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Pakistan: Perspectives on Economic Aid

An Intelligence Assessment

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An Intelligence Assessment

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Pakistan: Perspectives on Economic Aid [redacted]

Overview

Pakistan should see some easing of its current $1.8 billion foreign financing gap by FY83 to perhaps $1.7 billion. Nevertheless, Islamabad will still face the prospect each year of lining up sufficient foreign financing to cover the gap. [redacted]

Pakistan must continue to receive the $900 million to $1 billion in annual aid it now garners from Western, Persian Gulf, and multilateral donors over the next three years. The government will also have to demonstrate better management of its economic affairs and improve the investment climate to attract $300 million to $350 million annually in private capital inflows. In addition, Islamabad will have to move vigorously to arrange for some $400 million annually from new sources of foreign capital, debt relief, or expanded current aid programs. [redacted]

We do not expect any decrease in current aid levels from the "Pakistan Consortium" of Western and multilateral donors in the early 1980s. We assume that Persian Gulf states, especially Saudi Arabia, will continue to ante up several hundred million dollars a year in aid. [redacted]

A substantial boost in aid above present levels is doubtful. Besides rejecting a $400 million US aid package, Pakistan has been relatively unconcerned about future financing of the gap and has yet to mount an effective aid subscription campaign. Most Western donors are reluctant to boost their aid commitments dramatically, and Saudi Arabia and other Arab states who could easily afford to do so have not been forthcoming. [redacted]

Even if aid is boosted much beyond current levels, Pakistan's ability to absorb it is limited by its extreme underdevelopment. The sole seaport, Karachi, the internal transportation network, and the institutional and administrative structure are poorly suited to receive and distribute much larger levels of aid efficiently. [redacted]

The most sanguine feature narrowing the financing gap in the early 1980s will be Pakistan's exhibited capacity to boost the earnings of its major commodity exports, especially textiles and rice. Import growth will be moderated somewhat by rising domestic production of petroleum and fertilizer. Of course, substantially higher aid would itself be translated into higher import levels. [redacted]

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The Foreign Financing Gap

Pakistan's annual foreign financing gap, which is now over $1.8 billion, is the result of a chronically adverse trade balance and a legacy of payments due on international borrowing. Despite a more than doubling of export earnings since FY74 [1] and a spurt in export growth in FY79 and FY80, the trade deficit has widened cavernously from $330 million to more than $2 billion (see table 1). Over the next several years the trade gap will probably level off at about $2 billion annually. Of course, substantial additions to current aid programs would permit the gap to widen apprecia-bly in the short term. The main elements in curbing the steady rise of the trade deficit will be increased domestic production of petroleum and fertilizer. [redacted]

[1] The fiscal year in Pakistan ends 30 June of the stated year. [redacted]

Commodity Trends

Exports. Textile exports should lose some of the volatility they have exhibited over much of the past decade, but will still remain Pakistan's leading export commodities. In FY73 textile exports reached a then-record $435 million and constituted 50 percent of total exports. Foreign sales dropped sharply thereafter and by FY77 amounted to $305 million, or only one-fourth of total exports (see table 2). The falloff was due in large part to a steady decline in the quantity and quality of Pakistan's cotton crop and failure to update or replace the aging stock of textile machinery. These problems seriously eroded Pakistan's ability to sell in the highly competitive international textile market. The depressed world market for textiles in 1974-75 added to Pakistan's problems. Because Paki-stan had failed to maintain reasonable quality stan-

Table 1 — Million US $

Pakistan: Balance of Payments [1]

	1974	1975	1976	1977	1978	1979	Estimated			
							1980	1981	1982	1983
Trade balance	−330	−1,060	−920	−1,170	−1,550	−1,950	−2,200	−2,100	−2,100	−2,200
Exports (f.o.b.)	1,015	1,030	1,125	1,130	1,230	1,725	2,200	2,500	2,800	3,000
Imports (f.o.b.)	1,345	2,090	2,045	2,300	2,780	3,675	4,400	4,600	4,900	5,200
Net services (excluding debt)	−265	−350	−225	−445	−155	−450	−355	−400	−425	−450
Interest on debt	−110	−135	−175	−200	−215	−260	−295	−305	−315	−325
Net transfers (including workers' remittances)	220	335	475	740	1,340	1,505	1,615	1,745	1,750	1,750
Current account balance	**−485**	**−1,210**	**−845**	**−1,075**	**−580**	**−1,155**	**−1,235**	**−1,060**	**−1,090**	**−1,225**
Debt amortization	−115	−155	−265	−400	−305	−385	−575	−540	−565	−435
Financial gap	**−600**	**−1,365**	**−1,110**	**−1,475**	**−885**	**−1,540**	**−1,810**	**−1,600**	**−1,655**	**−1,660**
Financing the gap: Official project and other assistance	350	920	820	700	820	890	955			
Private capital	100	165	260	290	310	325	350			
IMF account	55	200	135	40	40	75	135			
Debt relief	105	165	175	195	255	110	75			
Other, including errors	−115	10	−150	50	−210	−30	45			
Change in reserves	−105	95	130	−200	330	−130	−250			

[1] Fiscal year ending 30 June of stated year.

[redacted]

Table 2

Pakistan: Exports [1]

Million US $

	1974	1975	1976	1977	1978	1979	Estimated			
							1980	1981	1982	1983
Total	**1,015**	**1,030**	**1,125**	**1,130**	**1,230**	**1.725**	**2,200**	**2,500**	**2,800**	**3,000**
Textiles	360	370	375	305	390	470	700	730	770	800
Rice	210	205	245	245	240	340	395	480	500	530
Petroleum	15	15	20	25	65	65	150	195	250	300
Leather	40	35	60	65	65	110	150	200	240	280
Carpets	45	45	70	90	115	160	220	280	320	380
Others	345	360	355	400	355	580	585	615	720	710

[1] Fiscal year ending 30 June of stated year.

[redacted]

dards, exporters lost sales to more reliable suppliers in, for example, Hong Kong, India, South Korea, and Taiwan. [redacted]

An improved cotton crop and government-induced incentives began to turn textile industry around in 1978. After several years of government meddling that stifled investment in the industry, the government restored private investment through export incentives, concessionary credit, reduced tariffs on imported raw material, and more favorable tax treatment for textile processors. Cotton textile exports jumped 20 percent to $470 million in FY79, and should reach $700 million in FY80. Synthetic textile exports have grown from $3 million in FY77 to $20 million in FY79. [redacted]

Over the next few years the growth of textile exports should be more modest. If Pakistan can sustain the turnaround in the domestic textile industry, if there is no serious cotton crop failure, and if the market base can be expanded, textile exports could reach $800 million by FY83, even with a possible slowdown in demand from the industrialized nations. Textile exports to the European Community and the United States—Pakistan's most important customers—are limited by quotas. Currently exports are bumping into ceilings for many important commodity categories, such as women's shirts and blouses, and towelling. The textile agreements with the United States call for average annual volume growth of 6 percent; those with the EC specify growth of 1 percent to 10 percent, depending on the commodity. [redacted]

Rice exports should continue to expand in both volume and earnings on the strength of the Persian Gulf market for Pakistan's favored, high-quality, "basmati" rice. However, rice is an erratic foreign exchange earner, subject to both the vagaries of the weather and prices (for basmati rice) that have in recent years ranged from less than $300 to more than $800 a ton. Assuming continued high prices of $500 to $700 per ton for basmati rice—which is 40 percent of rice exports—and favorable weather, rice exports should grow in value on the order of 12 percent annually, from $400 million in FY80 to $530 million in FY83. In terms of volume, Pakistan's rice exports should increase from 1 million metric tons to 1.5-1.7 million tons during the same period. With the availability of rice for export assured by Pakistani consumers' general preference for wheat products, Pakistan is likely to be able to continue expanding its share of the world rice market from 8 percent in FY78 to 12 percent in FY83. At this level, Pakistan would be the world's third largest exporter, behind the United States and Thailand. [redacted]

Recent dramatic increases in some of Pakistan's *other exports*—notably carpets and leather goods—should continue at only a slightly slower pace. Exports of hand-knotted carpets have grown from $45 million in FY75 to a projected $220 million in FY80. Leather exports grew from $35 million to $150 million during the same period. Together, these products account for 17 percent of total exports and should reach $660 million by FY83. Carpet exports in particular have been stimulated by heightened demand for collectable, artistic investment goods, and decreased supplies from traditional Iranian producers. [redacted]

Export prospects for other manufactured goods are limited over the next few years by the under-development of Pakistan's small, modern, industrial sector. Exports of chemicals, cement, medical instruments, and footwear totaled less than $50 million in FY79 and show no significant upward trend. The policies pursued in the early and mid-1970s of extensive nationalization, restrictions on private sector activity, and the expansion of the public sector to spearhead industrial investment and growth actually hobbled Pakistan's industrial development. Most of these policies have been changed and incentives to private manufacturing investment put in place. Some measure of private sector confidence has been evident in small-to-medium investment projects having fairly rapid returns, but industrialists are still hesitant to commit themselves to the large-scale investment that would have a substantial impact on industrial output and exports of manufactured goods [redacted]

Imports. The 15-percent annual growth of Pakistan's imports since FY75 should moderate over the next few years, but will remain high enough to support real economic growth rates on the order of 5 to 6 percent annually. Increased domestic production of petroleum, fertilizer, and foodgrains will help cut import growth. Despite slow progress in ***oil exploration and exploitation,*** some improvement in domestic production should occur over the next few years so that by FY83 net imports will account for about 75 percent of total petroleum consumption of 125,000 barrels per day compared with current net import levels at nearly 90 percent of total consumption of 100,000 b/d (see table 3). Nonetheless, the net oil import bill will approach $1.5 billion by FY83 if OPEC raises nominal oil prices by only 10 percent annually. [redacted]

Table 3 — Thousand Barrels Per Day

Pakistan: Petroleum Balance [1]

	1979	1983 [2]
Crude production	11	30
Imports	110	120
Exports	15	25
Apparent consumption	106	125

[1] Fiscal year ending 30 June of stated year.
[2] Estimated.

[redacted]

The eight foreign firms currently exploring for and developing oil in Pakistan have scaled back operations in recent months. Drilling problems, difficult negotiations with the government over oil pricing, and the troublesome domestic political environment have contributed to lack of significant progress over the past six months. Earlier estimates that Pakistan could produce 50 percent of its oil demand by FY83 versus the current 10 percent appear out of reach. There are, however, a number of oil discoveries that have not been fully developed, and a good chance exists of finding additional oil in the vast, unexplored, and unsurveyed areas of Pakistan. By FY83 we estimate production may reach 30,000 b/d, and net imports will remain at 95,000 b/d. Pakistan is likely to continue exporting excess petroleum products (residual fuel oil and small quantities of naptha) from its domestic refinery operations. These exports will offset about 10 to 20 percent of the oil import bill. [redacted]

Domestic production of *fertilizer* is scheduled to double by FY83, substantially reducing the volume of fertilizer imports. In the past two years, Pakistan has imported over 1.5 million tons of fertilizer annually at a cost of $200 million to $250 million (see table 4). A reduction this year in the subsidy given to farmers for fertilizer purchases will likely be offset by higher support prices for crops; hence, domestic fertilizer demand will remain strong. Over the next several years world fertilizer prices are likely to remain high because they are closely tied to international oil prices. Nonetheless, we expect domestic production to gradually reduce the fertilizer import bill after a FY81 peak of $300 million. [redacted]

Table 4

Pakistan: Imports [1]

Million US $

	1974	1975	1976	1977	1978	1979	Estimated 1980	1981	1982	1983
Total	**1,345**	**2,090**	**2,045**	**2,300**	**2,780**	**3,675**	**4,400**	**4,600**	**4,900**	**5,200**
Foodgrains	155	245	180	65	135	305	110	90	100	100
Fertilizer	90	100	55	60	105	205	250	300	250	250
Capital equipment	170	325	400	460	575	630	735	800	900	1,000
Transport equipment	105	120	135	200	165	240	240	250	260	270
Petroleum	150	335	380	400	495	580	1,300	1,500	1,650	1,800
Vegetable oil	115	245	180	65	135	245	270	300	300	300
Other	560	720	715	1,050	1,170	1,470	1,495	1,360	1,440	1,480

[1] Fiscal year ending 30 June of stated year.

[redacted]

Imports of capital goods and transportation equipment are likely to grow an average of 10 percent annually to $1.2 billion to $1.3 billion by FY83. The moderate economic recovery under way since FY78, during which real GNP has grown by an annual rate of 6 percent, should continue largely on the strength of good agricultural performance and the expansion of industry from its small base. Assuming that traditional aid programs continue, increased imports of capital goods will be needed to support irrigation, agricultural processing, manufacturing, and transportation projects [redacted]

The Zia government has not been willing to take the politically unpopular steps of reducing the growth of *consumer goods imports,* which account for approximately 20 percent of total imports. A relatively high level of imports is needed to meet the inflationary consumer demand that results from the government's deficit spending, and from remittances from Pakistanis working abroad. We assume that continued substantial foreign aid will permit the government to ignore many of the consequences of its pattern of deficit spending for at least the next several years. [redacted]

Debt Service

Pakistan's large expenditures on slow-maturing development projects for much of the past decade have saddled the economy with an annual debt service burden (principal and interest) of about $900 million. By the beginning of FY80, outstanding disbursed debt owed to donors of official development assistance amounted to nearly $8 billion and required interest payments of some $260 million. Total debt, including the undisbursed portion, is over $10 billion. By FY83, debt service payments will still be over $750 million. Without additions to annual aid programs or rescheduling of payments, debt service alone would absorb over three-quarters of annual aid disbursements at least through FY83.[2] [redacted]

More than one-half of the debt is owed to ten of the eleven member nations of the "Pakistan Consortium," set up by the World Bank in 1960 to coordinate aid to Pakistan. The United States is Pakistan's largest

[2] For further details of foreign debt, see CIA, ER 80-10044, *Pakistan: Some Dimensions of Its International Financial Problems,* January 1980, Secret Noforn. [redacted]

single creditor, holding about 25 percent of total debt. The OPEC countries, which are not members of the consortium, have become major creditors since the 1973/74 oil crisis and now hold some 15 percent of the debt. Iran has contributed the largest amount, almost $800 million. About $2.3 billion in debt is held by multilateral institutions such as the World Bank, the Asian Development Bank, and the International Monetary Fund [redacted]

Filling the Gap

The Scope of Aid

Pakistan's foreign resource gap has long been covered by economic assistance in the form of grants, concessionary loans, and import credits, from a variety of multilateral, bilateral, and private sources. Commodity aid has accounted for roughly 30 percent of total aid disbursements during the last several years, and project aid the bulk of the remainder. Multilateral aid has focused largely on loans and credits for basic infrastructure projects, especially on electric power, highway and rail transport systems, port development, and large-scale water control projects. The massive Indus Basin Tarbela dam project, for example, has absorbed some $1.3 billion in aid funds since the mid-1960s from a combination of multilateral and bilateral sources, working within the framework of the World Bank-led consortium of aid donors. [redacted]

Commodity aid has consisted mainly of food imports—especially wheat and edible oils from the United States. The level of this assistance varies sharply from year to year depending on the outcome of domestic agricultural production in a given year. For example, a poor crop in FY 1978 required 2.5 million tons of wheat imports. A bumper wheat harvest in FY 1979 enabled food imports, including US PL-480 grain imports, to be reduced significantly [redacted]

After the 1973/74 oil price increase, Pakistan turned to the Muslim nations for additional economic assistance, mostly in the form of balance of payments support. Under the Shah, Tehran provided a $580-million balance-of-payments loan, and Pakistan became the second most important recipient of Iranian

Table 5 Million US $

Pakistan: Economic Aid Commitments

	1974-78 Annual Average	FY1978/79	FY1979/80
Consortium	828	806	685
Of which:			
Canada	74	56	50
France	25	39	41
West Germany	98	56	65
Japan	80	78	60
Netherlands	29	29	31
UK	60	82	40
US	194	123	42
ADB	97	142	146
IBRD	140	150	136
OPEC	353	202 [1]	1 [1]
Of which:			
Iran	149	2	NA
Saudi Arabia	102	200	NA
UAE	34	0	1
Communist	96	110	NA
USSR	88	0	NA
Eastern Europe	3	90	NA
China	5	20	NA

[1] Calendar year.

[redacted]

foreign aid commitments. More recently, Saudi Arabia has become Pakistan's chief Muslim benefactor. Saudi aid has gone for specific projects, including fertilizer and cement plants, and facilities associated with the Tarbela dam, and balance of payment support. Libya also has disbursed aid amounting to nearly $200 million since 1974. All told, Islamic OPEC countries disbursed $1.4 billion in economic assistance between 1974 and 1979, some of which could have been used for military purchases. In addition, Pakistan has received funds from the Islamic Development Bank and OPEC Special Fund. [redacted]

Communist aid commitments to Pakistan total nearly $1.8 billion, of which $600 million is Chinese. Most of this aid was committed in the 1960s and early 1970s and consisted largely of lines of credit for specific projects. Moscow currently is constructing an economically questionable steel complex at Karachi, Pakistan's largest industrial project, with $700 million in credits provided for the plant since 1971. [redacted]

The Current Picture

Pakistan has so far shown only a casual concern for securing sufficient support for its FY81 and FY82 financial gaps. General Zia has for now rejected the United States' aid offer of $400 million over two years, split equally between economic and military aid. Moreover, Islamabad has yet to mount an active campaign of seeking increased aid from the other consortium members. Pakistan has, however, been quietly approaching Saudi Arabia and the United Arab Emirates for new aid, no doubt on the grounds that aid from its Muslim brothers is more politically acceptable than aid from the West. [redacted]

Consortium Assistance. West Germany, Japan, Canada, and France are the keys to increased aid from the West. They and other members of the aid consortium for the most part are reluctant to answer the US call for substantially increased aid in response to the Soviet invasion of Afghanistan. Many feel that Pakistan will be unable to absorb quickly and efficiently a US-proposed boost in bilateral consortium aid from $400 million to over $1 billion annually. On balance, many of the consortium members are also reluctant to make remote and unstable Pakistan the focus of their foreign policy response. West Germany, for example, has already taken the lead in economic aid for Turkey, which Bonn views as more crucial. The countries are also averse to jeopardizing important trade ties with the Soviet Union, and of being judged overly reactive to US policy interests that may not coincide totally with their own. [redacted]

So far, only Japan has decided that substantially higher aid is both politically and economically warranted. Japan will boost its aid program in FY81 to $127 million compared with $60 million in FY80 (see table 5). Of this total, $95 million will be a yen credit on concessional terms, and $32 million will be a grant. The grant is the largest Japan has ever made to an aid recipient. Although the end use of the funds remains to be worked out, the allocation is expected to favor rapid disbursement and a large share of commodity rather than project aid. Despite the increase in Japanese aid, the package falls short of the $180 million requested by Islamabad. In addition, Islamabad had requested about $37 million in debt rescheduling from Tokyo, but the Japanese are still reluctant to offer debt rescheduling until this form of relief is approved by the United States. [redacted]

West Germany apparently plans no increase in aid levels in FY81 beyond the $73 million committed before the invasion of Afghanistan. The West German package—which is already 12 percent greater than last year's—includes:

- $61 million financial aid
- $9 million technical assistance
- $3 million commodity aid and education fellowships.

[redacted]

Bonn favors concessional debt rescheduling for Pakistan as a way to rapidly and effectively inject aid. For West Germany, rescheduling could involve some $45 million to $50 million in debt repayments, of which $6 million has already been rescheduled. For debt relief of this magnitude, Bonn would require universal agreement among all consortium donors that debt relief is appropriate, as well as Islamabad's adoption of an economic stabilization program under the auspices of the IMF. [redacted]

Among other consortium donors, the aid response has been poor. Canada is unlikely to reverse a cut in aid in 1979 from $100 million to $56 million because of Pakistan's ongoing nuclear weapons program, Islamabad's castigation of Canada at the nonaligned meeting in Havana last year, and Ottawa's own need for fiscal austerity. In late February 1980, France stated that it could add $37 million to an existing $61 million already in the pipeline "if necessary," but was dismayed that Pakistan has been slow to draw on the earlier offering. The Netherlands has designated Pakistan as a "targeted developing country" but is reluctant to assign large amounts of new aid because it feels that Pakistan is having trouble absorbing the $31 million committed for FY80. Britain is promising some $45 million in capital and technical assistance for FY81, including $8.7 million in debt relief. [redacted]

Nonconsortium Aid. Islamabad's immediate response to the Soviet invasion of Afghanistan was to line up $300 million in new or accelerated funding from Saudi Arabia. The Saudis stepped up delivery of a $100 million contribution towards a Pakistani Islamic welfare fund, which had originally been scheduled for receipt in June 1980. Riyadh also deposited $200 million in Islamabad's central bank to boost Pakistan's foreign exchange reserves. [redacted]

Nonetheless, the truly munificent offers of military and economic aid that Islamabad seems to expect from the Saudis and other Arab states have not materialized. Part of the problem is Pakistan's inability to proffer a concise, efficient "shopping list" of its actual aid needs to current or potential donors. Instead, Islamabad has indicated that its aid requirements are simply "large," and expects donors to make appropriate offers unsolicited. Indicative of the grandiose attitudes of the Pakistanis is their reported refusal on grounds of inadequacy of a Saudi feeler about a $500 million program for military purchases. The Saudis were reportedly stung by this action and until recently have been reluctant to continue any dialogue with Pakistani representatives. For their part, the Saudis—and other likely Arab aid donors such as Kuwait, Qatar, and the United Arab Emirates—are treading carefully in their assessment of tenuously stable Pakistan's actual needs as a frontline state against Soviet aggression. The Persian Gulf nations are certainly worried by the Soviet Union's invasion of Afghanistan, but are unwilling to make any commitments toward Pakistan's defense until it is clear that Pakistan is indeed threatened and is capable of being transformed into a politically and economically stable nation. Since the Arab nations are characteristically conservative, they also may be waiting for a more coherent Western response before finalizing their own offers. [redacted]

The monetary cost to the Middle East of supporting Pakistan is probably not at issue. With the recent escalation of oil prices, the Persian Gulf OPEC states face unprecedented foreign earnings and growing budget surpluses over the next few years. This revenue stream comes at a time when several of the oil exporters are deliberately slowing their economic development programs. The Saudi budget surplus in 1980, for example, will exceed $20 billion. The Saudis could easily contribute $1 billion or more per year, but would require assurances that the money will be used effectively, and that the extent of Saudi funding will not be widely publicized. [redacted]

Workers' Remittances. There are some 600,000 Pakistani civilians working in the Persian Gulf and remitting a large portion of their earnings to the homeland. These workers are for the most part unskilled but earn from $150 to $200 per month, as much as six times what they could earn in Pakistan. Remittances from workers have grown from $143 million in FY73, when they were equal to 15 percent of merchandise export earnings, to the current level of $1.6 billion, or 70 percent of export earnings. Given the sizable and worsening foreign trade deficit, the remittances have been crucial in alleviating the pressure on Pakistan's external account. [redacted]

The sharp growth of workers' remittances under way since the mid-1970s appears to be over, and the number of Pakistani workers employed abroad may decline. In addition to scaling back their development plans and cutting back on the number or size of projects using foreign labor for both political and economic reasons, several countries, notably the United Arab Emirates, are tightening controls on foreign labor. Workers in the UAE without visas will be asked to leave under a new law that will be fully implemented this summer, and workers with valid visas will be prohibited from changing jobs to extend their stay. Kuwait has begun a similar crackdown on workers who have entered the country illegally. [redacted]

The effects of the development slowdown and the crackdown on illegal workers are beginning to be felt. Islamabad's estimates for workers' remittances for FY80 and FY81 have leveled off at $1.5 billion to $1.6 billion after growing 40 percent annually since FY73. Remittances are unlikely to increase beyond current levels in FY81 and beyond, and Islamabad may seek additional economic assistance to compensate for the slowdown. The trend in the Indian state of Kerela, which has an estimated 100,000 workers in the Gulf,

[1] For further details see CIA ER80-10095, *Pakistan, the Middle East Connection*, February 1980, Secret Noforn. [redacted]

gives some credence to a likely decline in remittances from the Persian Gulf to South Asian labor exporters. Banks in Kerala are reporting a 25- to 30-percent fall in private transfers in recent months [redacted]

Constraints on Absorbing Aid

Even if Pakistan should successfully line up annual economic assistance of about $1 billion to $1.5 billion or more, its ability to absorb aid efficiently is limited by its decades of underdevelopment:

- The growth of the congested physical infrastructure has not kept pace with the demands of a developing economy.

- The government's institutional mechanism for focusing aid planning and deliveries on suitable projects and programs is bogged down in bureaucratic red tape and political infighting.

- The Punjabi dominance at the decisionmaking level guarantees that other provinces most in need of aid are likely to be shortchanged.

- Pakistan has an overhang of undisbursed aid commitments of nearly $2.5 billion. During the past five years, for example, Pakistan has received an average of $1.02 billion in official development assistance while disbursements have averaged only $850 million annually. In the past, donor nations have been reluctant to boost aid commitments while unused funds lie dormant. [redacted]

Transportation Infrastructure

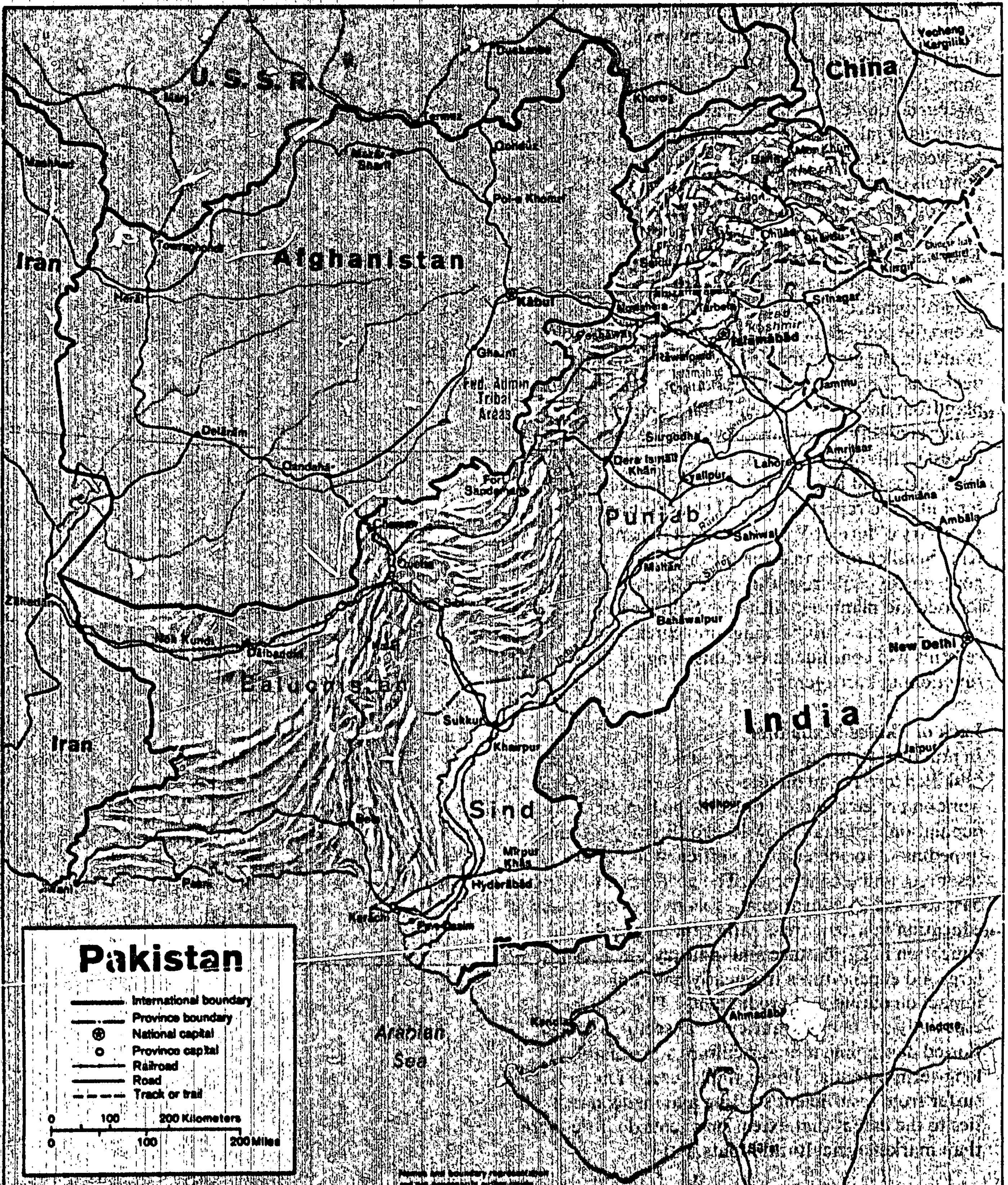
One of the major constraints to rapid absorption of aid is Pakistan's obsolete, undercapacity transportation system.[4] Karachi is the country's only deepwater seaport and has to handle Pakistan's, and a small share of Afghanistan's, foreign trade (see map).[5] Despite several expansion projects since Pakistan's independence in 1947, the port is under considerable strain trying to handle steadily rising volumes of trade. Congestion is partly the result of past policies that emphasized construction of berths while neglecting modernization of cargo-handling equipment. Under the best of circumstances, annual cargo handling capacity is 17 million tons (12 million tons dry, 5 million tons petroleum). Until late 1979 and early 1980, Karachi was one of the most congested ports in the world. Judicious scheduling, better organization of the dockworkers, and construction of a new wharf have eliminated many of the delays at the port; however, as long as Pakistan remains so heavily dependent on Karachi, congestion problems could resurface quickly. A master plan for 1980-85 calls for eight additional cargo berths including a container terminal, and a doubling of petroleum-handling capacity. [redacted]

Inadequate transport from Karachi to internal distribution points is a major bottleneck. Most of the government-owned railway system that connects all of Pakistan's major cities is in need of extensive repair and modernization, save for the main line between Karachi and Lahore, which is partially electrified and relatively well maintained. Past policies have emphasized costly new rail facilities in selected areas where the political return was far greater than the economic benefit, rather than improvements to and linkages with existing facilities. [redacted]

Likewise, the road network is seriously deficient both in extent relative to Pakistan's size and in capacity relative to the needs of its developing economy. The heaviest concentration of roads is in the northern, Punjabi section of the country, while western and southern regions are sparsely served. Baluchistan, for example, which comprises 45 percent of Pakistan's land area and contains 3.1 million people, is served by only one main road. Nonetheless, the government had earlier started construction—now postponed—on a $300-400 million superhighway to link Sindhi and Punjabi towns along the Indus river between Karachi and Peshawar. Nationwide, only one-quarter of Pakistan's roads are bituminous surfaced. Most are poorly drained, narrow, and subject to serious breakup under heavy traffic. Secondary roads are gravel or dirt and are impassable during the July to September rainy season. [redacted]

[4] At the same time, this is one area where Pakistan could make effective use of increased economic aid. [redacted]

[5] Another port is under construction at Port Qasim, 25 kilometers east of Karachi. It is being built in conjunction with the Soviet-funded steel complex to handle iron ore and other raw materials imports. The port, scheduled to begin operation later this year, will also handle general cargo. [redacted]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Dera Ismāil Khān
Lyallpur
Lahore
Amritsar
Ludhiāna
Ambāla
Simla
Punjab
Sahiwal
Multān
Bahāwalpur
New Delhi
Zāhedān
Nok Kundi
Dalbandin
Baluchistan
Iran
Sukkur
Khairpur
India
Jaipur
Sind
Mirpur Khas
Hyderābād
Karachi
Port Qasim
Ahmadābād
Arabian Sea
Pakistan
International boundary
Province boundary
National capital
Province capital
Railroad
Road
Track or trail
0 100 200 Kilometers
0 100 200 Miles

[redacted]

While the transport system can handle small volumes for local carriage, it is swamped by any large shipment. Fertilizer, for example, typically arrives in bulk lots of some 10,000 tons. The low-capacity road and rail system combine with inadequate warehousing at the port and at inland distribution points to clog the system for weeks. Besides these physical shortcomings, price controls on many goods do not encourage merchants to invest in facilities to store bulk commodities. [redacted]

Economic Planning

[redacted]

Lack of Skilled Manpower

In practical terms, aid absorption is limited by the lack of skilled lower- and middle-level technicians needed to work on projects and to transmit the benefits to the population. Pakistan's low level of literacy is a major impediment to achieving the efficient use of available resources and technologies. The government has in the past focused its educational expenditures on higher education in urban areas rather than on technical education in agriculture and industry. As a result, large aid expenditures frequently have only a small impact on output and productivity. This problem is especially acute in the agricultural sector, and has slowed development of agriculture's reasonably bright long-term potential. For example, extension services suffer from insufficient staffing and inadequate facilities to the extent that extension agents do little more than market agricultural inputs. [redacted]

Regionalism

Finally, any substantial increase in foreign aid is at least initially likely to come head-to-head against Pakistan's sharply defined regional rivalries. Punjabi-dominated Islamabad has been slow in formulating aid programs and channeling aid receipts to less favored provinces of Sind, Northwest Frontier, and especially Baluchistan. Baluchis resent the colonial-style overlordship of the government and the massive presence of the Punjabi-dominated Army. The Baluchis blame the government for the lack of economic development in Baluchistan, for the dearth of water development projects there, and for allowing Punjabi and Sindi settlers to migrate into the few newly opened irrigation projects in Baluchistan. They also resent the almost total exclusion of Baluchis from state government, the local police force, and other organizations of authority. Baluchis almost certainly would resent any large aid program that did not specifically address the province's severe underdevelopment. [redacted]

Even if aid is specifically targeted for non-Punjabi areas, tribal frictions in Baluchistan and other provinces will prevent any easy consensus on how to distribute aid. Powers not taken by the federal government in Islamabad are assumed and exercised by the provincial governments. Thus, a large part of agricultural policy, population, health, education, and other services are provincial preserves. As a result, many decisions that fall between competing groups fail to get implemented, and provincial governments may not feel bound by policies and plans emanating from Islamabad. In particular, the interest and powers of relatively large landlords generally reign in the provinces and make success difficult for aid schemes that erode their power base or benefit other groups. [redacted]