traffic, both passenger and freight, has grown much faster than the country's economic growth. The 9518 km long National Highway and Motorway network contributes 3.7 percent of the total road network and carries 90 percent of Pakistan's total traffic. Pakistan with about 155 million people has a reasonably developed transport system. However, when compared with other developed and developing countries, the road density of Pakistan is low. Road density indeed is the index of prosperity and development. With road density of 0.31- km/sq. km Pakistan intends to double it to 0.64- km/sq. km gradually over next 10 years.

IMPORTANCE OF RAILWAYS

Modern railways are one of the major sectors within transport system. Pakistan Railways, being the most effective transport system, plays a vital role in generating development opportunities. Railways has a definite and unmatched edge over road for long and bulk haulage of mass scale traffic, volume being safe, pollution free, environmental friendly and most economical as compared to any mode of transportation. Since 2000, Pakistan Railways has launched a modernization program with rehabilitation and improvement measures both for its infrastructure and rolling stock. Pakistan Railways plans to achieve

a stage of net profit from the year 2010. The emphasis would be to increase share of freight traffic for railway sector from existing 5.53 billion-ton kilometers to 10 billion-ton kilometers by 2010. Procurement of diesel and electric locomotives as well as high capacity/ high-speed freight wagons and passenger coaches have been planned.

IMPORTANCE OF INFORMATION TECHNOLOGY

Most modern means of communications are mobile phones and information technology. Computer has become the nerve center of every business. Now computers have changed the way some businesses and industries function. Computers have become so fundamental to modern society that without them our economy would grind to a halt. They are such flexible tools that most people in the business community use them every day. Office workers use them to write letters, keep employee rosters, create budgets, communicate with business partners locally and internationally, find information, and manage projects and so on. You can send your letters, orders, and messages in any part of the world through e-mail, in seconds, with almost no cost. Businessman can communicate with foreign clients at any time. Computers are very vital in accounting departments. Computers have assumed much importance in the modern business world.. In business they process and keep record, payrolls and do other jobs. They have helped in making credit cards issued by institutions like visa. Twenty first century is definitely an age of information technology.. If we want to keep pace with other nations of the world then we have to adopt his novel technology in our every walk of life.

Q-7 (b) = In the modern world, computer has become an important means of communication. Elaborate reasons.
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COMPUTER –AN IMPORTANT MEANS OF COMMUNICATION

Computers have changed the way some businesses and industries function. Computers have become so fundamental to modern society that without them our economy would grind to a halt. They are such flexible tools that most people in the business community use them every day. Office workers use them to write letters, keep employee rosters, create budgets, communicate with business partners locally and internationally, find information, and manage projects and so on. You can send your letters, orders, and messages in any part of the world through e-mail, in seconds, with almost no cost. Businessman can communicate with foreign clients at any place and at any time.

Computers are very vital in accounting departments. For organizing and manipulating large sets of numbers, which accounting department do daily, computers are now considered essential. Computers are used to juggle budgets, create purchase orders, track expenses and income. Any time we go to the bank, renew a subscription, call information for a phone number or buy something out of a catalog, we are benefiting from computers.

Computers have assumed much importance in the modern world. No nation can now do without it. Now computers are used in all branches of science and Arts. In business they process and keep record, payrolls and do other jobs. They have helped in making credit cards issued by institutions like visa. Twenty first century is definitely an age of

information technology. Such technology is now needed in all walks of life. This technology has become every much sophisticated and advanced in Western countries. If we want to keep pace with other nations of the world then we have to adopt his novel technology in our every walk of life.

Q-8 = Critically examine role of foreign investment in economic development of Pakistan

ROLE OF FOREIGN PRIVATE INVESTMENT

Foreign private investment is very helpful for the economic development of a host country provided they operate within certain restrictions, which are given below.

1. Limits on profit repatriation should be fixed
2. Foreign investment should have a joint venture with the local partners
3. Foreign investors should export certain proportions of their products.
4. Monopoly control/ anti-cartel laws should be enforced on foreign investors

ADVANTAGES OF FOREIGN PRIVATE INVESTMENT

1. Saving gap is fulfilled for economic growth
2. Foreign capital reduces foreign exchange trade gap
3. Government's income increases through taxes
4. Modern management, technology and skill is obtained
5. Superior value added goods are produced

DISADVANTAGES OF FOREIGN PRIVATE INVESTMENT

1. Profits and royalties are remitted which increases burden on balance of payment of Pakistan.
2. Foreign companies having superior products dominate local market therefore growth of local enterprises suffer a lot.
3. Foreigners established their factories in big cities for want of protection but it creates economic disparity between rural & urban areas of the country.
4. Foreigners develop friendship with the politician and bureaucrats, they provide respectable jobs to their sons and relatives and then use their economic power in influencing government polices to their advantage
5. Foreign companies having large capital and modern technology operate on monopolistic situation and exploit consumers by charging heavy prices.
6. Stimulate inappropriate consumption patterns through advertising, such as KFC. Pepsi cola, Walls and Mobile phones.
7. Foreign private investment increases foreign exchange liability by using imported raw material.

Q-9 (a)=What are main objective of Fiscal policy. How budget deficit can be controlled

FISCAL POLICY

Fiscal policy of Government of Pakistan primarily deals with levels and composition of taxation, spending and borrowing by Government. Fiscal policy encompasses several fundamental policy issues, including the proper role and size of the State, role of Government in promoting growth, creating jobs, social development and redistribution of benefits of economic growth, nature and extent of public services and fairness between the present and the future generations.

OBJECTIVES OF FISCAL POLICY

Government’s fiscal policy has both microeconomic and macroeconomic objectives.

(1)-**Microeconomic objectives** include an improved distribution of income and wealth, equitable access to social services, meeting the basic needs of the poor, promoting investment in public goods and enhancing efficiency with which public and private sectors produce goods and services and their responsiveness to the needs of consumers.

(2)-**Macroeconomic objectives** relate to evolution of the economy as a whole—national income and output, jobs, inflation and the balance of payments. Fiscal policy must also ensure that the level and structure of taxes promote equality and redistribution, and do not interfere unduly in people’s investment and consumption decisions.

OBJECTIVES OF FISCAL POLICY

1	Attainment of maximum welfare of common man
2	Increase in the employment opportunities
3	Equitable distribution of national wealth
4	Development of rural areas and reduction in disparity
5	Control on inflation/price level
6	Provision / development of health / education facilities
7	Reduction in non-development expenditure
8	Encouragement of private investment
9	Fuller utilization of national resources
10	Improvement in balance of payments position

HOW BUDGET DEFICIT CAN BE REMOVED

1. Saving habits should be increased
2. Output of agricultural and industrial sectors should be increased
3. Non-productive expenditures should be decreased
4. Political stability should be maintained
5. Economic policies should have continuity
6. Tax department should be strengthened and tax collection be increased
7. Fiscal discipline should be maintained
8. Population growth should be checked

	Medium term loan Up to 5 years needed for
1	Cattle
2	Tools and equipment
3	Water courses
4	Repairs of wells
5	Land leveling

	Long term loan Over 5 years need for
1	Purchase of new lands
2	Agricultural machinery
3	Sinking of tube wells
4	Land reclamation
5	Horticulture

SOURCES OF AGRICULTURAL CREDIT

	Non-Institutional sources
1	Relatives
2	Friends
3	Local shopkeepers
4	Commission Agents

Under these source moneylenders, relatives, friends, shopkeepers and commission agents provide short-term loan to the farmer, which is repaid after the harvest. Moneylenders charge very high rate of interest. Commission agents know the farmers very well and do not demand much security for the loans advanced by them. The credit available from these sources is not sufficient enough for the requirement of agricultural development.

	Institutional sources
1	Taccavi Govt Loans
2	Agricultural Bank
3	Commercial Banks
4	Cooperative Society

(2)----- WORLD TRADE ORGANIZATION

WTO is involved in rule making in areas that go beyond the narrowly conceived confines of international trade. Globalization is the extraordinary explosion of both technology and information, finance, trade in goods and services in ways that have considerably reduced the twin concepts of time and space. It refers to global economic integration of many formerly national economies into one global economy, mainly by free trade and free capital mobilization. Globalization is open up countries but is also marginalizing those who cannot survive within the new competitive framework. The pragmatic counter arguments to this view are that the WTO offers both challenges and opportunities for

developing countries to expand trade, access advanced production and communication technologies and restructure their economies towards promoting economic development with a better quality of life for more people. Under WTO rules use of quantitative restrictions are discouraged unless as a safeguard measure by developing countries for emergency purposes if they can justify that they are using it to prevent serious injury to their domestic industries

EXPORTS OF PAKISTAN AND W.T.O.

1. Since quota restrictions will be eliminated, demand of cotton yarn, cotton fabrics, bed sheets, terry towels of Pakistan in international market will increase and its price will also go up.
2. The of leather and leather products of Pakistan may decrease because of restriction on their imports in foreign countries due to environmental issues. Hence Pakistan will have to find out pollution problem of this industry.
3. Under WTO regime international standard of production and packaging have to be observed otherwise exports of rice, fruits and vegetables are likely to decrease due to their low and sub-standard product.
4. Pakistan will be benefited from export of its agricultural products such as rice, fruits and vegetables as these goods are highly demanded in international market.

(3)----EXPORT PROMOTION BUREAU

This Government department helps in the exports of locally produced goods by arranging exhibition, seminars and inviting prospective foreign investors. It also arranges exhibitions of Pakistani products in international markets and disseminates different types of information for progress and development of industrial sector. Investment Promotion Bureau provides the names and addresses of the prospective foreign importers of the Pakistani goods to the local manufacturers, so that they may contact them. It remains in contact with the trade and commercial counselors of the embassies for introducing them the locally manufactured goods.

(4)-----PRIVATIZATION POLICY

Privatization is a process by which Government owned factories and services are transferred to the private sector by their sale. The foreign businessmen /investors can also purchase these industries and services. In order to sale Government enterprises open bids are invited from the private sector. In some cases shares of the enterprises are sold through Stock Exchanges. Deregulation means reducing the rules and regulations and to make investments easy for the local and foreign investors. Now any foreign national can set up his factory anywhere in Pakistan without going through a complicated procedure of government permission.

ADVANTAGES OF PRIVATIZATION

1. Increase in efficiency and profitability
2. Increase in foreign investment and in export earnings
3. Broadening the base of share capital and stock market
4. Decrease in political pressure
5. Use of latest technology and know-how
6. Decrease in deficit financing
7. Increase in infrastructure facilities
