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AN HISTORICAL EVALUATION OF "EXPORT-LED GROWTH" POLICY IN PAKISTAN

Abstract

An historical review of Pakistan's trade history shows that economy had led exports more than the export led the economy. Economic growth has responded to the emphasis on domestic market rather than on trade. Economic growth was robust in 1980s but the rate of growth of exports was even less than the average annual export growth of 1970s. The slogan 'export-led growth' was adopted in 1990s but the rate of growth of exports fell from 13.5% in 1970s to 5.6% in 1990s and the average annual GDP growth remained less than 5%. The slogan export-led growth coupled with extreme liberalization of trade has seen imports immensely outstripping exports to open an alarming current account deficit in the 2000s.

Introduction

Over the past three decades a number of studies have investigated the export-growth relationship. Many (Khan and Saqib 1993, Khan et.al. 1995, Mutairi 1993, Akbar and Naqvi 2000, Afzal 2004, Shirazi and Manap 2005, Afzal 2006a) have explored the relationship between exports and economic growth in Pakistan using different econometric techniques. Some have supported export led growth. Other studies have examined the aforementioned relationship in a cross-country context including Pakistan (Anwar and Sampath 2000, Ahmed et. al. 2000, Kemal et. al. 2002, Bahmani-Oskooee and Alse 1993, Dutt and Ghosh 1996). These studies have reported divergent results and have generally not examined export-growth nexus in a historical context.

Government of Pakistan adopted a comprehensive programme of macroeconomic reforms in late 1980s that included trade liberalisation and export promotion besides inflation, fiscal and current account management. Export promotion (EP) strategy was emphatically espoused in early 1990s while in the early decades of its history Pakistan had followed a vigorous import substitution (IS) strategy. Exports have not figured prominently in the economic growth and development of Pakistan's economy since the earlier years.

Trade Policy and Economic Growth

Below we present a decade-wise historical account of trade policy in order to see its role in economic growth.

1950s: Import Substitution

Pakistan inherited a weak industrial base. There was no large scale manufacturing industry. The resource base of Pakistan for large-scale industrialisation was both narrow and weak because of small share in existing industries at the time of partition, scarcity of minerals and industrial raw material and absence of commercial and industrial groups (Papanek 1967).

The early architects of Pakistan's economy decided to develop the economy which was formerly integrated to the undivided Indian economy on independent lines. The non-devaluation decision in September 1949 was materialization of the said approach. The government justified the decision on the ground that Pakistan's exports mainly consisted of agricultural raw material, had low supply elasticity and also faced an inelastic world demand (Meenai 1958). This decision gave strong impetus to import substitutions (IS) industrialization. The trade between India and Pakistan remained suspended for eighteen months. Before this decision more than 50% of Pakistan's trade in 1948-49 (55.8% exports and 31.8% imports) was with India.

The share of manufacturing in GNP in 1949-50 was only 6% but even this was shared largely by the small- scale industries (4.4%). Despite 23.6% growth rate, the contribution of large-scale industry to GNP was not significant. It was only 9.34% compared to 53.2% of agriculture (Akhtar 1975). Korean War boom, non-devaluation decision and strict controls on imports caused impressive growth of large-scale manufacturing. Although industrial sector growth was spectacular, the overall growth rate of the economy hardly matched the increase in population so that there was no significant improvement in per capita income. When Korean War broke out, world demand for raw material increased tremendously and Pakistan's exports registered an increase of 109 per cent (Government of Pakistan (GOP) 1972-73). When the War ended in 1952, there was sharp decline in the level of exports and Pakistan faced severe balance of payments (BoPs) problems. Instead of devaluing currency government opted for physical controls on foreign trade which adversely affected jute and cotton exports that accounted for 76% of the total exports. However, 30% devaluation was affected in June 1955 but the level of exports failed to rise on a sustainable basis beyond one year (1955-56).

Table 1: Exports and Imports- selected years (1949-50 to 1969-70)

	1949-50	1954-55	1959-60	1964-65	1969-70
Exports (Rs. million)	1218	1223	1843	2408	3337
Imports (Rs. million)	1284	1103	2461	5374	5098
Ratio of exports to GNP	6.1	5.8	5.9	5.2	4.6
Ratio of imports to GNP	6.5	5.5	7.8	11.7	7.1

Source: CSO, Twenty- Five Years of Pakistan in Statistics, Karachi, 1972

The effect of trade on economic growth and the dependence of Pakistan's economy on the world market are depicted by the exports and imports ratio to GNP (Table 1). The ratio of exports to GNP declined gradually from 6.1% in 1949-50 to 5.2 % in 1964-65 and 4.6% in 1969-70.This shows relatively slow growth of exports, whereas the ratio of imports increased from 6.5% in 1949-50 to 11.7 % in 1964-65. No radical changes occurred in the structure of exports and it retained its agrarian raw material content. In 1949-50, the share of jute and raw cotton comprised 43% and 33% of the total value of exports respectively. Their share had dropped to 20% and 8% in 1970-71 (GOP 1972-73). Despite the substantial increase in the value-added by foreign trade from Rs.2.9 billion in 1949-50 to Rs.8 billion in 1968-69, its share in GDP during the period under review increased insignificantly from 11.6% in 1949-50 to 11.70 % in 1959-60 and 12.8 % in 1969-70.

It would be interesting to note that during the first nine years (1948-49 to 1958-59) the favourable trade balance was made possible by the large export earnings of raw jute from former East Pakistan. If West Pakistan is considered separately, we find that it had favourable balance of trade only in 1947-48 and 1950-51 (GOP 1980-81). The foreign trade performance during 1948-59 was not an encouraging feature of the economy. Imports increased from Rs.1620 million to Rs.2050 million whereas exports declined from Rs. 2554 million to Rs.1422 million during the period 1950-58. According to Ahmed (1980) official policies during 1950s reflected that trade pessimism was the dominant thinking of the policy makers in Pakistan. During 1950s the major concern and objective of the policy makers was to pursue vigorous IS industrialisation. It has been argued (Khan 1963, Lewis 1969) that IS strategy was not a well-thought out strategy. Lewis (1969) has argued that it was practical exigencies rather than conscious policy that provided the diversion of investible resources towards industry.

1960s: Multiple Exchange Rates

After the imposition of martial law in October1958, Ayub proceeded to correct the economic mismanagement of 1950s. The martial-law government adopted a number of measures to dismantle the system of physical controls on imports, prices, profit-margin and investment. In respect of foreign trade, export bonus scheme (EBS) was the most important policy to promote manufactured exports. The scheme did not include jute and cotton, Pakistan's major export commodities. The scheme contributed to promotion of exports in the initial years but in later years it led to misallocation of resources. It was in fact a "piecemeal" devaluation without giving full advantage of devaluation (Akhtar 1975). The EBS as well as monetary and fiscal policies discriminated against agricultural exports. Because of high tariff on consumer products that increased their domestic prices, trade became less profitable than industry (Lewis 1969). Liberal import policy was adopted. Foreign aid financed more than 55% imports in 1965 (Brecher and Abass 1972). When foreign aid declined after June 1965, liberal import policy was abandoned. The free list was reduced from sixty-six items in 1964 to fourteen in 1968. There was also a cut in the licensable list, but the bonus list increased from 215 in 1966-67 to 277 in 1970 (Ahmed and Amjad 1984: 249). During 1950s and 1960s, exports did not contribute significantly to GNP. They were less than 5% in 1960s, though the marginal share of exports increased in the first half of 1960s. Analysing the export behaviour in the 1950s and 1960s, Viqar and Amjad (1984: 26) conclude that export sector had never played a dominant role in the growth of the national economy. Its overall share had never been of great significance and Pakistan, except for a very brief period, had not had great success in the export market.

1970s: Oil Prices and Workers Remittances

Before the separation of East Pakistan (now Bangladesh) in December 1971, 50% exports of West Pakistan went to East Pakistan in exchange for 18% exports of the eastern wing (Ahmed and Amjad 1984). The dismemberment of the country in December 1971 was a major structural change in the history of Pakistan. Now rice and cotton emerged as the principal exports of Pakistan. Bhutto's government attached little importance to foreign trade as "the government was absorbed with domestic affairs such as nationalisation, industrial labour reforms, social welfare, land reforms and agricultural development" (Adam and Iqbal 1987: 91).

Nevertheless, the May 1972 devaluation and the setting up of Cotton Export Corporation in November 1973, (see GOP 1974-75), were the two major measures among others (GOP 1974-75) in respect of foreign trade. Bhutto's government took steps to abolish the import licensing system, EBS, the multiple exchange rate system and banned the import of luxury items. However, imports needed for industrial and agricultural sectors were liberalised in 1973-74 (GOP 1973-74: 121). May 1972 devaluation ended the era of monetary and fiscal concessions to the industrial sector. Exports recorded phenomenal increase of 40.2% and 24.3% (in terms of dollar) in 1972-73 and 1973-74 respectively and BoPs showed a surplus of $152.5

million in 1972-73 (GOP 1974-75). This recovery though was short lived due to the quadrupling of oil prices in 1974, resulting in sharp rise in the prices of petroleum and petroleum products, edible oil, fertiliser and all manufactured goods imports thus worsening the BoPs position and the recession that followed in the developed countries.

After the initial recovery floods, pest attack and other natural factors affected cotton and rice crops, Pakistan's two major export items, and the current account (CA) deficit quadrupled to $549 million in 1973-74. The redeeming feature of the increase in oil prices was the increasing workers remittances that emerged as an important source of foreign exchange earnings. It was because of remittances that despite fall in net inflow of foreign economic assistance and continued shift from grants to hard loans the CA deficit vacillated around one billion dollars as remittances by Pakistani workers abroad increased from $136 million (18% of the total merchandise exports) in 1972-73 to $1156 million in 1977-78 and financed 80 % of the trade deficit (GOP 1980-81). Within a decade, they reached as high as $2886 million, surpassing the merchandise export earnings by 10% in 1982-83. However, remittances started declining after 1982-83 and were $2013 million during 1987-88 mainly attributable to slowing down of development activities in the Middle East (GOP 1988-89: 72).

1980s: Import Liberalisation

The process of liberalisation started during 6th Five-Year-Plan (1983-88) and was implemented with great force after 1988.This plan is regarded as a departure from the government's previous policies about industrial development. Export-led industrialisation was mentioned for the first time as a policy goal and there was emphasis on promoting manufactured exports of higher value-addition. Zia government took a number of steps to liberalise the trade regime particularly imports. Most non-tariff barriers, which had been imposed in 1970s due to oil shock and BoPs problems, were also removed. Between 1977 and 1983, the number of items on the free list was increased from 438 in 1977 to 539 in 1982-83 (ADB 1985) and the imports regulations were made simple. These measures, however, could not satisfy the World Bank who was calling for liberalization. The World Bank (1988: 75) concluded that both the qualitative and quantitative evidence suggests that Pakistan's trade regime was still biased in favour of import-substitution.

Zia government also took measures to promote exports. The most important step was the de-linking of the rupee from US dollar and the introduction of a flexible exchange rate. Due to liberal imports, CA deficit increased from $1.037 billion in 1980-81 to $1.934 billion in 1988-89 showing an increase of almost 87% during the eight years period. In spite of negative export growth –17.2% in 1981-82 and –7.9% in 1984-85, GDP growth rate was 7.56% and 8.71% respectively indicating that economic growth was relatively less dependent on export growth.

Economy did very well during 1980s because as Naqvi and Sarmad (1994) have argued the high growth of GDP that averaged 7% between 1978 and 1986 was made possible by a strong expansion of the manufacturing sector led by a booming domestic market (due to remittances and the illegal trade that increased after Afghan war). Workers remittances reached as high as $3 billion in 1982-83. These and the flow of Western official capital such as long-term loans and grants in the leadership of Afghan war that amounted to an annual average of more than one billion US dollars, enabled the government to finance its way out of the difficult situation created by the deteriorating terms-of-trade (TOT), helped maintain macroeconomic stability as well as promoting a high growth rate of GDP.

Pakistan's barter TOT (1980-81=100) remained below the base level throughout 1980s. Even the income TOT deteriorated during 1981-82, 1982-83, and 1984-85. Despite liberalising trade and better performance of the economy, average annual growth of exports (8.5%) during 1980s was even less than average annual growth of exports (13.5%) in 1970s. This may suggest that exports have less significant impact on GDP growth which continued to be robust.

1990s &2000s: Export-Led Growth

The major thrust of the trade policy in 1990s has been on export expansion through fiscal incentives, diversification of export structure and import liberalisation. During 1991-92 the external sector remained under pressure due to slump in the world market, and low unit prices of most of the export commodities and exports did not grow as fast as were envisaged. On the other hand imports increased sharply mainly attributable to trade liberalisation (GOP 1991-92) leading to increasing trade deficit.

The trade policy for 1992-93 favoured the liberalisation of imports for developing export-oriented industrialisation and for increasing the efficiency and competitiveness of industries. The policy was not much successful in boosting exports as export growth was only 0.3% during 1992-93 and showed negative growth (-1.4%) in 1993-94. Reduced cotton output in 1992-93 coupled with global recession adversely affected the textile industry, the mainstay of Pakistan's exports. Exports during the periods 1990-97 and 1990-99 grew at an average rate of 8.2% and 5.6% respectively and had even negative growth during 1996-97 (-2.6%) and – 10.7% in 1998-99 (GOP 1997-98 & 1999-2000). Though the share of exports increased in 1990s vis-à-vis previous decades, their growth was not agreeable as expected from export promotion policy adopted in early 1990s. Table 2 shows that exports growth have recorded a declining trend up-to 1990s. Their growth fell from 13.5 % in 1970s to 5.6% in 1990s but increased in 2000s, while their share as a percentage of GDP had increased from 4.11% in 1960s to 12.94% in 1990s indicating Pakistan's increasing dependence on international economy as well as shift towards export promotion. However, during 1960-2007 imports as percentage of GDP far exceeded exports giving rise to trade deficit growth which assumed alarming proportions in 2000-07 implying uninspiring performance of exports and reflecting a disappointment of the export-led growth policy?

Table 2: Balance of Payments Average Growth Rates (%)

	1960s	1970s	1980s	1990s	2000-07
Exports	10.70	13.5	8.5	5.6	11.84
Imports	13.62	16.6	4.5	3.22	16.9
Trade Deficit	9.0	20.5	0.9	0.42	72.6
		As a % of GDP			
Exports	4.11	9.39	9.81	12.94	12.26
Imports	11	17	18.74	17.31	15.06
Trade Deficit	6.89	6.95	8.93	4.38	2.8

Source: GOP, Economic Survey (1999-2000, 4-5, 2006-07: 4-5)

Pakistan has been facing persistent current account (CA) deficit which is a warning and dangerous signal to the overall health of the economy. A country with a CA deficit must be increasing its net foreign debts by the amount of deficit. The country has either to import capital or depletes reserves or allows exchange rate depreciation to meet CA deficit. All the three options have their own problems. The deficit country is consuming more than it is producing domestically suggesting that the country is importing present consumption and exporting future consumption and the future generations have to bear the burden of the profligacy of the past generation. As a matter of fact Pakistan has been living beyond its means. Foreign aid and remittances have financed major proportion of imports in 1960s-1980s. Both short-run and long-run foreign capital to meet CA deficit has political overtones. Accommodating capital inflow makes the deficit country a client state, and the country becomes unable to pursue desirable economic policies independently. Such state of affairs characterizes Pakistan's economy over the decades.

Factors affecting Pakistan's trade

Exports depend on both internal and external factors. World economic conditions play a decisive role in the export potential of a country. The world economy can provide market opportunities or can raise trade barriers. Relative supply of labour, natural resources and capital, state of development of human skills and the level of technology can determine the comparative advantage of a nation. In the policy context, export incentives and exchange rate influence the export performance. During 1970s and 1980s external demand factors were not favourable which affected Pakistan's export performance, due to recession in the developed countries which increased unemployment rate from 3% in 1963-73 to 8% in 1981-82 and the low world output growth of 3% between 1974-81 as against growth rate of 6% during 1963-73 (Adam and Iqbal 1987). Pakistan's share in the world trade declined from 0.17% in 1972 to 0.10% in 1977 (Ahmed 1980). During 1990-95, Pakistan's share in the world exports was 0.19% (GOP 1997-98, 88) slightly greater than 1970s. Export share depends on comparative export prices that reflect the domestic costs of production that depends in turn upon productivity and price inflation affecting the prices of both inputs and labour. During 1970s and 1990s inflation in Pakistan has been very high. Inflation discourages macroeconomic stability and international competitiveness. Pakistan's labour productivity, too, compared to Asian countries has been very low.

Unfavourable international conditions

GATT did help promote international trade in 1950s and 1960s but the emergence of "New Protectionism" in 1980s in the developed countries (DCs) partly due to recession, unemployment and internal structural problems undermined the system and consequently LDCs had a steady decline in their terms of trade. The DCs protectionism forced many LDCs to restructure their economies, which entailed significant costs (Naqvi and Mahmood 1995). Therefore, due to the above factors Pakistan exports could not compete successfully in the world market.

Pakistan trade with the developed countries has suffered from the fact that Pakistan is not a member of a strong trading block and has limited bargaining power. Exports to individual countries are controlled by bilateral trade agreement and are subject to a number of tariff and quota restrictions (Adam and Iqbal 1987). The DCs protectionism and MFA (Multifibre Arrangements) have severely impeded Pakistan's exports. Naqvi and Mahmood (1995) argue that without MFA, Pakistan will have a wider choice to export textiles and clothing and would be in a better position to market these. Moreover, in addition to dumping in the LDCs markets by the DCs that the LDCs have found difficult to counter; the DCs have raised a number of barriers in the name of child labour, environmental protection, and human rights against Pakistan's exports.

Directions and concentration of exports

The direction of exports also influences the export performance of a country. Although Pakistan trades with a large number of countries but its exports are highly concentrated in few countries. More than 50% of Pakistan exports during 1990-91 to 1998-99 went to seven countries namely, USA, Japan, Germany, UK, Hong Kong, Dubai, and Saudi Arabia (GOP 2004-05, 119). Therefore, a change in the economic conditions and policies in these countries can significantly affect Pakistan's exports. Another limiting factor having tremendous bearing on export performance is the composition of exports. Pakistan exports are highly concentrated in a few items namely, cotton group, leather group, rice, synthetic textiles, wool & carpets and sports goods (Table 3). These seven categories of exports accounted for 84% in 1990-91 but declined to 76.6% in 2005-06. Such a high degree of concentration of exports in a few items leads to instability in export earnings that also hinders smooth growth of Pakistan's exports

Table 3: Pakistan's Major Exports (1990s &2000s)

Commodity Group	1990-91	1992-93	1994-95	1996-97	1998-99	2000-01	2001-02	2002-03	2003-04	2005-06
Cotton	61.0	59.8	58.7	61.3	59.1	58.9	59.4	63.3	62.3	59.4
Leather	9.1	9.3	8.0	7.7	6.9	7.5	6.8	6.2	5.4	6.9
Rice	5.6	4.7	5.6	5.6	6.9	5.7	4.9	5.0	5.2	7.0
Synthetic Textiles	5.7	7.4	7.1	6.1	5.1	5.9	4.5	5.1	3.8	1.2
Sports Goods	2.2	1.9	3.2	3.7	3.3	2.9	3.3	3.0	2.6	2.1
Sub-total	83.6	83.1	82.6	84.4	81.3	80.9	78.9	82.6	79.3	76.6
Others	16.4	17.4	15.6	15.6	18.7	19.1	21.1	17.4	20.7	23.4
Total	100	100	100	100	100	100	100	100	100	100

Source: GOP, Economic Survey (2004-05: 118, 2006-07: 134)

Terms of trade and growth of production

A country is benefited by a favourable terms of trade as its exports fetch more goods in exchange when its capacity to import increases. Adverse TOT implies that the real opportunity cost of a unit of import rises when its export prices decline relative to its import prices. The adverse TOT drain out the resources because to maintain old level of imports more exports are needed and unfavourable TOT have been an important factor in the balance of trade deficit. Except for a few years, Pakistan has not enjoyed favourable terms of trade. The adverse TOT has considerably affected Pakistan's export performance.

Compared to base level 1990-91 = 100, terms of trade have shown mixed trend in 1990s and 2000s (Table 4). As a result of adverse TOT, Pakistan lost $1.039 billion during the first ten months of 1999-2000. The loss in export earning amounted to $319.9 million while higher payment to the extent of $ 719.2 million was made on the import side (GOP 1999-2000: 122). Does Pakistan's economy possess sufficient strength to sustain such huge losses? TOT in Pakistan have followed an uneven trend. Three factors that have tended to influence the commodity TOT in Pakistan — concentration of exports in cotton group, concentration in markets for exports and an unpredictable world economic condition. Such factors are common to TW conditions exporting primary commodities or low value added goods.

Table 4: Terms of Trade (Base year 1990-91 =100)

Year	Export unit value	Import unit value	Terms of Trade
1991-92	119.9	131.9	90.9
1993-94	142.9	141.2	101.2
1995-96	185.4	185.5	99.9
1997-98	245.6	198.9	123.5
1998-99	258.4	223.3	115.7
1999-2000	253.8	259.0	98.0
2001-01	271.5	298.4	91.0
2001-02	271.2	298.6	90.8
2002-03	254.0	309.5	82.1
2003-04	279.6	355.4	78.7

Source: GOP, Economic Survey (2004-05: 124)

Table 5 shows that the average annual growth rate of GDP, agriculture, and manufacturing has been uneven that in turn have affected the export performance. The growth performance of Pakistan's economy has deteriorated during 1990s compared to 1980s. Only the performance of manufacturing sector was better in 2000s. That was mainly in automobiles for domestic consumption.

Table 5: Average Annual Growth of Production (1960s – 2000s) (%)

	1960s	1970s	1980s	1990s	2000-07
GDP	6.77	4.84	6.45	4.59	5.7
Agriculture	5.07	2.37	5.44	4.42	2.51
Manufacturing	9.93	5.50	8.21	4.84	9.8

Source: GOP, Economic Survey (1999-2000, 2006-07: 2)

Technology and population growth

Technological development can contribute positively to economic growth and thus comparative advantage position of a country can change. Reliance on imported technology has been instrumental in not building a solid base for industrial development and export promotion. Therefore, lack of an adequate technological development suited to the requirements of Pakistan is an important limiting factor in export promotion. That country can have a strong and growing economy, which possesses the infrastructure as well as super structure of science and technology. High rate of population growth tends to neutralise a large part of economic growth as resources are diverted to consumption instead of productive channels (Afzal 2006b). Exports are not expected to function as "Vent-for-Surplus" in an economy where one million souls are added after every three months. Unless there is surplus capacity in the economy, export production can be increased at the expense of reducing domestic production. Domestic consumption has not been growing at a steady rate except automobiles and mobile phones that have a prohibitive and steep opportunity cost.

Exchange rate policy and inflation

Because of non-devaluation decision in1949, Pakistan's exchange rate remained over-valued during the first half of 1950s till the rupee was devalued in June 1955 by 30 % in order to have a realistic exchange rate vis-à-vis other trading partners. The purchasing power of rupee remained close to parity till January 1959 when a system of multiple exchange rates in the form of EBS was introduced which had turned the terms of trade against agriculture exports and in favour of manufactured goods and lacked the efficiency normally ascribed to a realistic exchange rate.

The exchange rate remained over-valued until it was devalued in May 1972 by 56.8% and was fixed at Rs.11 per US dollar. Pakistan enjoyed favourable TOT and exports increased by almost 40%. Pakistan maintained a fixed exchange rate till January 1982. The rupee value was closely linked with dollar as the rupee - dollar exchange rates were fixed. This was a misalliance. The managed floating exchange rate established in 1982 remained in operation till May 1999 when a unified floating exchange rate was introduced (GOP 1999-2000: 126). Pakistan has adopted the floating inter-bank exchange rate since 2001. Pakistan's exchange rate has remained unrealistic and over valued for the most part of the economic history which besides having income and employment implications, discouraged exports, as they were relatively overpriced and less competitive compared to Pakistan's trading partners. The unrealistic exchange rate has been one factor in adversely influencing export growth. During seventies the incidence of inflation in Pakistan, was most serious and phenomenal. 1990s has also not been a good decade in respect of inflation in Pakistan's history. Inflation averaged 9.3 percent during the first ten months of 2004-05 compared to 3.9 percent in the same period 2003-04. Inflation poses major threat to macroeconomic stability. Because of high inflation, Pakistan's exports have been losing competitiveness and devaluation becomes inevitable resulting in massive erosion in the purchasing power of Pakistani rupee.

Compared to 1982 when Pakistan switched to managed floating exchange rate, the value of Pakistani rupee has depreciated by more than 372% and 520.30% between January 1982 and June 1999 and 2001-02 (Table 6). In the last two years, the percentage change was negative as the exchange rate appreciated due to accumulation of reserves. High inflation in one trading country compared to its trade partners implies a deteriorating real exchange rate and therefore, devaluation of the nominal exchange rate becomes inescapable which is expected to make exports competitive. Rising inflation due to devaluation makes exports less competitive and a need for devaluation arises making the vicious circle complete.

Table 6: Value and Depreciation of the Rupee – Selected Years (1980s, 1990s, 2000s)

	Rs to $1	% Change each Year	% Change since 1982
April 1972	4.76	-	-
Feb 1973 – June 1982	9.90	-	-
1982-83	12.70	28.28	28.28
1984-85	15.15	12.39	53.00
1986-87	17.18	6.40	73.50
1988-89	19.22	9.20	94.10
1990-91	22.42	4.50	126.50
1993-94	30.16	16.20	204.60
1995-96	33.25	7.80	235.90
1997-98	43.20	10.80	336.36
1998-99	46.79	8.31	372.73
2001-02	61.43	2.99	520.30
2002-03	58.75	-2.68	493.43
2003-04	57.57	-1.18	481.52
2004-05	59.35	3.1	367.32
2005-06	59.85	0.8	371.25
2006-07	60.63	1.3	377.40

Source: State Bank of Pakistan Annual Reports (various issues).

Conclusion

Historical review of track shows that international trade particularly exports have not contributed significantly to the economic growth in Pakistan.

A certain economic growth was achieved even when international trade did not figure prominently in economic policy or even when during the first two decades import substitution was the focus. During 1950s, except for the Korean War raw material boom, export contribution was not noteworthy. Industrial development was the principal objective during 1960s and export promotion incentives like Export Bonus Scheme (EBS) were aimed at encouraging industrial development.

The 1972 devaluation only helped exports momentarily but the momentum could not be continued in the subsequent years. However, export promotion was not the principal objective of the populist (1972-77) regime. Exports figured non-prominently in 1980s. Nevertheless, despite liberalising trade and better performance of the economy average annual growth of exports was 8.5% in 1980s compared to 13.5% in 1970s.

Export-led growth slogan was adopted in 1990s. Interestingly the export-led growth policy has mainly benefitted imports and exports have grown only sluggishly. The ensuing CA gap has consumed both remittances and aid. The resulting panic has led to export of essential commodities like food that has aggravated the inflationary pressure. The much hyped growth of GDP is less related to export performance than to speculation and consumer loan advances.

Export-led growth emphasised in literature depends upon a number of assumptions: favourable geo-political and world conditions, political stability, peaceful law and order situation, highly developed infrastructure, productive manpower, price competitiveness and high bargaining power in trade negotiations, low population growth rate and substantial research and development expenditure, etc. There is little likelihood of managing the above said factors effectively in a Third World country like Pakistan to enable the exports to increase to a level where they could contribute significantly to economic growth.

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