

In 1948/49, Pakistan major trading partner were India and UK, which together accounted for 67% of Pakistan trade. In September 1949 pound devalued by 31% and most of the countries linked to sterling was devalued. Pakistan decided to maintain its old exchange rate and did not devalue making imports cheaper. In 1949 more than 50% west Pakistan's trade and 80% of east Pakistan trade was with India, raw jute and cotton accounted for about 65% of exports to India. India refused to recognize the new exchange rate of its currency in terms of Pakistani rupees and trade between two countries came to a halt.

After the Korean war broke out and demand for Pakistan's exports increased by 109% and their prices also increased. Trade with India also restored, and balance of payments situation was good, government liberalized trade to the extent 1951 as much as 85% of the imports were without licence, importable on Open General Licence System (OGL).

The policy of high tariff and control on imports was responsible for the initiation of industrialization in general and import substituting industrialization which took place in 1950s. Trade restriction that were imposed determined both extent and pattern of industrialization that were established in 1950s and set the trend for later developments. The trade restrictions affected industrialization in two ways:

- i) Because of quantity restriction in place, protection to domestic producers was far greater than that implied by a comparison between domestic and duly paid prices competitive imports.
- ii) General scarcity created by licence system meant that incentive for investment were raised across the board rather than differentially between industries.

Import control system after 1952 favoured mainly the establishment goods industries by restrict the import of consumer goods and hindered the establishment of capital goods and intermediate goods industries since imports were freely allowed. Government give the import licence to

those importers who had importing during 1950-2 period. These imports were called category holders and this policy had referred as the category system.

After 1952 the silent features of trade policy adopted by Pakistan were:

- i) Overvaluation of the rupees with respect to other countries.
- ii) Use of quantitative control on imports to regulate the level.
- iii) Highly differentiated structure of tariff on imports and export taxes on jute and cotton.

Lower tariff on intermediate and capital goods than on final goods. There was no duty levied on capital goods or on industrial raw materials. The main cause of the structure of the industrial production was the imbalance between the supply and demand for manufactured goods.