

The Bhutto government took over a Pakistan in 1971 that was different from that of the 1950s and 1960s in almost every respect. The majority province had seceded after a bloody war of liberation and had become an independent Bangladesh. Not only was half the country no longer part of Pakistan, but most of the policies of the 1960s which were held responsible for the negative outcomes regarding income and regional inequality were also quickly done away with.

Almost half of the west Pakistan export went to east Pakistan in 1969/70, while 18% of the western region's import came from east. East Pakistan sold its jute, tea and other products in international market and earned over half of united Pakistan exports paying for its own imports through these exports' receipts. On the account of east Pakistan export, west Pakistan was able to import much more than its own export earnings, since raw jute and jute textiles were Pakistan main export earners. The loss of east Pakistan was a major structural break for what remained of Pakistan. In 1972 government took steps to abolish the import licensing system and the export bonus scheme and import of all luxury items were banned and rupees was devalued by 56% from Rs4.74 to one US dollar to Rs11 and after that US dollar was devalued in 1973, the rupee found its new exchange value of Rs9.9 to one dollar, a rate that remained fixed for about eight years.

Devaluation encouraged exports and exports grew by 38% and 24% in 1972/3 and 1973/4. Government also collected additional revenue by imposing export taxes. Increasing oil prices in 1974, bad crops due to flood, pest and other natural factors affected cotton and rice. All positive effect of devaluation was lost. One positive outcome for Pakistan of the development of international scene in the mid-1970s was a consequence of the oil price rise and boom in the middle east. Pakistan was one of those countries that gained in various ways from opening up new markets in term of labor and commodity exports, the new middle east markets were able to compensate for the loss of east Pakistan exports. The remittances touched about US\$3

Billion in the 1980S. Between 1972-77 Pakistan did not devise an adequate policy to encourage exports. The various measures were complex and provided weak incentives.