

THE IMPORTANCE OF UNITED STATES  
INVESTMENT IN PAKISTAN

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M. I. S.

### DEDICATION

This study is dedicated to Dr. Howard A. Bellows, Associate Professor and Assistant to the President at Kansas State Teachers College of Emporia, who helped the author in getting admitted to the degree Master of Science.

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## CHAPTER I

### PURPOSE OF THE STUDY

#### A. INTRODUCTION

Three centuries ago, about the year 1660, two of the greatest monuments of modern history were created, one in the West, and one in the East: St. Paul's Cathedral in London and the Taj-Mahal in Agra. Between them the two symbolize perhaps better than words can describe the comparative level of architectural technology, the comparative level of craftsmanship, and the comparative level of affluence and sophistication the two cultures had attained at that epoch of history.<sup>1</sup>

But at about the same time there was also created, and this time only in the West, a third monument, a monument still greater in its eventual import for humanity. This was Newton's Principia, published in 1687. Newton's work had no counterpart in the India of Mughals, the dynasty of emperors of India (1526-1857) founded by Baber-- a descendant of Barlus Turk.<sup>2</sup>

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<sup>1</sup>Abdus Salaam, "Pakistan, The Case of Technological Developments," Bulletin of the Atomic Scientists, (March, 1964), p. 2.

<sup>2</sup>Ibid.

In 1757, one hundred years after the building of the Taj-Mahal, the superior firepower of Clive's<sup>3</sup> small arms had inflicted a humiliating defeat on the descendents of Shah-Jahan.<sup>4</sup> Another one hundred years later, in 1857, Bahadur Shah II, the last of the Mughals, had been forced to relinquish the Crown of Delhi to Queen Victoria. With him, the last of the Mughals, there passed away not only an empire, but also a whole tradition in art, technology, culture and learning. By 1857, English had supplanted Persian as the language of State and learning. Shakespeare and Milton had replaced the love lyrics of Hafiz and Omer Khayyam in school curricula, the medical canons of Avicenna had been forgotten

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<sup>3</sup>Robert Clive (1725-1774) a British soldier and statesman who was one of the creators of British power in India, later became governor of Bengal. He was often called as a "Heaven born general." It was declared by the British parliament that he "had rendered great and meritorious services to his country."

<sup>4</sup>Shah Jahan was the Moghul Emperor of Delhi, the fifth of the dynasty. The period of his reign was the golden age of Indian architecture. Shah Jahan erected many splendid monuments, the most famous of which is Taj-Mahal at Agra, built as a tomb for his wife, Mumtaz Mahal; while the Pearl mosque at Agra and the palace and great mosque at Delhi also commemorate him. The celebrated Peacock throne; said to have been worth 6,000,000 also dates from his reign.



and the art of muslin making in Dacca had disappeared to give way to the cotton prints of Lancashire.<sup>5</sup>

British administration failed to place any emphasis on technical education, on mechanical skills or on agricultural husbandry during its rule over the Indian sub-continent.

In the economic organization of the Empire, Britain was to be the only manufacturing unit. All of its other parts--like India, Nigeria, Sudan--were to supply raw materials.

It is common knowledge that up to the Second World War, Britain had enormous investments in both the Americas. Most of the progress in the Commonwealth countries and Dominion was also stimulated by the British industrial development. So far as the area now forming Pakistan is concerned, its manpower was generally employed to man the British Armies to maintain and protect the Empire. For this reason that part of the Indian sub-continent was purposely kept industrially backward so that the populace would not be diverted into other channels of employment.<sup>6</sup>

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<sup>5</sup>Ibid.

<sup>6</sup>Mohamed Ayub Khan, "Pakistan Perspective," Foreign Affairs, Vol. 38, No. 4, (July, 1960), p. 555.

peoples who are friendly toward it. Then he specifically points out:

One of the nations with which the U.S. is on the friendliest terms is Pakistan. Pakistan is one of the strangest states in the world today. . . . it is still almost unknown, as far as the United States is concerned. But it is one of the most important of the new countries of Asia, and much depends upon its future evolution.<sup>9</sup>

One of the great tasks of American foreign policy is to preserve and improve a society based upon consent and mutual respect and to help to create an international climate in which government by consent can take root and flourish. Flowing from this central purpose are more specific national interests such as the maintenance of a strong free-world coalition designed to frustrate Soviet aggression; to influence the economics of other countries and to modify the international economic situation.<sup>10</sup>

In this cold war period American foreign economic policies, says Ernest W. Lefever:

. . . must contribute to our ultimate goal of a secure and peaceful world. . . . discourage further communist aggression; avoid a total nuclear

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<sup>9</sup>Norman D. Palmer, "The United States and Pakistan," Current History, Vol. 34, No. 199 (March, 1958), p. 141.

<sup>10</sup>Ernest W. Lefever, Ethics and United States Foreign Policy (New York: Meridian Books, Inc., 1960), p. 12 and 115.

war, and maintain economic strength, to compete successfully with the communist bloc.<sup>11</sup>

To serve these objectives of the United States, it should have, if not should make, free-world allies who should be militarily, politically and economically strong as well as committed to the cause of building a world community of free and independent states.

In 1954, Pakistan and the United States signed a Mutual Defense Assistance Agreement. This was followed by Pakistan's membership in the Central Treaty Organization (CENTO) and Southeast Asia Treaty Organization (SEATO). It is the only Asian country which is associated with both the major collective security arrangements in the Asian area. The Pakistan was firmed up still further by the signing of a Bilateral Agreement of Cooperation between the two partners in 1959.

Since China's invasion over India in October, 1962, Pakistan has made trade agreements and has established relations with communist's countries. United States is beginning to wonder whether Pakistan would alter its course substantially. There is a feeling that Pakistan might quit the membership of SEATO and CENTO. According to diplomats in Karachi even if Pakistan should

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<sup>11</sup>Ibid.

ultimately pull out of the two regional pacts, the country would still not cancel its mutual defense pact with the United States.<sup>12</sup>

Pakistan believes that these defense arrangements provide economically underdeveloped countries like itself with a shield of security from behind which they may proceed with urgent tasks of social, political and economic reform. In this sense, then, the alliance between Pakistan and the United States is genuinely an "alliance for progress."

#### B. STATEMENT OF THE PROBLEM

The United States, through continued economic assistance and private investment among the free-nations, is trying to achieve her greatest national objective-- to maintain her leadership in the free-world. Pakistan, through mobilizing her resources and maintaining a respected place among the free-nations of the world, is trying to achieve her greatest national objective-- to uplift the standard of living of her people.

The purpose of this study is to show the importance of the United States' investment in Pakistan, in the interests of Pakistan as well as the United States.

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<sup>12</sup>News item in the Wall Street Journal, August 4, 1964.

## C. IMPORTANCE OF THE STUDY

A massive revolt against poverty is currently underway not only in Asia, but also in Africa, the Middle East and Latin America. The new leaders and their newly emerging nations are nonetheless caught in a great paradox. At the very moment that they want to eliminate outside ties with industrial countries, which are reminiscent of political subordination, they must turn to the developed countries for economic and technical help. Because these undeveloped countries need help, they suddenly occupy a pivotal position in the struggle between the Soviet Union and the United States.<sup>13</sup>

One of the major challenges facing the United States is the role of the emerging nations, a role already well symbolized by their new importance in the United Nations General Assembly. The path chosen by these new states in the next few years will directly affect the future of the world civilization. Should they take the road of totalitarianism and communism, the world will be a much more dangerous place for the United States and other free-nations.

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<sup>13</sup>Strategy for the 60's, Studies prepared by thirteen Foreign Policy Research Centers for the U. S. Senate Foreign Policy Clearing House, Washington 3, D. C., p. 1.

Studies on American foreign policy prepared by the thirteen foreign policy research centers for the United States Senate make it clear that emerging nations will need a substantial amount of economic aid in order to become industrialized. Outside capital, however, is not effective except under certain conditions.

The economic heritage of Pakistan after the separation from British India was slight or non-existent since it was an undeveloped country. Predominantly Pakistan is an agricultural country in which real industries do not exist. Seventy per cent of the Pakistan's vitally needed foreign exchange earnings come from the sale of raw materials. The country is struggling hard to build heavy industries to utilize its own raw materials so as to provide employment to its ever increasing population so that the people will attain a tolerable standard of living.

Since Pakistan is economically undeveloped, many industrial nations are establishing trade relations with it and investing capital to make it a permanent customer for their products. The United States of America, with a few other developed nations, has established political relations with Pakistan so that Pakistan can resist communist aggression and maintain freedom. Close political and trade relations with Pakistan as one of the American

allies will help implement American foreign policy more effectively in Asia.

The development of the European Common Market is another challenge to the United States' economy. Eventually, this group of nations could become highly competitive in the world market. The United States therefore, will have to take the initiative in tapping as potential customers the presently undeveloped lands which comprise two-thirds of the world population and Pakistan is the seventh largest nation in the world in terms of population.

This study is therefore being conducted to point out the need of the United States' economic assistance through private investment in Pakistan which is important not only to Pakistan but to the United States as well.

#### D. METHOD OF PROCEDURE

In order to ascertain whether there is evidence of the importance of the United States' private investment in Pakistan data were collected from the Embassy of Pakistan at Washington and from the Superintendent of Documents, the United States Government Printing Office at Washington.

In addition to the foregoing primary sources various books, magazines, periodicals and government

publications were collected through the William Allen White Library at Emporia, Kansas, and from the University of Denver Libraries, Denver, Colorado.

The next step was to explore the United States' policy towards developing nations and examine the importance of the United States' investment in Pakistan with particular reference to private investment. Pakistan's need for external assistance, her policy toward private enterprise system and foreign investment were then studied. Pakistan as a growing market for the United States' products was also analyzed.

Having established the importance of the United States' investment in Pakistan the next step was to provide basic facts about the country that any prospective investor would want to know. (A brief history of the Moslems in British India was presented as the majority of the people of Pakistan are Moslems.) An attempt was made to show Pakistan's location on the globe, its climatic conditions, agricultural and industrial resources and prevailing commercial practices and procedures.



## CHAPTER II

### DESIRABLE CONDITIONS FOR INVESTMENT

#### I. UNITED STATES POLICY TOWARDS DEVELOPING NATIONS

The great contest in this world today is between the forces of totalitarianism and the forces of freedom. The task of building the peace applies to every nation--large and small. But the fact remains that the United States, as a major nuclear power, has a special responsibility in the free world; "a responsibility to the people of the whole world who are affected by our decisions."<sup>1</sup>

The free world faces many grave problems. One of the most basic and crucial is the relentless pressure of imperialist communism against the nations and peoples who are struggling to remain free from this control. Communist pressure is directed with the greatest intensity and purpose against the newly independent nations--forty since the end of the Second World War--the nations where millions and hundreds of millions of people live without adequate food, without shelter, without education and without a hope.

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<sup>1</sup>President Kennedy, "New Opportunities in Search for Peace," Addressing U. N. General Assembly at the United Nations, The Department of State Bulletin, Vol. XLIX, No. 1267 (Washington: Government Printing Office, Oct. 7, 1963), p. 531.

These economically underdeveloped nations are looking for a shortcut to relative prosperity--or, if not prosperity, at least a tolerable standard of living. They must find the shortcut soon, otherwise the communists will move among them and say, "Come with us."<sup>2</sup>

The best way, the cheapest way, the safest way, the most reliable way is to help them help themselves maintain their freedom.<sup>3</sup> This is central to the achievement of the United States' greatest national objective. This objective is nothing less than to see established, in President Kennedy's words, a "world community of free and independent states, free to choose their own future and their own system so long as it does not threaten the freedom of others."<sup>4</sup>

The Marshall plan, an outstanding success, is at the source of the present European strength and prosperity. Its total investment--thirteen billion dollars--already has been returned many fold to the United States. This return is not only in the form of repayment of loans but also in the form of increased peace and prosperity

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<sup>2</sup>Statements by President Kennedy and Secretary Rusk, "President Kennedy and Secretary Rusk Urge Restoration of Foreign Aid Funds," The Department of State Bulletin, Vol. XLVII, No. 1215 (Washington: Government Printing Office, Oct. 8, 1962), p. 525.

<sup>3</sup>Ibid.

<sup>4</sup>Ibid., p. 518.

and savings in the United States' defense outlays made possible by the fact that Western Europe has not fallen prey to Communist domination.<sup>5</sup>

Referring to underdeveloped nations, Khrushchev declared "our supreme aim is to make socialism, as practiced by the Soviet Union, the economic system of the whole world" and "we declare war upon the United States in the peaceful field of trade."<sup>6</sup>

The economic motive probably has been as influential as the humanitarian in the launching and extension of economic assistance. President Roosevelt said: "There will be rehabilitation abroad, not only for humanitarian reasons but from standpoint of America's own interest, for it will mean a better purchasing power abroad for American products."<sup>7</sup>

On June 28, 1950, President Truman stated the economic motive more bluntly: "We want to have a

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<sup>5</sup>Henry R. Laboussie, "Foreign Aid, a Constructive Element of United States Foreign Policy," The Department of State Bulletin, Vol. XLV, No. 1156 (Washington: Government Printing Office, August 21, 1961), p. 319.

<sup>6</sup>Martin Kingley, "Ideas and Dollars in Asia," Atlantic (November, 1960), p. 85.

<sup>7</sup>James W. Wiggin, Foreign Aid Re-examined (Washington: Public Affairs Press, 1958), p. 11.

prosperous world that will be interested in buying the immense amount of surplus things we are going to sell."<sup>8</sup>

The late Secretary of State John Foster Dulles declared early in 1956 "the United States cannot live either happily or safely as an oasis of prosperity in a desert of misery."<sup>9</sup>

More recently, on September 19, 1962, President Kennedy in his press statement said, "Foreign aid has increasingly meant trade, sales and jobs in this country, and reform, progress and new hope in the developing countries."<sup>10</sup>

An editorial in the New York Times, April 22, 1952, showed the importance of underdeveloped countries as a potential market for United States' products by saying:

If the United States should succeed in raising the standard of living of these underdeveloped areas as much as two per cent, the resulting demand for United States' products of all kinds would be sufficient to keep the productive machinery going full tilt as far ahead as any one could see.<sup>11</sup>

The United States has been in the business of foreign aid or of assisting foreign countries of the

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<sup>8</sup>Ibid., p. 13.

<sup>9</sup>Senate Committee on Foreign Relations, 84th Congress, 2nd Session, Hearings, 1956: "Mutual Security Act of 1956," p. 24.

<sup>10</sup>Statement by President Kennedy and Secretary Rusk, op. cit.

<sup>11</sup>Editorial in New York Times, April 22, 1952.

non-communist world for more than a decade. Henry R. Labonssie, director of International Cooperation Administration during the past fifteen years, has had to do with foreign assistance in one form or another. Addressing the regional briefing conference on foreign policy sponsored jointly by the Department of State and the World Affairs Council of Northern California at San Francisco, he emphasized the importance of foreign aid in these words:

Foreign aid, the much maligned foreign aid, has already won great victories for the cause of freedom--without it, military victories of the last war might have become meaningless; without it, the map of Europe, of the Middle East, and of the Far East would be far, far different today. Foreign aid now is a most powerful and constructive element of the foreign policy of our country.<sup>12</sup>

American assistance has gone through successive phases, each assuming a different need. Since World War II the United States has spent more than \$50 billion in economic and military assistance to most of the nations of the non-communist world. The largest amounts have gone for the purpose of European recovery and for economic assistance; but in recent years the emphasis has shifted from economic to military aid and from Europe to Asia.<sup>13</sup>

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<sup>12</sup>Henry R. Labonssie, op. cit., p. 319.

<sup>13</sup>Norman D. Palmer, "The United States and Pakistan," Current History (March, 1958), p. 142.

In Asia the overall objective is to assist the less developed countries of the free-world to make genuine progress in their social as well as their economic development. When the emphasis of economic assistance was shifted from Europe to Asia or underdeveloped countries in general, foreign aid programs had failures as well as success. Henry R. Labonssie admitted:

... but we also learned some lessons, the main one being that assistance to industrial nations temporarily crippled by the war (as with the Marshall Plan) and assistance to underdeveloped countries in their rise toward modernization are very different problems requiring very different solutions.<sup>14</sup>

In the underdeveloped countries limitations to economic growth differ from country to country and from area to area. The need therefore is to study the varying circumstances and problems of each country and to assist each country at the level of its particular need.

Massachusetts Institute of Technology, one of the thirteen foreign policy research centers, made a study of American foreign policy for the Senate and came up with these remarks:

The major economic need of emerging nations is for capital investment to increase productive capacity . . . . More thought and resources should be devoted to fostering native private enterprise and foreign private investment in underdeveloped areas. The United States aid program must not overlook the

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<sup>14</sup>Labonssie, op. cit., p. 320.

foreign exchange needs of small scale private trade business in these countries. Requirements might be met by supplying foreign exchange to development banks or other financial institutions in the recipient countries, which can then make them available to qualified entrepreneurs locally.<sup>15</sup>

The Corporation for Economic and Industrial Research, Inc., is another foreign policy research center. In its report to the Senate it suggests:

. . . encouraging United States firms to establish affiliates, under business ownership and management, with funds borrowed from the Development Loan Fund but secured by the affiliate property to minimize private risk . . . the investment guarantee program of the International Co-operation Administration should also be expanded.<sup>16</sup>

It is now known that the United States economic assistance, which was started nearly a decade ago, has been continued merely by shifting emphasis from Europe to Asia but it has not been realized that economic assistance does not make friends and influence people in all the countries at the same level.

Intensive research was carried out at various research centers and studies agree that emerging nations will need substantial amounts of economic aid in order to industrialize but more thought and resources should

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<sup>15</sup>Strategy for the 60's, Studies prepared by thirteen Foreign Policy Research Centers for the U. S. Senate, Foreign Policy Clearing House, Washington, D. C., p. 5.

<sup>16</sup>Ibid., p. 6.

be devoted to fostering native enterprise and foreign private investment.

John Kenneth Galbraith, the United States Ambassador to India, recognized the importance of investment in India and Pakistan. He said that the present diagnosis of the causes of underdevelopment, with its stress on capital, technical assistance and planning, does not fit countries like India and Pakistan too badly. India and Pakistan, he said, have an effective government and that there is a substantial measure of literacy. Further, they have a backlog of administrative and entrepreneurial talent and there is a solid commitment to the goals of social progress,<sup>17</sup> he observed.

## II. PAKISTAN'S NEED FOR EXTERNAL ASSISTANCE

The two global wars of the twentieth century have changed the pattern of the economic system of the world. (Equally responsible is the industrial revolution.) However, two significant developments became apparent since the end of the Second World War. First, the spreading realization that no nation can walk alone today. Second, for the first time those countries which

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<sup>17</sup>John K. Galbraith, Economic Development in Perspective (Cambridge: Harvard University Press, 1962), p. 10.



have achieved a more abundant life have accepted responsibility to assist undeveloped countries.<sup>18</sup>

On gaining independence Pakistan emerged as virtually a new country--predominantly agricultural, with no industries--faced with the necessity of developing its natural resources, moving towards industrialization, finding new markets for its agricultural produce, and raising the standard of living of its ever increasing population, many of whom were penniless refugees. The government consequently became the prime motivator and activator in the economic development of the country and to this end has embarked on a series of development plans.<sup>19</sup>

The gap between the developed and the undeveloped countries in their standard of life and economic conditions is certainly one of the crucial problems of our time. The capacity to support the population and to raise the standard of living of any underdeveloped country is to some extent a function of the capital available for development of resources. David Harowitz, Governor Bank of Israel observed:

<sup>18</sup>Robert L. Garner, "More Harm Than Good," Time, Vol. LXXVIII, No. 13, (Sept. 29, 1961), p. 17.

<sup>19</sup>U. S. Department of Commerce, "Report of the Investment Development Mission to Pakistan," Foreign Commerce, Vol. 67, No. 5 (Washington: Government Printing Office, Jan. 29, 1962), pp. S-1.

Capital for new development can be derived from two sources: saving by the country itself and importation from outside. Accumulation of capital is extremely slow in underdeveloped countries and is more difficult by the increasing pressure of population growing at a rate of 2 to 3 per cent per annum. The prosperity to save is, of course, reduced if the population expands more rapidly than the national income, so that the real income per capita decreases. The process of accumulation is further restricted by the fact that institutional saving in underdeveloped countries is in embryonic stage and the use of money as a medium of exchange is limited.<sup>20</sup>

In the case of Pakistan the economy is growing faster than her population. In 1963, Pakistan registered the growing economy at an average rate of 4.2 per cent annually, almost double the rate of growth of population of 2.6 per cent per annum.<sup>21</sup> Savings, voluntary and through taxation, is not out of the question. The resources at the disposal of some sections of the population are being diverted to investment by a system of incentives as well as by taxation. Pakistan has made appreciable progress in its banking and credit system. In 1948, Pakistan had 195 banks of which 172 were foreign banks and 23 Pakistan banks, and in 1963,

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<sup>20</sup>Ruth Gruber, Science and the New Nations (New York: Basic Books, Inc., 1961), p. 201.

<sup>21</sup>Interim Report Series (Series of reports published on the progress of economic development in Pakistan under the Second Plan, Issued by the Economic Division, Embassy of Pakistan, Washington, D. C., Volume IV, No. 5, May, 1964), p. 1.

Pakistan has 957 banks of which 74 are foreign banks and 883 Pakistan banks.<sup>22</sup> But as the ambitious development plans of Pakistan started to accelerate the economic progress requires massive foreign capital. Realizing the significance of the role of external capital in the development plans, the planning commission observed:

It is clear from the projections of foreign exchange earnings and expenditures that even non-development import requirements of the economy cannot be met in full from the country's own earnings.<sup>23</sup>

(Table I shows the Second Plan projection of foreign exchange earnings.)

Pakistan's development plan (Second Plan, 1960-1965) is imaginative, hard-headed and realistic. The Plan envisages a developmental outlay of \$4.83 billion. Domestic saving will finance about 50 per cent of the Plan and external aid and foreign private investment will provide the rest.<sup>24</sup>

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<sup>22</sup>Interim Report Series, Series of reports published on the progress of economic development in Pakistan under the Second Five Year Plan, Issued by the Economic Division, Embassy of Pakistan, Washington, D. C.; Volume IV, No. 6, June, 1964, p. 1.

<sup>23</sup>Pakistan Planning Commission, The Second Five Year Plan, (Government of Pakistan Publication, June, 1960), p. 98.

<sup>24</sup>Interim Report Series, op. cit., Vol. III, No. 2, November, 1963, p. 1.

TABLE I

SECOND PLAN PROJECTION OF FOREIGN EXCHANGE EARNINGS  
(Million Rupees)

	Annual Average First Plan	1959-60 (estimated)	Annual Average Second Plan	Total Second Plan
Raw jute . . . . .	843	818	800	4,000
Jute manufacture . . . . .	137	220	267	1,335
Raw cotton and manufactures . . . . .	388	368	380	1,900
Hides and skins . . . . .	50	40	42	210
Wool . . . . .	84	77	80	400
Tea . . . . .	31	40	49	245
Miscellaneous exports . . . . .	159	200	288	1,440
Invisible receipts . . . . .	220	207	214	1,070
<b>Total</b>	<b>1,912</b>	<b>1,970</b>	<b>2,120</b>	<b>10,600</b>

Source: Pakistan Planning Commission, op. cit., p. 91.

The objectives of the Plan are manifold but may be reduced to a hard-core of eleven primary targets:

1. To increase the gross national product by 24 per cent.
2. To increase the per capita income by 12 per cent.
3. To increase the production of food grains by over 21 per cent to carry the country closer to self-sufficiency in food stuffs.
4. To increase industrial production by about 50 per cent.
5. To improve the balance of payments position by increasing exports by 15 per cent.
6. To achieve substantial progress towards the target of 3 million new job opportunities.
7. To raise the domestic saving from 6 per cent (1955) to 10 per cent through a marginal rate of saving of 25 per cent.
8. To bring about better distribution of incomes between various income groups as well as between regions.
9. To accelerate economic growth of relatively less-developed areas in both East and West Pakistan.

10. To reorientate and expand educational health and social welfare facilities.
11. To increase housing facilities, particularly for lower-income groups.<sup>25</sup>

However modest this may appear in an affluent society such as the United States, Pakistan is confident that by achieving this rate of development the country will be closer to the stage of sustained self-generating growth. If this rate can be maintained, Pakistan expects to double its national income by 1975 and be in a position to quadruple it by 1985.<sup>26</sup>

The importance of foreign assistance to the economy was greater than its magnitude might suggest. Although it amounted to only four per cent of gross national product, it financed (during the First Plan period) a very substantial proportion of development expenditure and about one-third of the total imports of the country. In recent years, nearly ten per cent of the country's total food grain requirements were met through imports, made possible mostly by United States aid.

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<sup>25</sup>Ibid.

<sup>26</sup>New York Herald Tribune, "Pakistan Moving Forward," Section II, November 18, 1962, p. 4.

The impact of external assistance on production and incomes, though not precisely calculable, was very considerable in the First Plan period. Table II shows that the United States provided the bulk of aid, followed by Canada, the United Kingdom, West Germany, Australia, New Zealand and other countries. The Ford Foundation and the United Nations also provided appreciable amounts of aid. The World Bank came to the country's assistance with substantial loans. The gap between earnings and expenditures becomes very large when imports for development are taken into account.

Foreign aid and loans and foreign private investment have largely helped the country's economy. Emphasizing the importance of external aid requirements, the planning commission has said:

During the Plan period the foreign exchange earnings of the country will increase by about fifteen per cent; but this will not be enough to meet non-development import requirements. The entire development import requirements, estimated at Rs. 6,500 million, will have to be financed from foreign aid and from private foreign investment. With the addition of balance of payments support (Rs. 1,500 million), food grain aid (Rs. 1,000 million) and extraordinary aid to meet part of the rupee finance of the Indus Basin replacement works (Rs. 700 million), the total foreign resources needed amounts to Rs. 9,700 million. If these requirements of external assistance are not met, the implementation of the Plan will not be possible.<sup>27</sup>

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<sup>27</sup>Ibid., p. 103.

TABLE II

EXTERNAL ASSISTANCE BY COUNTRIES AND AGENCIES  
 DURING FIRST PLAN PERIOD  
 (Million Rupees)

Country or agency	Commitment	Arrival*
U. S. A. . . . .	4,520	3,736
Canada . . . . .	313	299
United Kingdom . . . . .	150	65
West Germany . . . . .	192	50
Australia . . . . .	14	45
New Zealand . . . . .	13	12
Other Countries . . . . .	5	5
World Bank . . . . .	443	366
Ford Foundation . . . . .	57	33
U. N. . . . .	39	34
<b>Total</b>	<b>5,746</b>	<b>4,645</b>

Source: Pakistan Planning Commission, op. cit., p. 87.

\*"Arrival" means "Actually Received."



External assistance will play a critical role in enabling the economy to develop in a manner which should have a favorable impact on the balance of payments in later years. It is expected that by 1965, foreign exchange earnings will increase much more rapidly and substitution of domestic production for imports of all kinds will be much more substantial. With the successful implementation of the plan the need for balance of payments support and food grain aid should be eliminated, and it should become possible to finance development imports increasingly from the country's own resources.<sup>28</sup>

David W. Bastin of Kansas State Teachers College summarizing "Foreign Aid: A Study of the United States and Russian Influence on Indian Foreign Policy" in 1963 came to the conclusion that:

. . . Both the United States and the Soviet Union pledged sizeable amounts of economic assistance to India . . . while the United States aid was to be about three times as large as Soviet aid, the general impression created was that Soviet aid was more satisfactory than United States aid . . . It would definitely appear that India has benefited economically by the engagement of both the United States and the Soviet Union in granting aid.<sup>29</sup>

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<sup>28</sup> Ibid.

<sup>29</sup> David W. Bastin, "Foreign Aid: A Study of United States and Russian Influence on Indian Foreign Policy," (Unpublished Master's thesis, The Kansas State Teachers College, Emporia, Kansas, 1963), p. 101

On the contrary, Pakistan, which is divided into two wings (East Pakistan and West Pakistan) by the country India, has given the impression of being grateful towards the West. Pakistan is the Western anchor of SEATO South East Asia Treaty Organization and the Eastern anchor of the Baghdad Pact. It is the only Asian country which is associated with both the major collective security arrangements in the Asian area. It holds that neutrality is neither morally right nor politically realistic.<sup>30</sup>

The leaders of Pakistan have not hesitated to speak out fearlessly and repeatedly. President Ayub Khan in July, 1960, said:

Unlike several other countries around us we have shut ourselves off almost completely from the possibility of any major assistance from the communist bloc. We do not believe in hunting with the hound and running with the hare. We wish to follow and are following, a clear and unambiguous path.<sup>31</sup>

On such statements from time and time again, from the responsible leaders of Pakistan, Professor Palmer observed:

Americans are usually pleasantly surprised to find a nation which is not afraid to associate itself with other countries, even including Western countries, which does not seek to ascribe sinister motives to

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<sup>30</sup>Palmer, op. cit., p. 142.

<sup>31</sup>Mohamed Ayub Khan, "Pakistan Perspective," Foreign Affairs, Vol. 38, No. 4, (July, 1960).

the assistance it is receiving from the United States, and which seems genuinely glad to welcome Americans.<sup>32</sup>

But, since China's invasion over India in October, 1962, Pakistan has negotiated trade agreements and has shown a more friendly attitude toward communist countries. This friendly attitude appears to be because of the flow of United States arms supplies to neutral India, particularly the latest offer. In June, 1964, the United States has agreed to supply \$500 million worth of arms to India over a period of five years.<sup>33</sup> This could mean that Pakistan may get closer to the communist countries. According to the Wall Street Journal, August 4, 1964:

One strong possibility is that Pakistan will quit the Southeast Asia Treaty Organization (SEATO) . . . might also leave the Central Treaty Organization (CENTO) . . . if Pakistan does substantially alter its course, it could mean fresh trouble for American officials already hard pressed to evolve an effective Asian policy.<sup>34</sup>

Pakistan today is questioning the value of its military alliance with the United States and the United States, in turn, is beginning to wonder if it really ever has had a military alliance with Pakistan. However, Pakistan questions how the United States can equate an

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<sup>32</sup>Palmer, op. cit., p. 142.

<sup>33</sup>News item in the Wall Street Journal, P. 1, Col. 1, August 4, 1964.

<sup>34</sup>Ibid.

ally with a non-ally. "Do you give aid equally to some one who gives no commitment in return?" questions one Pakistan official.<sup>35</sup>

Although not happy about the United States Arms supply to neutral India (with no military pacts), Pakistan clarified its position that even if it should pull out of regional pacts SEATO and CENTO the country would still not cancel its mutual defense pact with the United States.<sup>36</sup>

In March, 1957, the President's Advisory Committee (Fairless Committee) on the Mutual Security Program recommended that: "In foreign assistance programs higher priority should be given to those countries which have joined in the collective security system."<sup>37</sup> Charles Wolf, Jr., writing on "Foreign Aid: Theory and Practice in Southern Asia," agrees with the Fairless Committee and to the principle argued by one Congressman:

. . . that we should . . . take a more generous attitude toward . . . these countries which are . . . openly and avowedly our friends, like Pakistan, than toward those who maintain an attitude of neutralism, such as India.<sup>38</sup>

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<sup>35</sup>Ibid.

<sup>36</sup>Ibid.

<sup>37</sup>Report to the President, by the President's Citizen Advisors on Mutual Security Program, Washington, D. C.: 1957, p. 11.

<sup>38</sup>Charles Wolf, Jr., Foreign Aid: Theory and Practice in Southern Asia (New Jersey: Princeton University Press, 1960), p. 224; The quotation is from Mutual Security Act of 1955, House Hearings, p. 90.

The United States is providing military and economic assistance to India and Pakistan--the two countries which are spending their limited resources in their defense, suspecting each other; and thus have strained relations.

Professor Palmer, who has long foreseen these strained relations and their effects on United States' policy, observed:

Possibly the greatest contribution which the United States could make to Pakistan, to the improvement of its relations with India and to the Indo-Pakistan relations as well, and its broad objective of helping to create "situations of strength" where there is now weakness, would be to increase the amount of its economic assistance to both India and Pakistan and to do all it can to foster improved relations between the two great states of the Indian subcontinent.<sup>39</sup>

The government of the United States has been supporting all the Pakistan's development plans. In the future what would be the course of action, it is yet to be seen. However, in 1961, it was assured by President Kennedy in a message to Pakistan which says, "We have made known our deep interest in the success of the Second Five Year Plan, and we intend to support the determined effort of Pakistan government and people to insure its success."<sup>40</sup>

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<sup>39</sup>Palmer, op. cit., p. 146.

<sup>40</sup>New York Herald Tribune, op. cit., p. 7. (The paper did not say on what occasion the message was sent.)

American private investment in Pakistan, as compared to that of the United Kingdom is substantially low. A comprehensive analysis of foreign investment by the State Bank of Pakistan shows the predominance of United Kingdom investment which accounted for 66 per cent of the total investment in Pakistan during 1960. The corresponding share of American investment was 9 per cent.<sup>41</sup> This is the case in spite of the fact that thirteen foreign policy research centers emphasized the need for foreign private investment (as shown in the previous section of this study) and the special interest shown by the government of Pakistan for American investors as shown in the following section.

### III. PAKISTAN'S ENCOURAGEMENT FOR INVESTMENT

On August 14, 1947, when the new nation was born, it found itself with only two real assets. First, was the vast area of rich grain and cotton producing land in West Pakistan and rice paddies and jute fields in East Pakistan. Second, and perhaps the most important was the spirit and determination of its people. The

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<sup>41</sup>Interim Report Series, op. cit., Vol. 311, No. 1, October, 1963, p. 2.

National Geographic magazine recalls "the survival of Pakistan in those first terrible months was a miracle."<sup>42</sup>

The country's economy at the time of independence was predominantly agricultural and there were very few organized industries. The government from the very beginning, paid active attention to industrialization and efforts were made to provide basic facilities to the industrialists.

Referring to the principles which in the aggregate comprise the private enterprise system, Henry F. Holland, Assistant Secretary for Inter-American Affairs, summed up the economic principles underlying United States economy thus:

. . . that save in unusual situations, should stay out of business, whether as producers, manufacturers, transporters or marketers . . . generally business operated by governments are not competitive, profitable or stable. They are inherently vulnerable to management policies designed to achieve aims other than business objectives. . . . The second principle to which we shall be steadfast is that the role of government should generally be that of creating conditions favorable to private capital and private enterprise. Private capital will not enter, however, except where some basic conditions favorable to its success are present . . . the most important of these conditions of course include, guarantees of property rights, guarantees of contract rights, guarantees of an opportunity to earn a reasonable rate of return. As regards property rights, no investor will knowingly

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<sup>42</sup>Jean and Franc Shor, "Pakistan, New Nation in an Old Land," National Geographic, Vol. CII, No. 5, (November, 1952), p. 639.

enter a country unless there is a reasonable certainty that the properties resulting from the investment will not be expropriated without the payment of prompt, adequate and effective compensation . . . to the investor, government respect for control rights is on par with properties rights. The opportunity to earn a reasonable return on its investment is the prize for which private enterprise strives at home and abroad. Private enterprise generally requires no government guarantee of a reasonable return. But it does demand assurance that governments will not take actions which will make a reasonable return impossible.<sup>43</sup>

The first industrial policy of Pakistan, announced in 1947, was on the broad principles of a private enterprise system. The country has adopted and intends to follow the same industrial policy. The government from time to time has confirmed it as shown by the following comments.

Addressing a joint meeting of the Far-Eastern American Council of Commerce and Industry and the National Foreign Trade Council, the assassinated Prime Minister Liaquat Ali Khan then visiting the United States in 1950 said:

. . . we have . . . detailed the measures which we have taken and propose to take in order to create the necessary climate for the investment of private capital in industry . . . we firmly believe in private enterprise over a very large field . . . we attach the greatest importance to economic and industrial development--mainly through individual

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<sup>43</sup>Henry F. Holland, "Economic Principles Underlying Our Own Economy," The Department of State Bulletin, Vol. . . , No. . . (Washington: Government Printing Office, May 17, 1954), p. 766.



initiative, private enterprise and the good will and co-operation of free and peaceful nations who have the technical skill and technical knowledge to help in the progress of mankind.<sup>44</sup>

In 1954, the Prime Minister of Pakistan, Choudhry Mohamed Ali, outlined the country's industrial program before the Far-Eastern American Council of Commerce and Industry Incorporated in New York. Commenting on the outline of the program Fortune magazine concluded:

American businessmen interested in doing business abroad have good reasons to hope that political difficulties will not interfere importantly with these proposals, which meet nearly all the familiar objectives to private investment overseas.<sup>45</sup>

On another occasion Mohamed Shoaib the Finance Minister of Pakistan who was also a permanent director of the World Bank declared the broad principles of the country's policy as:

We firmly believe that development is not something which a government hands down to a people. Development can come about only by mobilizing the energies and enlisting the participation of all the people. We believe in a pragmatic common sense approach to economic problems. We stand with the West in our firm belief in human dignity and individual freedom. We do not want a state which would control all aspects of our every day life.<sup>46</sup>

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<sup>44</sup>Liaquat Ali Khan, Pakistan, The Heart of Asia (Massachusetts: Harvard University Press, 1951), p. 34.

<sup>45</sup>Staff, "Pakistan Prospectus," Fortune, Vol. L, No. 6 (December, 1954), p. 80.

<sup>46</sup>Mohamed Shoaib, "Economic Trends in Pakistan," Vital Speeches, Vol. XXVI, No. 14, (May 1, 1960), p. 433.

On February 20, 1959, the government of Pakistan issued a comprehensive statement of industrial policy, still pertinent, that private enterprise would be offered maximum opportunity for participation in the development of the country's resources.<sup>47</sup>

It is the basic assumption of the Plan (the Second Five Year Plan)<sup>48</sup> that for the implementation of the development program, reliance will be placed primarily on private enterprise. This assumption has been made not so much to reduce the burden on public finance as in recognition of the fact that private enterprise has a key role to play in the economic development of the country. Already the development of many industries is directly attributable to private enterprise. During the Second Five Year Plan period (1960-1965) the private sector is expected to expand more rapidly.<sup>49</sup>

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<sup>47</sup>Department of Investment Promotion and Supplies, Guide to Investment in Pakistan (Karachi: Government of Pakistan Press, 1962), p. 1.

<sup>48</sup>The Strategy of the Second Five Year Plan is to encourage rapid growth of certain selected industries both through provision of liberal facilities to private industry and through public investments where necessary. At the same time emphasis is placed on measures which yield quick results, notably through mobilization of existing skills and entrepreneurial spirit amongst private businessmen.

<sup>49</sup>Pakistan Planning Commission, op. cit., p. 225.

The following measures are recommended for the guidance and encouragement of private industries by the planning commission:

1. The recently created Investment Promotion Bureau will need to be developed into an effective clearing house for all problems which investors may face. The Bureau is designed to disseminate information on investment opportunities and conditions in Pakistan and advice and guidance to investors; and to help private investors in obtaining import licences, land, building materials, technical help or advice.

2. Obstacles to new investment will need to be further reduced. The procedure for foreign private investment must be simplified.

3. Industrial legislation will need to be rationalized for facilitating planned growth of industries.

4. The use of price controls needs to be an exception; emphasis should be placed instead on increased production and more vigorous competition as a means of keeping prices at a reasonable level.

5. Control on the import of machinery and raw materials will need to be further simplified, and where practicable, specified machinery and raw materials should be freed from import restriction.

6. Exports will need to be further facilitated by suitable incentives. This is a continuing requirement.

7. Financial institutions will need to be strengthened to stimulate private industrial development.

8. The government, in association with private enterprise and business talent, will need to continue the provisions of technical training, scientific and industrial research, services of expert consultants, and collection and compilation of statistics.

9. Special attention will need to be given to the preparation of and publication of national standards by the Pakistan Standard Institution. The use of these standards will discourage the production of sub-standard goods for the domestic market, and will promote the acceptance of Pakistan products in foreign markets.<sup>50</sup>

Practically the entire industrial field is open to private enterprise, the only exceptions being manufacture of arms and ammunitions of war, production of atomic energy, railways, air transport and telecommunications which are reserved to the government to own and operate.<sup>51</sup>

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<sup>50</sup> Pakistan Planning Commission, op. cit., p. 227.

<sup>51</sup> Department of Investment Promotion and Supplies, op. cit., p. 3.

## POLICY TOWARD FOREIGN INVESTMENT

In order to give the necessary stimulus to industrial development, the government has adopted an extremely liberal policy toward foreign entrepreneurs, who can start any industry in the private sector with or without the participation of local capital.

The following safeguards and concessions are available to foreign investors in Pakistan:<sup>52</sup>

1. Repatriation facilities: a) Foreign capital invested in approved industries established after September, 1954, may be repatriated at any time, to the extent of the original investment to the country from which the investment originated. b) There is no restriction on remittance of current profits to the country from which the investment originates. c) Any part of the profits derived from investment and ploughed back into industrial projects with the approval of the government may be treated as investment for the purpose of repatriation. d) Appreciation of any capital under (a) and (c) above may also be treated as investment for the purpose of repatriation.

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<sup>52</sup>Department of Investment Promotion and Supplies, op. cit., p. 416. The Investment Promotion Wing of the Department of Investment Promotion and Supplies was set up in pursuance of the declared objective of the new industrial policy of the Government of Pakistan announced in February, 1959 to give "maximum scope to private enterprise in the development of the resources of the country." The Bureau's

2. United States compensation guarantees: a)

The government has no intention of nationalizing any industry. No private enterprise has been nationalized since the establishment of Pakistan. b) By an agreement between the United States and Pakistan--The Treaty of Friendship and Commerce--United States Government guarantees against losses arising from inconvertibility of foreign currency into dollars, and against expropriation, can be obtained for investments by private American investors in business enterprises in Pakistan on payment of a small premium.

3. Local capital participation: There is no rigid requirement about participation of Pakistan capital in any industry where foreign investment is approved by government. In the case of oil refinery, however, the Government expects substantial participation of Pakistan capital equity.

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main task is to promote foreign as well as local private investment in industry, realizing the targets of the country's Development Plans in the private sector. The safeguards and concessions offered to foreign investors are taken from a booklet published by the Investment Promotion Wing of the Ministry of Industries, available from the Embassy of Pakistan in the United States.

4. Relief from double taxation: Relief from double taxation<sup>53</sup> is available to American investors--Treaty for the avoidance of Double Taxation. Pakistan has an avoidance of double taxation agreement with the United States.

5. Corporate taxation: a) There is no distinction between public and private companies as regards taxation. b) Business Profits tax has been abolished. c) Corporate taxation now consists of Income tax at thirty per cent plus "Super tax" at rates varying according to the nature of the company.

6. Tax holiday: Companies engaged in industrial undertakings established after April 1, 1959, and before July 1, 1965, are exempted from taxation for four years and in less developed areas six years. Existing industries would also be entitled to tax holiday on a new identifiable industrial process.

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<sup>53</sup>The Government of Pakistan has an agreement for the Avoidance of Double Taxation with a few countries, namely the United States, United Kingdom, Sweden, Japan, Federal Republic of Germany, India, Switzerland and Denmark. One of the main purposes of such an agreement is to classify the types of income which would be liable to tax exclusively in one of the two countries (either in Pakistan or in another country with which she has an agreement) and, where such income is liable to tax in both the countries, to devise a basis for the apportionment of such income between the two countries. It also provides for the grant of tax credit where certain income is liable to tax in both the countries.

7. Carrying forward losses: Losses incurred in any year can be set off against income from the same business profession or vocation during the succeeding six years.

8. American technicians: American technicians employed by approved industrial undertakings under contract of service are exempt from tax on their salary income for a period of two years.

9. Contributions: Contributions made to polytechnics, technical colleges and other institutions are allowed to be deducted from profits.

10. Others: There are additional concessions to Mining Industries. Interest paid to foreign lenders is also exempted from taxation.<sup>54</sup>

#### IV. PAKISTAN, A GROWING MARKET FOR UNITED STATES PRODUCTS

The United States Department of Commerce sent its third Investment Development Mission to Pakistan in late 1961 to further the already cordial business relations between the two countries. This mission headed by one of the United States Commerce Department

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<sup>54</sup>"Incentives and Concessions to Investors in Pakistan" (Issued by the Embassy of Pakistan in the United States), Embassy of Pakistan, Washington 8, D. C.



Officials and with six selected business specialists explored opportunities for participation by United States private enterprise in capital investments, licensing and joint ventures. On its return the mission reported:

American businessmen are failing to capitalize on the unique opportunities offered to them in Pakistan. Industrial progress in Pakistan is keyed to the resources and skills of private enterprise. Solid investment and trade opportunities exist and participation by United States industry is welcomed.<sup>55</sup>

Pakistan is a growing market. One of the most influential factors affecting the market is the physical division of Pakistan into two sectors separated by the country India. East Pakistan is strategically situated as a base for export to the Far East while West Pakistan is a springboard to Africa and the Middle East.<sup>56</sup>

The strongest attractions for selective United States investment in Pakistan are the apparently boundless sources of raw material, low cost labor, the need of ninety-four million people, the absence of local competition in many essential industries, customary large profit margins and the emphasis upon private enterprise are the existing facts.<sup>57</sup>

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<sup>55</sup>U. S. Department of Commerce, op. cit., pp. 8-1.

<sup>56</sup>Ibid.

<sup>57</sup>Ibid.

Deterrents to United States investment are the numerous government controls, some of which are necessitated by the unavailability of sufficient foreign exchange, inability to measure the purchasing power of the consumer market, lack of industrial experience on the part of the Pakistanis, the foothold already attained by competing countries, heavy taxes, the official desire for Pakistani equity participation and a growing feeling against the concentration of wealth in a relatively few hands.<sup>58</sup>

Price control is not intended to be a permanent feature of the government's policy. In order to conserve scarce foreign exchange it has been necessary to limit the scope and level of many imports especially consumer goods. As production and supply improve it is hoped that control over prices will be progressively relaxed.<sup>59</sup>

Pakistan's industrial progress continues to gain momentum. There is a need for a greater volume and variety of imported developmental goods, later as the standard of living rises, so should the demand for consumer products. Table III presents the leading items imported

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<sup>58</sup>Ibid.

<sup>59</sup>The Central Board of Revenue, Tax in Pakistan (Karachi: The Central Board of Revenue, Ministry of Finance, Government of Pakistan, 1961), p. 34.

TABLE III  
 LEADING IMPORTS IN 1960  
 (in million dollars)

Import	Imports from all Countries	Imports from United States
Machinery, all kinds . . . . .	130.8	27.9
Grains pulps and flour . . . . .	108.5	not available
Iron steel and manufactures . .	69.9	5.0
Mineral oils . . . . .	61.6	---
Vehicles . . . . .	43.3	12.9
Drugs and medicines . . . . .	20.9	2.9
Electrical goods and apparatus	19.1	1.4
Chemicals . . . . .	14.8	3.3
Dyes and colors . . . . .	12.2	0.2
Non ferrous materials and manufactures . . . . .	11.9	0.5

Source: World Trade Information Service, Part I,  
 No. 61-66, September, 1961, U. S. Government Printing Office,  
 Washington, D. C.

and Table IV on page 48 shows the chief suppliers of the country in the year 1960.

The present outlook for United States sales is optimistic. Vigorous sales promotion by on-the-spot industry representatives giving graphic and conclusive explanations or demonstrations of American equipment in operation is lacking on the part of United States suppliers.

On July 1, 1960, Pakistan inaugurated a 4.8 billion dollar Second Five Year Plan (1960-1965) which involves a foreign exchange outlay of two billion dollars. Over the next decade, the billion dollar Indus Basin project also should generate a significant additional need for many foreign goods and services. Other favorable factors for a growing market of sales include the recent relaxation in Pakistan's import policy, Agency for International Development (AID) and Development Loan Fund (DLF) emphasis on procurement in the United States, and the recently liberalized procedures and facilities of the Export-Import Bank of Washington.<sup>60</sup>

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<sup>60</sup>David W. Westley and George S. Ayres, Pakistan a Growing Market for U. S. Products, (Economic report prepared for the World Trade and Information Service, Part I, No. 61-66, Washington: U. S. Government Printing Office, 1961), p. 5.

TABLE IV

## CHIEF SUPPLIERS OF PAKISTAN IN 1960

(in million dollars)

Country	Amount	Percentage of Total
United States . . . . .	162.6	24.9
United Kingdom . . . . .	114.4	17.5
Germany (Federal Republic) . .	59.0	9.0
Japan . . . . .	55.3	8.5
Iran . . . . .	33.4	5.1
France . . . . .	25.8	3.9
India . . . . .	23.9	3.7
Italy . . . . .	23.0	3.5

Source: World Trade Information Service, Part I, No. 61-66, September, 1961, U. S. Government Printing Office, Washington, D. C.

Consumers Goods: Perhaps only two to four million persons are now financially capable of making more than nominal purchases of consumer goods. Although Pakistanis like and, in many instances prefer, United States consumer products, the market will remain very limited for some time because of low annual per capita purchasing power (53 dollars) and stringent import restrictions designed to conserve scarce foreign exchange for more essential goods. Nevertheless, the urban Pakistani has come into contact with many American household appliances and gadgets, home furnishings, and semi-luxury items and has had his appetite for them whetted. When circumstances permit, this could be a most worthwhile market for many United States consumer products.<sup>61</sup>

Chemicals and Pharmaceuticals: Pakistan has been a good market for certain chemical specialities and such American pharmaceutical products as vitamins, antibiotics, parenteral solutions and malaria and fever remedies. Several American and other foreign companies have begun construction or have received approval for the establishment of plants in Pakistan to produce or package pharmaceutical products. As a result of the liberalized import policy

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<sup>61</sup>Ibid.

instituted in 1960 and the need to import most ingredients, this market should expand greatly although some shift in its character may occur. Meanwhile, the market for such chemical specialities as insecticides and plastic raw materials should also grow.<sup>62</sup>

Transportation and Communications Equipment:

Pakistan represents an excellent market for most types of transportation and communication equipment, especially for United States trucks, busses and railway vehicles. Substantial public and private sector outlays during the Second Five Year Plan are planned for railways, ports and shipping, inland water transport, highway transportation, civil aviation and telecommunications, including broadcasting equipment.<sup>63</sup>

Metals and Manufactures: The outlook is for an increase in the demand for metals and manufactures as the Second Five Year Plan is implemented, although United States suppliers already face severe competition from Japan, the United Kingdom and Continental sources. Shipments of metals and manufactures to Pakistan from the United States in 1960 were valued at 5.1 million dollars. Important items have included tinplate,

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<sup>62</sup>Ibid.

<sup>63</sup>Ibid.

stainless steel sheets, steel reinforcing rods, pipes, hand tools and some specialized items, such as fabricated steel structure shapes and plates, electric steel sheets and strips, and steel penstocks.<sup>64</sup>

Agricultural Products: The current trend of a high level of agricultural exports to Pakistan should continue for at least several years to come. United States exports of agricultural products to Pakistan in 1960 included wheat, rice, edible oils, etc. . . . as shown in Table V.<sup>65</sup>

Earthmoving, Construction and Related Machinery: A number of large construction projects especially hydro-electric and irrigation, are planned and are under way in both parts of Pakistan. Several American companies already are engaged in this field, a factor which should ensure full consideration of United States earthmoving, construction and related equipment. The massive one billion dollar Indus Basin project which will take a decade to complete is the largest of these. The Food and Agricultural Commission set up in 1959 recommended several development programs. These programs are expected to generate a large demand for equipment and materials of agricultural machinery.<sup>66</sup>

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<sup>64</sup>Ibid.

<sup>65</sup>Ibid., p. 5.

<sup>66</sup>Ibid., p. 6.



TABLE V

UNITED STATES AGRICULTURAL EXPORTS  
TO PAKISTAN IN 1960

Agricultural Products	Million of Dollars
Wheat and wheat flour. . . . .	70.6
Rice . . . . .	12.6
Edible oils. . . . .	7.5
Tallow . . . . .	3.4
Raw cotton . . . . .	1.6
Unmanufactured tobacco . . . . .	1.4

Source: World Trade Information Service, Part I, No. 61-66, September, 1961, U. S. Government Printing Office, Washington, D. C.

Other Industrial Machinery: There is an excellent potential for the sale of a wide range of such lines as textile, vegetable oil milling, refrigeration and air conditioning, food processing machinery, engines and office equipment. Machinery and equipment for these and other new industries to be established should present many opportunities for United States suppliers to increase their sales in this market. Strong competition is present, of course, from British, Japanese and German suppliers.<sup>67</sup>

Engineering, Construction and Other Specialized Services: Pakistan is an excellent market for the United States engineering and other similar services. American technicians, although considered expensive to hire and maintain, have a good reputation. Pakistani businessmen have been encouraged by their government to utilize the services of foreign consultants to provide technical help and perform feasibility studies. New opportunities should develop for alert American firms as Pakistan undertakes a variety of important industrial projects and moves forward on plans to implement transportation projects, city construction, and improvement of communication facilities.<sup>68</sup>

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<sup>67</sup>Ibid., p. 8.

<sup>68</sup>Ibid.

## CHAPTER III

### THE LAND, THE PEOPLE AND THE ECONOMY

In this chapter a brief history of the Moslems in India is given as Pakistan is a state which has been created not on economic, linguistic or racial basis, but on that of religious unity of Moslems. The conception of the idea of Pakistan and the birth of the nation is also dealt with. Later, a description of the situation of Pakistan on the globe, its climate, area, population, agriculture, industries and commercial practices and procedure is offered.

Having recognized the importance of investment in Pakistan this information provides necessary background about the country to a prospective investor. Detailed statistical figures especially on population were not available at the time of writing; however, the latest available data are used.

#### I. HISTORY OF THE MOSLEMS IN INDIA AND THE BIRTH OF PAKISTAN

The earliest Moslems to come to India may have sailed from Arabia to expand their trade during the lifetime of Prophet Mohamed. In the time of Damascas Caliphate the Governor of Basra heard that one of his

ships had been looted at Delent in Sind, and sent a punitive expedition under the leadership of Mohamed Bin Qassem to avenge the insult in 712 A.D. This Moslem invasion of India resulted in the conquest and conversion of most of Sind.<sup>1</sup>

Between A.D. 999 and 1025 Afghans raided India, later on Turks invaded the country and finally established a Moslem kingdom in Delhi. Five Turkish and Afghan dynasties ruled at Delhi from 1192 to 1526 A.D. To the Turco-Afghans succeeded the Moghuls, under whose six emperors (1526-1707) Indian Moslems took back to the period of glory. Aurangzeb was the last of the Great Moghuls. The death of Emperor Aurangzeb was followed by the disintegration of the Moghul Empire. The sack of the Delhi by Persian invaders in 1739 and the increasing strength of British, French and Dutch settlements on the coasts left the last successor--Bhadur Shah Zafar--little more than moral authority and sentimental appeal.<sup>2</sup>

The responsibility of the Moslems for the Indian Mutiny of 1857--the first abortive independence movement--

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<sup>1</sup>Richard Symonds, The Making of Pakistan (London: Faber and Faber, 1949), p. 19.

<sup>2</sup>Ibid., p. 20.

and the extent of their participation in it, was considerably exaggerated by contemporary British historians and diarists.<sup>3</sup>

Under the Moghuls and in the Moslem states which succeeded to part of their dominions, the Moslems had filled the great majority of higher posts in the army, the administration and the learned professions. The East India Company had no use for either Moslems or Hindus in senior positions in its service. It did need a multitude of subordinate officials, but they had to be English speaking.<sup>4</sup>

In 1835, as a result of Lord Macaulay's famous "Minute," English replaced Persian as an official language of higher education. The Hindus were quick to take advantage of the schools opened by the British missionaries who began to come to India in the evangelical movement of the early nineteenth century. The Moslem centers of learning, Delhi and Lucknow, were far from the British centers of government, education and commerce at Calcutta, Bombay, and Madras. Moslem religious leaders were suspicious of Christian schools. The old tradition lingered on in Lucknow, where the king had a library of two hundred thousand books and

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<sup>3</sup>Ibid., p. 25.

<sup>4</sup>Ibid., pp. 25-26.

manuscripts and where the Urdu literature of the period was full of joy and pride. But Lucknow and Delhi were sacked in the Mutiny and only in far away Hyderabad did the old culture continue in a living form.<sup>5</sup>

Sir William Hunter, in a remarkable book published shortly after the Mutiny, gives a striking picture of the decaying Moslem middle class in Bengal:

They had lost their traditional positions in police, courts of law, magistracy, army and revenue offices. Of 240 Indian pleaders admitted to the Calcutta Bar between 1852 and 1863 only one was Moslem. There were no Moslem covenanted officers or High Court judges. In all the Government gazetted appointments of the province, they filled only 92 places out of 1338.

The proportion of the race a century ago had the monopoly of the Government has now fallen to less than one twenty-third of the whole administration body.<sup>6</sup>

This historical transfer of power from the hands of the Moslems into the hands of Hindus in the fields of administration, education, business, law, politics and other professions, deeply concerned some of the highly educated men; foremost in Moslem revival during the seventy years or so before the birth of Pakistan.

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<sup>5</sup>Ibid.

<sup>6</sup>W. W. Hunter, The Indian Mussalmans (London: Truber and Company, 1871), p. 145.

Notable among them were Sir Syed Ahmed Khan, Syed Amir Ali and Sir Mohamed Eqbal.

Sir Syed Ahmed returned to India from England, convinced that the only hope for the advancement of Moslem community was by the absorption of western learning and science, and by reconciliation with the British. His greatest contribution to the Moslem recovery was the establishment of the Mohamaden Anglo Oriental college which subsequently became Aligarh Muslim University in 1875. The college was residential, on the Oxford and Cambridge model, and its first three principals were Englishmen. The college was successful in Sir Syed's immediate objective of producing not only candidates for the higher ranks of government service, but political leaders as well.<sup>7</sup>

Maulana Mohamed Ali, leader of the Khilafat Movement, Khawja Nazimuddin, former Governor General of Pakistan, Liaquat Ali Khan, former Prime Minister of Pakistan, and Field Marshall Mohamed Ayub Khan, the present President of Pakistan, were all Aligarh graduates.

Pakistan is the world's first nation to have been conceived by a poet. This was Mohammad Iqbal, who wrote mystic poems foretelling a new Moslem nation that

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<sup>7</sup>Symonds, op. cit., p. 29.

would arise in British India.<sup>8</sup> The name Pakistan was coined from Persian and used by the poet-philosopher Mohammad Iqbal to designate a spiritual or religious realm meaning "Land Stan of the pure Pak ." It was first employed as a political slogan by C. Rahmat Ali and some associates at Cambridge, England in 1933, to symbolize their ideal of Moslem state which should be formed of predominantly Moslem areas in India in contrast to the rest of India, which they called Hindustan, meaning "Land of the Hindus."<sup>9</sup> The idea of Moslem state was adopted as a goal by the political party known as Muslim League at its Lahore session in 1940. Since then Mohammed Ali Jinnah, a whip-sharp patriot and president of the Muslim League, devoted his entire life to the creation of Pakistan. On August 14, 1947, when independence was granted to the former British Indian Empire, Pakistan came into existence.

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<sup>8</sup>William W. Wade, U. S. Policy in Asia (Volume 27, No. 6, of the Reference Shelf)(New York: The H. W. Wilson Company, 1955), p. 47. "Pakistan: Divided it Stands," was an article published in the Readers' Digest, November, 1954. It was reprinted by permission in the U. S. Policy in Asia, edited by William W. Wade.

<sup>9</sup>"Pakistan," The Encyclopedia Americana (1963 edition), Volume XXI, p. 133.



## II. PAKISTAN ON THE GLOBE

Pakistan consists of two parts, East Pakistan and West Pakistan, which are separated from each other by about 1,000 miles of Indian territory. East Pakistan lies between the longitudes 88 E and 92.30 E and between latitudes 21 N and 27 N; while West Pakistan is situated between the longitudes of 61 E and 75 E and latitudes of 24 N and 37 N.<sup>10</sup>

West Pakistan touches the Himalayan foothills and the Hindukush Mountains in the north. It is separated from Russia by a narrow stretch of mountain ranges and extends from Pamirs down to the Arabian Sea. In the west are Afghanistan and Iran, while in the east and south it is bounded by India. It comprises the former provinces of North Western Frontier Provinces, Baluchistan, Sind and a major part of the pre-Partition Punjab and the former States of Bhawalpur, Khairpur, Kalat, Makran and Lasbela. West Pakistan is a land of great scenic contrast. The rugged mountain regions of the north give way to the plains and fertile land of the Indus Valley and to the barren deserts in the south and west.<sup>11</sup>

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<sup>10</sup>Anwar Iqbal Qureshi, Pakistan Basic Facts, (Prepared for the Government of Pakistan, Ministry of Finance, Rawalpindi, March 29, 1963), p. 6.

<sup>11</sup>Ibid.

East Pakistan lies between the Indian provinces of West Bengal and Assam and the Union of Burma, with the Bay of Bengal in the south. It comprises the parts of the pre-partition provinces of Bengal, a major portion of the Sylhet district of Assam and the Chittagong Hill Tracts. In East Pakistan there are no wide contrasts of scenery.

Heavy rainfall and an extensive river system have made this region a green and glorious land, rich in sub-tropical products.<sup>12</sup>

Rawalpindi is the interim capital of Pakistan. The construction of the new capital at Islamabad, about ten miles from Rawalpindi, is underway.

Karachi, the nerve-center has a fine and well developed seaport and is an important junction of air routes between the Middle East and the Far East and occupies a unique strategic position in the Eastern Hemisphere. Chittagong and Chalna are the two major ports of East Pakistan.<sup>13</sup>

There are seven principal rivers running through the country. These are fairly well spaced and ideally suited for the construction of diversion dams for irrigation. The rainfall varies from four inches a year in

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<sup>12</sup>Ibid.

<sup>13</sup>Ibid.

the South to forty inches in the north of West Pakistan and from fifty inches to 135 inches in East Pakistan.<sup>14</sup>

The climate is continental in West Pakistan.

On a summer's day the temperature in the shade may go up to 120° F. and may not fall below 99° F. during the night. During winter while the maximum temperature on a calm and clear day may touch 75° F., it falls almost to the freezing point after midnight. Along the sea coast, the climate is fairly hot in summer and mild in winter. There are four well defined seasons, but autumn and spring are of exceptionally short duration. Most of the rainfall occurs during the latter half of the summer, and the winter season is generally dry with short and infrequent spells of rain during December and January.<sup>15</sup>

In East Pakistan, the climate is tropical, humid and warm during the summer and mild and dry during winter. The mean temperature during the winter months is 45° F. and in summer 90° F. The rainfall is heavy and bulk of it falls during the monsoon season which extends from May to September.<sup>16</sup>

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<sup>14</sup>Ibid., p. 8.

<sup>15</sup>Ibid.

<sup>16</sup>Ibid.

### III. AREA AND POPULATION

Total area of Pakistan is 365,529 square miles. Of this, the area of West Pakistan is 310,403 square miles or 84.9 per cent of the total and that of East Pakistan is 55,126 square miles or 15.1 per cent of the total.<sup>17</sup>

#### A. West Pakistan Population

West Pakistan has a population of 33,779,000 persons, according to the 1951 census (1961 figure is 42,880,000).<sup>18</sup>

Characteristics: Over 82 per cent of the people live in rural areas, where agriculture is the principal occupation. This area has a literacy of approximately 9.7%. There are 109 persons per square mile (in 1961--138). Urdu is the language most widely used although Pushto, Punjabi, Sindhi and Baluchi are also spoken. English, however, is the accepted language in business and in most government offices. Ninety-seven per cent of the inhabitants of this area are Moslems, about half

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<sup>17</sup>Ibid., p. 10.

<sup>18</sup>George S. Ayres, Marketing Areas in Pakistan, (Economic Reports prepared for the World Trade Information Service, Part I, No. 61-1, Washington: U. S. Government Printing Office, 1961), p. 5.

a million are Hindus, and a slightly lesser number are Christians.<sup>19</sup>

Standard of Living: The per capita income in 1957-58 was estimated at 305 rupees or \$64. The average daily number of workers in 1957 was 241,541 and their average income was 977 rupees or (\$205). There were 123,124 licenced radio sets in this area in 1957 and 62,500 telephones are in use.<sup>20</sup>

Availability of Labor: There is a general shortage of both skilled and semi-skilled labor. Unskilled labor is readily available. The total number of persons seeking employment registered on March 31, 1960, was 105,791; however, the total number unemployed was undoubtedly much greater.<sup>21</sup>

#### B. East Pakistan Population

East Pakistan has a population of 42,062,610 persons according to the 1951 census (1961 figure is 50,840,000). This province with 15 per cent of the total area of Pakistan supports about 65 per cent of its people.<sup>22</sup>

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<sup>19</sup>Ibid.

<sup>21</sup>Ibid., p. 13.

<sup>20</sup>Ibid., p. 13.

<sup>22</sup>Ibid.

Characteristics: The density of population in East Pakistan was 777 persons per square mile in 1959 (922 in 1961). The literacy rate--21.1% compared with the national average of 18.9%--is the second highest in the country. Bengali is the language most widely spoken but English is used in most government offices and is the accepted language in business. Seventy-seven per cent of the population are Moslems. Hindus represent an important minority of 22%.<sup>23</sup>

Standard of Living: The standard of living in the East is lower than the country's West Wing. The per capita income estimated at 213 rupees (\$45) in 1957-1958, substantially lower than the estimated national average of 249 rupees (\$52).<sup>24</sup>

The average daily number of workers employed in manufacturing establishments employing twenty or more workers in 1958 was 168,479; their average annual income was 757 rupees or (\$189).

East Pakistan had 12,500 telephones in use in 1957 and 17,236 licensed radio receivers.

Unskilled workers are readily available; skilled and semi-skilled workers of all types are still in short

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<sup>23</sup>Ibid., p. 13.

<sup>24</sup>Ibid.



### AREA, POPULATION AND LITERACY

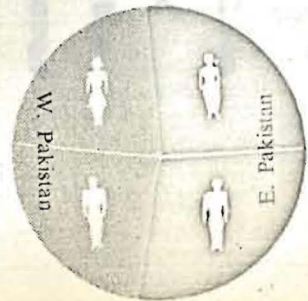
Locality	Pakistan (1)	E. Pakistan	W. Pakistan
Area sq. miles	365,529	55,126	310,403
Population (000s)	93,720 (3)	50,840	42,880
Persons per sq. mile	256	922	138
Literates (2) (000s)	14,336	8,956	5,380
Percentage of total population	15.9	17.6	13.6

1. Excluding Jammu and Kashmir, Gilgit and Baltistan, Junaghar and Manavadar.
2. Defined as able to read with understanding a short statement on everyday life in any language.
3. Excludes foreign nationals.

Locality	1951			1961 (a)		
	Total (000s)	% increase over 1951	Total (000s)	Male (000s)	Female (000s)	Total (000s)
Pakistan (b)	75,842	24	93,720	49,297	44,394	93,720
E. Pakistan	42,062	21	50,840	26,349	24,491	50,840
W. Pakistan	33,780	27	42,880	22,948	19,903	42,880
				Urban (000s)	Rural (000s)	Total (000s)
				12,287	81,404	93,720
				2,641	48,200	50,840
				9,646	33,204	42,880
						Muslims (000s)
						82,526

(a) Excluding foreign nationals.  
 (b) Excluding Jammu and Kashmir, Gilgit and Baltistan, Junaghar and Manavadar.

### POPULATION 1951 and 1961



CHARACTERISTICS OF PAKISTAN'S POPULATION

TABLE II

supply. The number of persons seeking employment registered at the end of March, 1960, was only 50,797, but the total number of unemployed was much higher.<sup>25</sup>

#### IV. AGRICULTURE

The total land area of Pakistan is 233.9 million acres of which 149.1 million acres or 64 per cent of the total area has so far been fully surveyed. Of the area available for cultivation, only 51.6 million acres are sown, which represents only 35 per cent of the surveyed area.<sup>26</sup>

Although efforts are being made to diversify the economy, Pakistan remains essentially an agricultural country. More than 95 per cent of all foreign exchange earnings are derived from exports of agricultural products (raw or processed). About 85 to 90 per cent of the people depend upon agriculture for their livelihood, and much of the government revenue stems directly and indirectly from agriculture. What is now Pakistan was, prior to partition, the bread basket of the Indian Sub-continent and, in addition, the supplies of raw cotton

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<sup>25</sup>Ibid.

<sup>26</sup>Qureshi, op. cit., p. 16.



for the great textile mills at Bombay and Ahmedabad, and raw jute for the jute mills in the Calcutta area.<sup>27</sup>

Agriculturally, East Pakistan and West Pakistan are two distinct entities.

East Pakistan has a rice economy. About 21.8 million of its 25 million cultivated acres are sown to rice. This area also produces all of the country's jute and tea--two important cash crops. Linseed, sesame, tobacco, rope and mustard, sugarcane are also grown. All of these crops are grown under rainfall conditions, with irrigation being used only to a limited extent to supplement the rainfall.<sup>28</sup>

West Pakistan, where wheat is the staple food, produces most of the country's wheat, bajra (millet), barley, grain (chickpeas), Jowar (grain sorghum), maize (corn), rope and mustard, sugarcane, tobacco, cotton, wool and dairy products. Most of the crops in this area depend upon irrigation. It has been estimated that the Sutlej, Ravi, Chenab, Jhelum, Indus, Swat and Kabul rivers annually irrigate 16 million acres of land through canals, forming one of the largest irrigation systems

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<sup>27</sup>Frances Hayland and Robert W. Weiss, Jr., Basic Data on the Economy of Pakistan, Overseas Business Reports, OBR 63-134, (Washington: U. S. Government Printing Office, January, 1964), p. 5.

<sup>28</sup>Ibid.

in the world. In addition, wells supply water to about 2.6 million acres.<sup>29</sup>

Water logging and salinity are two major problems. It is estimated that about 100,000 acres are damaged each year by the accumulation of mineral salts on or near the surface of the soil. Because of the lack of sufficient fresh water to flush off these salts, deterioration has progressed at a faster rate than reclamation. This problem of great immensity requiring outlay for its solution far beyond presently foreseeable resources. However, a sum of 16 million rupees is provided for the soil conservation in the Second Plan.<sup>30</sup>

The country's agricultural program aims at developing self-sufficiency in the production of food grains by making more land available through large scale irrigation and land reclamation projects, increasing yields through subsidized distribution of improved seeds and fertilizers, combating plant diseases and pests, introducing mechanical equipment, and adopting progressive policy of production

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<sup>29</sup> Ibid.

<sup>30</sup> Pakistan Planning Commission, The Second Five Year Plan, Government of Pakistan Publication (June, 1960), p. 169.

# NATIONAL INCOME AT CONSTANT PRICES BY INDUSTRIAL ORIGIN

(At Factor Cost of 1949-50 to 1952-53)

(In million rupees)

Sector	1949-50	1950-51	1951-52	1952-53	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62	1962-63
Agriculture (a)	10,938	11,317	10,953	11,062	11,835	11,591	11,030	11,820	11,581	11,438	11,980	12,303	13,040	12,735
<i>Major crops</i>	6,208	6,465	5,911	6,012	6,733	6,434	6,095	6,860	6,646	6,611	7,121	7,453	7,981	7,583
<i>Minor crops</i>	1,785	1,753	1,784	1,882	1,903	1,833	1,697	1,707	1,721	1,552	1,575	1,654	1,679	1,705
<i>Livestock</i>	2,364	2,478	2,568	2,452	2,519	2,535	2,548	2,561	2,524	2,587	2,583	2,475	2,638	2,681
<i>Fishing</i>	563	606	676	699	662	771	675	675	674	671	685	704	725	749
<i>Forestry</i>	18	15	14	17	18	18	15	17	16	17	16	17	17	17
Mining and quarrying	20	27	31	31	33	33	36	40	44	48	52	61	65	73
Manufacturing..	1,314	1,399	1,540	1,707	1,926	2,200	2,423	2,575	2,694	2,866	3,040	3,197	3,444	3,649
<i>Large-scale</i>	313	382	487	626	817	1,061	1,252	1,373	1,460	1,599	1,738	1,860	2,069	2,238
<i>Small-scale</i>	1,001	1,017	1,053	1,081	1,109	1,139	1,171	1,202	1,234	1,267	1,302	1,337	1,375	1,411
Construction	252	260	256	332	205	278	281	340	400	425	486	563	661	748
Electricity, gas, water and sanitary services	27	29	30	30	34	41	41	44	44	49	52	56	68	77
Transportation, storage and communications	569	606	627	635	644	673	685	721	744	796	808	838	863	887
Wholesale and retail trade	1,676	1,741	1,711	1,748	1,884	1,888	1,843	1,972	1,956	1,960	2,059	2,126	2,261	2,258
Banking and insurance	48	58	62	58	68	77	85	91	90	106	113	133	150	170
Ownership of dwellings	886	911	935	960	987	1,014	1,045	1,074	1,107	1,142	1,178	1,216	1,257	1,301
Public administration and defence (b)	858	917	1,073	997	1,023	1,116	1,088	1,056	1,022	1,130	1,022	1,083	1,111	1,214
Services	1,331	1,367	1,278	1,477	1,538	1,441	1,555	1,654	1,797	1,908	1,966	2,002	2,049	2,140
Net domestic product at factor cost	17,919	18,632	18,496	19,037	20,177	20,352	20,112	21,387	21,479	21,868	22,756	23,578	24,969	25,252
Net factor income from rest of the world	-10	-9	-8	-14	..	-9	-26	-12	-8	-10	-18	-19	-13	-21
National income	17,909	18,623	18,488	19,023	20,177	20,343	20,086	21,375	21,471	21,858	22,738	23,559	24,956	25,231
Population (c) (In million)..	74,65	76,45	78,98	80,83	82,32	83,79	85,24	86,77	88,42	90,13	91,90	93,72	95,61	97,57
Per capita income (Rs.)	240	244	234	235	245	243	236	246	243	243	247	251	261	259

Note. (1) The estimates under all sectors have been revised and adapted to U.N. classification of industries. These figures are, therefore, not comparable with previous series.  
 (2) The time reference of the estimates is July-June.

(a) Official estimates of agricultural production have been used to compute these estimates. But it is generally believed that the official estimates are under-estimated.  
 (b) Includes Public Education and Health.

incentives. Construction of grain storage facilities and cold storage plants are also underway.<sup>31</sup>

## V. INDUSTRY

At the time of partition in 1947, Pakistan had virtually no factory industries. Of the total 14,568 industrial establishments in the British India in 1947 only 1,406 industrial units (with a manufacturing capacity of barely 10% of undivided India), were located in areas which formed Pakistan. To make the situation worse, the country lacked all sorts of industrial credit facilities, technical and technological institutes and research laboratories.<sup>32</sup>

The Government, in order to achieve a reasonable measure of economic security, formed a new industrial policy replacing the pre-independence one. This new policy entitled the Government to own and operate the following industries:

- (1) Manufacture of arms and ammunition.
- (2) Generation of hydro-electric power, and
- (3) Manufacture of railway wagons, telephones, telegraphs and wireless apparatus.<sup>33</sup>

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<sup>31</sup>Hayland and Weise, Jr., op. cit., p. 6.

<sup>32</sup>Qureshi, op. cit., p. 48

<sup>33</sup>Ibid.

The rest of the industrial sector was left to private enterprise. In July, 1951, the Government drew a Six Year Plan (1951-1957), in which industrial sector had a fair share. The Six Year Plan was officially described as "essentially one of basic development intended to prepare the country for future advancement." It focused attention on the expansion of "overhead" facilities in such fields as communications, power and irrigation.<sup>34</sup>

Meanwhile, the effects of the Korean War were becoming evident and created problems and priorities not foreseen by the planners. The fear of a possible world war brought a new sense of urgency to the development effort, or at least to some strategic parts of it. As a result a Two-Year Priority Plan was formulated in April, 1951, emphasizing an accelerated pace of development in certain industries which would promote self-sufficiency in essential consumer goods and services and meet some of the more urgent and vital requirements of the country.<sup>35</sup>

The industrial progress still seemed to be below the required mark. The private capital was proving very shy; firstly because there was no tradition of

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<sup>34</sup>J. Russel Andrus and Azizali F. Mohammed, The Economy of Pakistan (California: Stanford University Press, 1958), p. 482.

<sup>35</sup>Ibid.

industrialization and the profit seemed uncertain; secondly, commercial sector was yielding big and quick dividends without taking the much needed capital for a longer period. The Government had, therefore, to enter the private sector. A semi-public organization, namely, Pakistan Industrial Development Corporation (P.I.D.C.) was set up. The aim of the Government was to enlist participation of private capital in conjunction with the public funds. This procedure provided the necessary incentive. In addition, the Government also provided tax concessions and credit facilities to industries by setting up the Pakistan Industrial Finance Corporation (now the Industrial Development Bank of Pakistan) and the Pakistan Industrial Credit and Investment Corporation. From then on the story of industrial sector is one of steady upward progress.<sup>36</sup>

The progress of some individual industries like cotton and jute textiles, cement, sugar, cigarettes etc. as shown in Table VIII has been quite remarkable.

The production of cotton cloth increased from 88 million yards in 1948 to 725 million yards in 1962, showing an increase of 724 per cent in just fourteen years. In 1947, no cotton yarn for sale was produced

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<sup>36</sup>Qureshi, op. cit., p. 48.

TABLE VIII  
INDUSTRIAL PRODUCTION—SELECTED ITEMS

Year	Cotton cloth (Million yards)	Cotton yarn (Million lbs.)	Jute manufac- tures (Thousand tons)	Cement (Thousand tons)	Sugar (Thousand tons)	Cigarettes (Million nos.)	Tyres & tubes (Thousand nos.)	Hydrogenated vegetable oil (Thousand tons)
1948	88.1	29.7	—	324	30.4	—	—	0.3
1949	92.4	33.9	—	422	38.6	241	13	2.5
1950	106.3	43.1	—	413	32.7	1,488	112	4.2
1951	127.7	53.4	—	499	42.8	2,716	621	6.0
1952	174.2	69.7	9.7	530	64.0	3,170	776	8.0
1953	251.6	120.6	44.1	595	85.7	3,996	1,376	10.8
1954	345.2	192.4	53.3	671	75.5	4,588	1,902	11.1
1955	453.2	274.5	103.2	681	95.1	4,833	2,035	14.5
1956	500.4	300.7	142.4	773	107.7	5,343	2,187	16.7
1957	527.0	315.9	148.8	1,078	111.5	6,481	2,651	18.0
1958	576.2	345.1	172.1	1,072	162.6	7,468	2,705	20.4
1959	618.5	392.1	232.6	986	167.2	8,771	2,778	27.1
1960	628.8	408.7	264.7	1,120	145.4	9,946	2,951	34.3
1961	699.0	412.6	250.4	1,223	123.4	12,065	3,982	45.2
1962	725.2	432.2	286.4	1,373	184.6	13,696	4,590	62.7

Qureshi sp. cit. p. 49

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by any of the mills in the country. Production of yarn for the market started only in 1953 when the production was 120.6 million pounds which increased to 432.2 million pounds in 1962 or by 258 per cent.<sup>37</sup>

Production of manufactures did not start until April, 1952, and since then has shown a phenomenal rise and it now rivals cotton manufactures in Pakistan's export list.<sup>38</sup>

In 1948, the country produced only 30,000 tons of sugar and was heavily dependent on imports. By 1962, the production increased to 184,600 tons, showing an increase of 51.5 per cent. Similar progress has been witnessed in regard to other industries.<sup>39</sup>

Today, while Pakistan's economy remains largely agrarian, substantial progress has been made toward industrialization. Raw materials which formerly went almost entirely to overseas markets are being increasingly processed in the country and industrial employment is rising. The country now possesses enough productive capacity to attain self-sufficiency in many industries, including cotton textiles, jute goods, aluminum and brass utensils, biscuits, cycle tires and tubes, small

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<sup>37</sup>Ibid.

<sup>38</sup>Ibid.

<sup>39</sup>Ibid.



diesal engines, electric wire and cables, lamps and meters, hurricane-lanterns, printing, writing and wrapping paper and tea chests.<sup>40</sup>

## VI. COMMERCIAL PRACTICES AND PROCEDURES

Business Organization: A business in Pakistan may be organized as a sole proprietorship, a partnership or as an incorporated or un-incorporated association. Foreign investors establishing enterprises in Pakistan ordinarily form corporations, or companies, as corporate enterprises are known there.<sup>41</sup>

Company: Foreign investors may organize a Pakistan Company or participate in a Pakistan Company already formed, subject to the same company regulations as are applicable to Pakistan investors. Foreign investors may also establish a branch or a subsidiary of a foreign company in Pakistan by registering under the Companies Act 1947. A company may be public or private. A private company is one which, by its articles, restricts the right to transfer of shares, limits the number of its

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<sup>40</sup>Hayland and Weise, Jr., op. cit., p. 9.

<sup>41</sup>George S. Ayres, Establishing a Business in Pakistan, (Economic Report prepared for the World Trade Information Service, Part I, No. 62-44, Washington: U. S. Government Printing Office, 1962), p. 9.

members up to fifty (minimum is two), prohibits public subscription for company shares or debentures. All others are considered as public companies. A public company must have at least three directors and seven members.<sup>42</sup>

With regard to liability a company may be: (1) limited by shares, (2) limited by guaranty, or (3) an unlimited company.

A private or public company formed in Pakistan should be registered with the Registrar of Joint Stock Companies along with the memorandum of association--the constitution of the company; the articles of association--the rules and regulations which are to govern the company; and the prospectus of the company.<sup>43</sup>

A business established in Pakistan by a foreign company is required to register in the province in which it is to be located and to place on file such information as: 1) the charter and articles or other instruments defining the construction of the company, 2) list of the company directors and managers, 3) address of the principal office of the company. A foreign company is also required to file copies of the annual balance sheet.<sup>44</sup>

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<sup>42</sup>Ibid.

<sup>43</sup>Ibid.

<sup>44</sup>Ibid.

Partnership: The liability of each partner in a partnership firm is unlimited. Although partnerships are not required to register under the Partnership Act with the Registrar of Firms, a member of an unregistered firm is unable to enforce his claim even against his fellow partners.<sup>45</sup>

Managing Agency: The managing agency system under which a firm is appointed as a managing agent of a corporation and placed in charge of its actual management, is sometimes practiced in Pakistan. The term of appointment of such managing agents to a public company or a subsidiary of such a company is restricted to twenty years renewable for an additional twenty years.<sup>46</sup>

Patents, Copyrights and Trademarks: The Treaty of Friendship and Commerce between the United States and Pakistan provides that American nationals and companies shall be accorded national and most favoured nation treatment in obtaining and maintaining patents and with respect to rights in trademarks, trade names, trade labels and industrial property of every kind.<sup>47</sup>

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<sup>45</sup>Ibid.

<sup>47</sup>Ibid.

<sup>46</sup>Ibid., p. 10.

Patents and designs are required to be registered in Pakistan with the Controller of Patent's Designs. Copyrights are governed by the Pakistan Copyrights Ordinance, 1962, and trademarks are registered under the Trade-Marks Acts.<sup>48</sup>

Advertising: Advertising is becoming popular in Pakistan. There are a number of established advertising agencies, including branches of two United States companies. Media utilized include newspapers, periodicals, motion picture slides, show and display cards, handbills and billboards. There is no television or commercial radio service within Pakistan.<sup>49</sup> The first television station is expected to be completed by the end of 1964 by a Japanese company. The Government of Pakistan allowed the Japanese television company a maximum of ten minutes of commercial advertising in each hour.<sup>50</sup>

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<sup>48</sup>Ibid., p. 11.

<sup>49</sup>David E. Westley and George S. Ayres, Pakistan a Growing Market for United States Products, (Economic Report prepared for the World Trade Information Service, Part I, No. 61-66, Washington: U. S. Government Printing Office, 1961), p. 13.

<sup>50</sup>Progress of the Month, (Published by the Ministry of Information and Broadcasting, Government of Pakistan, March, 1964), p. 41.

In addition to English, local languages, especially Urdu in West Pakistan and Bengali in East Pakistan, are commonly used in advertising.

Weights, Measures and Currency: Currently English weights and measures are used in Pakistan's foreign trade. A ton is 2,240 pounds, the hundred weight is 112 pounds and the imperial gallon is 1.2 U. S. gallons. Weights frequently used in local trade include the "maund" of 82.28 pounds and the "seer" which is 2.06 pounds. Notations generally are expressed in "lakhs" and "crores." One "lakh" equals 100,000 while 1 "crore" equals 10 million. Pakistan expects to introduce the metric system of weights and measures.<sup>51</sup>

The Pakistan rupee is officially valued at United States \$0.21. On January 1, 1961, the country introduced the decimal system of coinage; the rupee (which retains its current value) was divided into one hundred units known as paisa.<sup>52</sup>

Pakistan is a new nation in an old land. Professor Palmer who visited Pakistan several times to study the impact of the United States' foreign aid program and as

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<sup>51</sup>Westley and Ayres, op. cit., p. 14.

<sup>52</sup>Ibid.

a President of the National Council on Asian Affairs observed: "One of the nations with which it is on the friendliest terms is Pakistan. . . . It is still almost unknown, as far as the United States is concerned."<sup>53</sup>

In seeking to attract capital to a distant land in whose history even the name seems remote, this chapter was designed to provide much necessary information about Pakistan to a prospective investor.

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<sup>53</sup>Norman D. Palmer, "The United States and Pakistan," Current History, Vol. 34, No. 199, (March, 1958), p. 141.

## CHAPTER IV

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The basic purpose of this study was to show the importance of the United States investments in Pakistan. The United States, in its own interest as well as in the interests of the developing countries, is providing economic assistance to underdeveloped countries like Pakistan. Pakistan as a free nation is doing all it can to achieve a rapid economic progress. The objective of both the nations could be achieved through investment.

Summary: The United States of America faced a challenge to the security and peace of the free world, particularly in underdeveloped areas. It recognizes that in the security and peace of the free world lies its welfare.

The United States foreign aid program was designed as an effective solution to maintain a free world. Such a program is considered important: (1) For the upbringing of underdeveloped countries and for protecting them from communist aggression, (2) To develop and strengthen markets abroad for goods and services produced in the

United States, and (3) To maintain United States' leadership in the free world.

The United States is concerned about the practices of force and threat of force of international communism to attain its goal of world domination and control. It also recognizes that newly independent countries are becoming victims of such practices.

The role of foreign aid program then becomes vitally important to the entire foreign policy of the United States, and has since become central to the achievement of its greatest national objectives. For this purpose over \$50 billion have been spent in different countries.

The United States witnesses active and threatened hostilities in a number of disputes independent of the struggle between communism and free choice. The case of India and Pakistan is one example. Both of these countries realize that neither party can afford to divert to the needless hostilities, the precious resources they require. Yet they seem less able to get together on negotiations. Because these two countries are the recipients of the United States' foreign aid, the United States should, in its own interest as well as in the interest of India and Pakistan, attempt to maintain friendly relations with them.



The foreign aid program originally designed for recovery of devastated Europe from war damage proved immensely beneficial. With the same objective, the same techniques of aid were later applied to underdeveloped countries, but the foreign aid program has been far from successful.

Ideas were searched for and research was done to find a "Marshall Plan" suitable for underdeveloped countries. It was discovered after intensive research that capital investment in underdeveloped countries would be necessary to the interests of the United States as well as to the recipient country, but is not likely to be effective unless certain conditions exist.

In the case of Pakistan it was found that capital investment is most essential because its long range plans (Second Five Year Plan) promises a stage of self generating growth and fosters native private enterprise. On the other hand Pakistan offers unique opportunities for private investment where industrial progress is keyed to the resources and skills of private enterprise. The climate created to attract foreign capital, Pakistan has become the showcase for private investment.

In terms of profit the strongest attractions for investment are: (1) its expanding economy, (2) boundless sources of certain raw materials, (3) a domestic market

of almost 100 million people with a growing purchasing power, (4) absence of local competition in many essential industries, (5) large rates of return on investment, (6) reservoir of manpower; and, in addition, (7) East Pakistan is strategically situated as a base for export to the Far East while West Pakistan is a springboard to Africa and the Middle East.

Pakistan is one of the successor states to British India. The rules whereby Pakistan was formed were drawn in great haste. Partition for India was announced on June 3, 1947; seventy-two days later the entire sub-continent was divided up and Pakistan was on its own. It is an amazing fact that the government was in operation for three days before it was told what its boundaries were.

Pakistan was inherently poor. Some of the highlights of its poverty at the time of partition are as follows:

1. a desperately poor population with a per capita income of fifteen cents a day.
2. a primarily agricultural country which was primitive and one-fifth of the cultivated area suffering from water logging and salinity.

3. It had no manufacturing capacity, no industrial credit facilities, no technical and technological institutes or research laboratories.
4. A public debt of about \$170 million (Pakistan's share of the excess of liabilities over assets of undivided India).

When the country launched foreign offices around the world, it was thought that it might last six months, then fall back into India. Editors of one world-wide news service were advised by their boss "not to bother with Pakistan because next year it won't be around." Yet the politically absurd and economically fantastic idea of Pakistan became a reality.

There is nothing under the sun quite like the new, enormously vigorous, fiercely independent state of Pakistan. The seventh largest country on earth and the most important Moslem nation, it is a geographic freak. The country is divided into two parts separated from each other by a thousand miles of India. But new as it is, and divided as it will always be, Pakistan is a brightly hopeful spot for the free world on the darkening map of Asia.

Pakistan emerged at last from the long twilight of colonialism, looked toward the United States for guidance, for it knows that America has gone through all the experiences of colonialism and is envied throughout the

world in many respects, particularly in providing one of the highest standards of living for its people. But Pakistan is also a free nation, a nation of independent opinion and self respecting people.

Until the completion of military agreements with the United States in 1954, Pakistan was the hope and aspiration of the free world as well as the communist's world because of its unique geographic location on the globe--militarily or otherwise. But it declared openly with the free world. It could not have maintained military strength to protect the country from outside aggression without affecting its economy, hence it entered the Mutual Defense Assistance Agreement with the United States. Pakistan believes that these defense arrangements provide a shield of security from behind which it can proceed with the urgent tasks of social, political and economic reforms.

Pakistan is extremely conscious of its poverty and dignity. It has negotiated trade agreements with communist's countries when it discovered that the United States' treatment with a non allied country (India) was the same as of an ally by which its prestige was affected. Moreover it believes that more external assistance would do good which is so essential for a

rapid economic development. Because of such trade agreements Pakistan, in the Western view, has become a disgruntled ally, feeling abused and neglected, and that its whole security is being jeopardized by a stronger and more militant India, supported by its own allies.

The United States' economic assistance to Pakistan has been substantial and its share is the largest of all the other countries. But in the field of private investment the United Kingdom's share was 66 per cent while American counterpart was 9 per cent. This is the case in spite of the fact that many incentives and concessions are available to Americans only.

Here, American people failed to realize that the role of private enterprise plays a major part in promoting foreign economic development and strengthening the international economic order through trade investment.

Conclusions: As a result of this study the following conclusions have been drawn.

(1) American interests in the underdeveloped countries as well as in Pakistan are ideological, humanitarian, political, economic and commercial.

(2) Pakistan is extremely conscious about its poverty and dignity as a free nation. It feels that

the United States has treated India at the same level as of an ally, and pleads for a better treatment than non-allied countries. If this equal treatment continues, it will damage the friendship of the United States and Pakistan.

(3) United States is involved in a situation by virtue of its foreign aid program, where the dispute between India and Pakistan is other than a struggle between communism and free choice.

(4) Pakistan is an underdeveloped country which has a great economic potential and external assistance is vitally important in order to make rapid progress.

(5) Pakistan has created a suitable climate for foreign private investment which should attract foreign capital.

(6) The people of Pakistan have a backlog of administrative and entrepreneurial talent and there is a solid commitment to the goals of social progress.

(7) Pakistan recognizes that the free enterprise system can meet the challenge of its problems and aspirations.

(8) In terms of profit Pakistan offers (a) expanding economy, (b) boundless sources of certain raw materials, (c) domestic market of almost 100 million

people with a growing purchasing power, (d) absence of local competition in many essential industries, (e) customary large profits, (f) reservoir of manpower, and in addition, (g) East Pakistan's strategical situation as a base for export to the Far East and West Pakistan as a springboard to Africa and the Middle East.

(9) The United States' private investment in Pakistan is considerably less than the United Kingdom's.

(10) United States investment will help implement United States broad objectives more effectively.

Recommendations: Pakistan has been heavily involved in direct relations with the free world, particularly with the United States, but now there are signs of pro-Chinese sentiments. This development in Pakistan politics has made it difficult to visualize whether Pakistan will still be considered a close ally of the United States.

Under such circumstances specific recommendations would be unsound unless political aspects of the country are also reviewed. However, on the basis of this study, the following recommendations are submitted:

(1) That the United States in its own interest as well as in the interests of India and Pakistan attempts to establish friendly relations between India and Pakistan by using its influence (as it has been done in the past

in settling the Indus Valley dispute). It would then unite India and Pakistan to put a combined effort to fight against poverty and communism.

(2) Information programs on the United States' material prosperity and creativity as well as data on technical, political and other aspects of modernization process should be laid out so as to convince Pakistan that close friendship and co-operation with the United States and other free nations are wise and sound policies through which a rapid progress is possible to achieve a similar status.

(3) That private investment should be encouraged, possibly by encouraging United States firms to establish affiliates in Pakistan and by investing money in Pakistan development banks and other financial institutions which can then make them available to qualified entrepreneurs locally to meet their foreign exchange requirements.



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