WORKING PAPER 33

Effects of Trade Liberalization on Agriculture in Pakistan: Institutional and Structural Aspects

Muhammad Ramzan Akhtar

The CGPRT Centre
Working Paper Series, October 1998

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The Regional Co-ordination Centre for Research and Development of Coarse Grains, Pulses, Roots and Tuber Crops in the Humid Tropics of Asia and the Pacific (CGPRT Centre) was established in 1981 as a subsidiary body of UN/ESCAP.

Objectives

In co-operation with ESCAP member countries, the Centre will initiate and promote research, training and dissemination of information on socio-economic and related aspects of CGPRT crops in Asia and the Pacific. In its activities, the Centre aims to serve the needs of institutions concerned with planning, research, extension and development in relation to CGPRT crop production, marketing and use.

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Pulses, Roots and Tuber Crops in the
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AMS	:	Aggregate Measurement of Support
CAS	:	Central Asian States
CECP	:	Cotton Export Corporation of Pakistan
CGPRT	:	Coarse Grains, Pulses, Roots and Tuber Crops in the Humid Tropics of Asia and the Pacific
CSO	:	Central Statistical Organization
EPB	:	Export Promotion Bureau
EPZA	:	Export Processing Zone Authority
FAO	:	Food and Agriculture Organization
GATT	:	General Agreement on Tariffs and Trade
GCP	:	Ghee (edible oil) Corporation of Pakistan
GDP	:	Gross Domestic Product
GT Road	:	Grand Trunk Road
HRD	:	Human Resources Development
LDCs	:	Less Developed Countries
MFN	:	Most Favoured Nation
NHA	:	National Highway Authority
NLC	:	National Logistics Cell
NSC	:	National Shipping Corporation
PIA	:	Pakistan International Airlines
PNSC	:	Pakistan National Shipping Corporation
PSC	:	Pakistan Shipping Corporation
PSI	:	Pakistan Standard Institute
RECP	:	Rice Export Corporation of Pakistan
RMR	:	Raw Material Replenishment Scheme
SBP	:	State Bank of Pakistan
SITC	:	Standard International Trade Classification
SOEs	:	State Owned Enterprises
UN ESCAP	:	United Nations Economic and Social Commission For Asia and The Pacific
WFM	:	World Food Models
WTO	:	World Trade Organization

Foreword

Responding to the growing concern for the effects of trade liberalization on regional agriculture, the CGPRT Centre started a research project "Effects of Trade Liberalization on Agriculture in Selected Asian Countries with Special Focus on CGPRT Crops (TradeLib)" in March 1997, in collaboration with partners from ten countries: China, India, Indonesia, Japan, Malaysia, Pakistan, Philippines, Republic of Korea, Thailand and Vietnam. In all these countries, important issues regarding trade liberalization were investigated with an identical research framework by national experts.

The investigation covers major crops which might receive either favorable or unfavorable effects of trade liberalization both in export and import. I believe that readers of the reports can obtain broad and practical knowledge on institutional aspects of the effects of trade liberalization; moreover, the information will be useful for researchers and policy planners in other countries in the region. A volume which includes more commodity and location-oriented study on the same subject will follow. I would like to note that, since this project was conceived and started before the current currency and economic crisis began in the middle of 1997, the analysis handles basically the period before the crisis with possible current information.

I am pleased to publish **Effects of Trade Liberalization on Agriculture in Pakistan: Institutional and Structural Aspects** as one of the fruits of the project. I certainly hope this report will be fully utilized for the improvement of agricultural trade and the encouragement of regional agriculture.

I thank Dr Muhammad Ramzan Akhtar of Pakistan for his intensive research and the National Agricultural Research Centre for allowing him to work with us and for providing continuous support. Dr Boonjit Titapiwatanakun ably coordinated the various complex steps in the study. I would also like to express appreciation to the Government of Japan for funding the project.

Haruo Inagaki
Director
CGPRT Centre

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It is not possible to perform this type of research work without the assistance, co-operation and indeed active support of a large number of people. First and foremost, I must thank Dr. Muhammad Akbar, Chairman, Pakistan Agricultural Research Council, Islamabad, for granting me not only permission but considerable encouragement to undertake this study. In particular, I would like to express my sincere gratitude to Mr. Naseer Alam Khan, Director, Social Sciences Institute, National Agricultural Research Centre, Islamabad, for his keen interest in the study, and for his co-operation, moral support, sharing knowledge, and his assistance throughout the study.

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Unfortunately, it is not possible to mention by name all those officials from various government organizations throughout Pakistan who helped in providing data required for this study. In particular, I would like to mention the Federal Bureau of Statistics, Ministry of Commerce, Export Promotion Bureau, Ministry of Food and Agriculture and Pakistan Institute of Development Economics, Islamabad. My deepest thanks to all officials of these institutions who always offered their help in providing the required information.

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Finally, I would like to thank my son, Adnan Akhtar, for his computer assistance and hard work through many long evenings and weekends, and for playing an important role in the completion of the final draft of this study.

Islamabad, Pakistan
June, 1998

Dr. Muhammad Ramzan Akhtar
Social Sciences Institute
National Agricultural Research Centre

Executive Summary

This country study is a part of a major project of the Asian region initiated by the United Nations ESCAP CGPRT Centre, Bogor, Indonesia, entitled "Effects of Trade Liberalization on Agriculture in Selected Asian Countries with Special Focus on CGPRT Crops (TradeLib)" launched in Indonesia, the Philippines, India, Thailand, Pakistan, China, Vietnam, Malaysia, Japan and South Korea. This project is a continuation of the Centre's earlier project on "Market Prospects of Upland Crop Products and Policy Analysis in Selected Asian Countries (MPUPA)" implemented in seven Asian countries including Indonesia, the Philippines, India, Thailand, Pakistan, China, and Vietnam. The TradeLib project will be completed in three years in three parts consisting of an institutional study, a commodity study, and a location-commodity specific agricultural study. The present country study on Pakistan is a first year study covering the institutional part of the project. The major objective of this institutional study was to highlight and analyze institutional aspects of trade liberalization, including a review/analysis on history of the trade regime, various trade-related government policies, infrastructure related to foreign trade, and analysis of trade-related indicators.

As in most developing countries, agriculture in Pakistan also occupies an important place because of its share in the economy in terms of its contribution to national income and employment. Although its share in the economy has been slowly decreasing (around 24% of GDP in 1996/97) and that of non-agriculture slowly increasing, agriculture employs more than 50% of the labour force, and directly or indirectly earns around 70% of the foreign exchange from exports. Crops remain the most important sub-sector, but livestock now accounts for more than 30% of agricultural GDP, and the share of minor crops, forestry, and fisheries has increased slightly.

There is no direct government intervention in the production and investment decisions of farmers in the country. However, the government indirectly intervenes through the legal, material and economic environment in which the producers of various agricultural commodities operate. In the past, the government intervened considerably in the agriculture sector through output and input markets, fixing support prices below world prices, research, extension, etc. Compared to international market prices, domestic prices of most of the commodities were low, and a significant quantity of resources was transferred from agriculture to the industrial sector, which is also indirectly dependent on the agricultural sector. Government fully enjoyed a monopoly on export and import of agricultural traded goods. In recent years, direct intervention by the government has diminished considerably, and now the private sector is allowed to participate in the export and import business of many agricultural commodities. For example, now the private sector is allowed to export cotton and rice, the main export products of the country. However, the government is still involved in output markets and distorts market signals, and prices of agricultural commodities are not market determined, implying that all forms of price support controls, subsidies for import of wheat, taxes on cotton exports, duties on sugar imports and quantitative restrictions, and other trade related-distortions need to be reviewed.

Pakistan signed the final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations on April 15, 1994, which also includes the trade agreement on agriculture. As a signatory, Pakistan accepted all the Uruguay Round trade agreements under the World Organization (WTO), and is currently in the process of implementing most of the undertakings, and modifying its domestic legal and administrative rules to ensure their consistency with WTO obligations. The agreement on agriculture consists of four parts: the agreement on agriculture; concessions and commitments made on market access, domestic support, and export subsidies; the agreement on sanitary and phytosanitary measures; and the decision concerning least developed and net food importing developing countries. To fully benefit from the Uruguay Round agriculture agreement, Pakistan needs to modify its extent of present involvement in the agricultural product and input markets and all other policies which discriminate against the agriculture sector, such as the price support programme, import subsidies, taxes on exports, etc. It is anticipated that after complete implementation of trade liberalization in the country, market forces might change the present low domestic output prices to the levels of world market prices. However, due to the uncertain nature of the agriculture sector and the present economic scenario in Pakistan, it is extremely difficult to quantify fully the impacts of the Uruguay Round Trade agreements. Therefore, for countries like Pakistan, most of the implications of all the Uruguay trade agreements on agriculture should be interpreted and undertaken with caution.

To meet the country's obligation towards globalization of merchandised trade under WTO, the government has taken various steps including reducing tariffs from more than 90% to 45% on many products, lifting of some bans and quantitative restrictions, simplifying the existing complicated rules and procedures of export and import, privatizing many government-owned trade related institutions, instituting market-oriented monetary and fiscal policies and outward looking trade policy and investment friendly policies for both local and foreign investors, developing a package of incentives for exporters and importers, establishing industrial and free trade zones, etc. The country may not see the impacts of these market-oriented policies in the short run, but it is expected that in the long term, the economic situation will improve considerably with these structural reforms.

With introduction of the market oriented reform development strategy and with a strong focus on export orientation, both exports and imports have been growing steadily since the early 1980s, with exports highly concentrated in the cotton group. Total imports rose sharply compared to exports, resulting in a trade balance from US$ -2.45 billion in 1981 to -3.1 billion in 1996, mainly due to higher imports than exports. In agricultural trade, raw cotton, rice, fruits and vegetables, and fish and its preparations are the major export commodities, and edible oil, wheat, tea and milk and milk products are the main import commodities. Pakistan exported around 17% of the total production of cotton (fluctuating between 2 and 59% during 1981 to 1996), and 40% of the total production of rice in 1995/96. Pakistan imported more than 2 million tons of wheat in the 1990s, which is around 10% of the total production of wheat in the country.

Pakistan trades agricultural commodities almost all over the world. However, its principal trade partners are limited to only a few countries. Thus, there is a need to diversify its trade partners to expand foreign exchange earnings from export of agricultural commodities. The major trade partners for its agricultural export commodities include Indonesia, Dubai, Iran, Thailand, Hong Kong, some African countries, Japan, China and Saudi Arabia. Countries from which Pakistan mainly imports agricultural commodities include USA, Malaysia, Indonesia, and Kenya.

Domestic prices of most of the agricultural commodities were below world market prices, and support prices of these commodities were fixed by the government on a yearly basis. The direction of movement of prices of various agricultural commodities show that Pakistan has a comparative advantage in the production of Basmati rice, non-Basmati rice, cotton, and high-value crops including fruits and vegetables, and non-traditional products such as cut flowers. There is a need to considerably improve the productivity of wheat, rice, cotton and all other traded commodities, since yields are far below the potential yield levels. Also, Pakistan needs to diversify its traditional export base to fully benefit from freer trade, in terms of products and markets, and to formulate policies and strategies that will ensure that its products are able to compete in the international market with other producing countries, especially competing Asian countries.

It is evident that Pakistan will face significant policy challenges in the course of its implementation of the Uruguay Round Agreement on Agriculture, including tariff reduction, elimination of import subsidy on wheat (staple food), phasing out all forms of price support policies and controls and reducing custom duties, quantity restrictions, exemptions, non-tariff barriers, etc. The WTO undertaking is very comprehensive and complicated, especially the agreement on sanitary and phytosanitary measures, environment, child labour, etc. Producers and exporters will face the challenge of competition for their products in the international market and will be required to follow the international rules of the GATT/WTO. So far, the majority of producers, exporters, policy makers, and the general public are unaware about the possible impacts, and Pakistan's obligations under WTO. Therefore, there is a need to pursue public awareness programmes on the possible impact of trade liberalization, including trade policy developments, priorities and strategies of its major trading partners in export and import commodities. Also in order to smoothly proceed with the adjustment process towards a more liberalized economic environment, it is very important to analyze and identify the effects of trade liberalization on the agriculture sector in Pakistan, especially on the small farmers. In addition, in-depth study of the impacts of considerable tariff reduction and other concessions given in the agriculture sector may be undertaken.

1. Introduction

1.1 Agriculture in Pakistan

Over the past three decades, Pakistan has enjoyed steady economic growth. Despite a relatively weak economic infrastructure, the growth of real GDP averaged around 6% per year during the past 30 years, while agricultural GDP increased an average of 3.8% per year. Although the share of agriculture in the economy has been slowly decreasing from around 60% during the 1960s, to only 24% in 1997 (and that of industry slowly increasing), agriculture is still the backbone of the economy of Pakistan. This sector employs more than 50% of the labour force, and directly and indirectly earns around two-thirds of export revenues. Crops remain the most important sub-sector, but livestock has emerged as an important sub-sector, contributing more than one-third of agricultural GDP compared with less than 15% during the early 1970s. Similarly, fisheries and forestry sub-sectors are also growing rapidly, but still contribute very little to agricultural GDP (Table 1.1). The introduction of high-yielding varieties of wheat, rice, and cotton, public investment in irrigation, and availability of fertilizer were the major factors of growth in agricultural output (Akhtar 1997).

After independence in 1947, Pakistan was basically characterized by an economy of free enterprise. However in 1970, government established the supremacy of the state and, on a wider scale, a programme of nationalization of key industrial units and financial institutions was started. Through its various departments and corporations, the government initiated controls on domestic markets, imports and exports, and trade in agricultural inputs and commodities at pre-specified prices. This large-scale nationalization and government intervention proved to be highly undesirable in its effects on the national economy (Chaudhry 1995). After realizing the inefficiency of the public sector, government again encouraged the involvement of the private sector in the early 1980s. Like many less developed countries, Pakistan in the 1980s was characterized by an economy of mixed enterprises, and economic liberalization started slowly in the early 1980s, but expanded considerably during the late 1980s.

In Pakistan, the government does not intervene directly in the production and investment decisions of the farmers, but indirectly intervenes through the legal, material and economic environment in which farmers operate. In the past, the public sector intervened directly or indirectly by controlling producer and consumer prices of important crops and food products through parastatals or border controls and taxes. However direct intervention by government diminished very much in the 1990s but still the public sector intervenes by controlling producer and consumer prices. For example, farmers receive considerably less than the world prices of cotton and rice, but on the other hand, sugarcane is highly protected. Similarly the government forced domestic support prices of wheat below the border prices by subsidizing imports. All these price stabilisation policies lead to balance of payment problems in the country (Faruqee 1995). Having recognized the importance of a freer economy, the government is gradually introducing comprehensive macro-economic and structural reform programmes in the agricultural sector, for example, shifting from a fixed exchange rate to a policy of flexible exchange rate, removal of subsidy on various agricultural inputs, privatization of many financial institutions and other trade institutions, increasing the prices of various commodities, liberalization of trade by simplifying the existing rules and procedures, considerably reduction in tariff, etc. The main objective of the government was to move towards greater reliance on market forces, opening of its economy to foreign competition and it sought to meet the country’s obligation towards globalization of merchandised trade under the World Trade Organization (WTO). In the 1997/98 trade policy, the government endeavoured to simplify the rules and procedures for boosting exports. The trade regime has been further liberalized by reducing tariff rates from the existing 65% to 45% to speed up economic recovery through export-led growth, elimination of import restrictions by opening product markets and agricultural internal support and export subsidies. Similarly, other developed and less developed countries are also opening their product markets to meet their obligations under WTO. Due to rapid economic growth in the world, especially in Asian developing countries, trade of agricultural products is expanding rapidly, and recent developments in both international and regional trade will further accelerate the already expanding trend.

Table 1.1 Agriculture's contribution to gross domestic product (GDP).

Year	GDP* (billion Rs)	Agriculture's Contribution to GDP							
		Total	Major Crops	Minor Crops	Livestock	Fisheries	Forestry	Total	Total % of GDP
			(% share of total)						
1981	247,831	76,399	51.87	17.23	26.36	3.53	1.02	100	30.83
1986	342,224	93,433	49.46	17.92	27.68	3.79	1.15	100	27.30
1991	446,005	114,542	47.79	17.30	29.78	3.87	1.26	100	25.68
1992	480,413	125,425	50.40	16.18	28.81	3.71	0.91	100	26.11
1993	491,325	118,795	44.91	17.75	32.25	4.13	0.95	100	24.18
1994	513,635	125,005	43.21	19.00	32.48	4.35	0.95	100	24.34
1995	540,528	133,215	44.07	19.06	32.16	3.79	0.91	100	24.65
1996	565,302	140,240	44.88	18.71	32.27	3.50	0.65	100	24.81
1997	582,639	141,223	42.55	19.22	34.11	3.50	0.62	100	24.24

Source: Government of Pakistan 1997.
*GDP in billion rupees at constant factor cost, 1980/81.

Keeping in view the present economic situation and the speed with which Pakistan is opening its product market, there is widespread concern about the effects of trade liberalization on agriculture, whereas improving the economy of the agricultural sector, achieving self-sufficiency in food, and improving farmers' income are the top priorities of the country. The government is gradually moving towards liberalizing its trade in agriculture, and taking certain steps to support the domestic agriculture sector, such as increasing the support prices of major commodities, opening markets for traded goods, providing credit to small farmers, accelerating the privatization process of public institutions, reducing tariffs, etc. However, the extent and direction of impacts of trade liberalization will be different for various agricultural products. In order to smoothly proceed towards a more liberalized economic environment, the effects of trade liberalization, especially those of on the small-holder sector, need to be identified and analyzed.

1.2 Pakistan and GATT commitments

Since 1948, Pakistan has been a founding member of the General Agreement on Tariffs and Trade (GATT). It has participated in almost all the rounds of multilateral trade negotiations and signed the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations in Marrakesh on April 15, 1994. Being a signatory, Pakistan accepted all the Uruguay Round trade agreements under the WTO, and now it is in the process of implementing the Uruguay Round agreements. During the Uruguay Round multilateral trade negotiations, Pakistan mainly emphasised: (i) phasing out the Multifibre Arrangement (MFA) and fully integrating textile trade into the GATT; (ii) bringing the agricultural sector under the GATT disciplines; (iii) maintaining the provisions of special and differential treatment for developing countries; and (iv) strengthening the multilateral trading system. In addition to this, Pakistan showed interest in the liberalization of trade in services, especially freer mobility of workers involved in the service sectors and flexibility for developing countries to adopt policy instruments regarding foreign investment and intellectual property rights protection. Keeping in view the present economic situation, the legal system, and administrative rules, Pakistan has to modify its legislation dealing with customs valuation and intellectual property rights and services, including banking and insurance. As a signatory of the Uruguay Round Agreements, so far Pakistan has undertaken a number of commitments made during the Uruguay Round multilateral trade negotiations, such as tariff reductions on both industrial and agricultural goods, opening of the services sector, protection of intellectual property rights, etc.

Pakistan has committed to bind around 33% of its tariff lines compared to earlier policies of no tariff binding at all. Around 81% of the country's agricultural import tariffs will be bound, most at ceiling rates of 100%. Tariffs on tea, wheat, maize and sugar are bound at ceiling rates of 150%. The ceiling rate for betel nut is 200%. Various agricultural lines remain non-bound, mainly applying to alcoholic beverages, swine, and pig meat and its products since Pakistan is an Islamic country. Industrial products will be bound at 25% of tariff mostly at ceiling rates of 40 to 50%. Regarding non-tariff barriers, Pakistan is committed to abolishing import licensing for most goods, allowing foreign companies to engage in export trade, converting non-tariff barriers into tariffs, reducing maximum and increasing minimum tariffs, incorporating the various ad hoc import taxes into customs duties, and reducing the numerous duty exemptions and concessions.

The Uruguay Round agreement on agriculture consists of four parts: concessions and commitments made on market access, domestic support, and export subsidies; the agreement on sanitary and phytosanitary measures; and the decision concerning least developed and net food importing developing countries (Goldin and van der Mensbrugghe 1995). The market access agreement contains commitments to convert all non-tariff border measures, such as import quotas to tariffs that provide the same protection. These tariffs, as well as other tariffs on agricultural products, must then be reduced by an average of 36% for developed countries over six years and 24% for developing countries over 10 years. Under the agreement on domestic support and export subsidies, developed countries have committed to cut their total Aggregate Measurement of Support (AMS) by 20% during the implementation period from its level in the base period of 1986-88. Developing countries are required to reduce Total AMS by 13.3%. On export subsidies, developed countries committed to reduce the value of direct export subsidies by 36% of the base period (1986-88) level over six years and to reduce the volume of subsidized exports by 21% over the same period. Developing countries have committed to a reduction of two-thirds of that of the developed countries to be implemented over 10 years.

The Uruguay Round agreement on agriculture is a complex and comprehensive undertaking and its impact can not be easily quantified mainly due to uncertainties in the agriculture sector. All the available economic models provide a useful indication of the broad picture (positive or negative impacts), and the results of all these models should be interpreted with caution. However, in the present changing economic scenario, it will be extremely useful to determine the impact of the Uruguay Round on countries like Pakistan.

It is the major focus of the trade policy of Pakistan to bring all the sectors, especially agriculture, under the Uruguay Round agreement. Based upon various research reports, discussions and meetings regarding the possible impacts on developing countries like Pakistan (e.g., Goldin and van der Mensbrugghe 1995), it is expected that agreements on agriculture will make Pakistan's agricultural products more competitive in the long run, provided prevailing policies which discriminate against the agriculture sector are totally modified according to the requirements of the agreement, for example, abolishing the policy of fixing prices of various agricultural commodities below world markets. If market forces are allowed to act, such forces will result in increasing the prices of domestic agricultural products to the levels of world prices. This process will stimulate domestic production of almost all products. Presently the government fixes the support prices of many crops and the public sector also intervenes through its institutions.

The trade agreement on agriculture may result in some liberalization for products of interest to Pakistan. For example, with the reduction of tariffs by 36% in developed markets, Pakistan may get more export opportunities for its fruits (mainly citrus and mango) and vegetables. There is also potential for non-traditional products, such as flowers and other agricultural products which received substantial tariff reductions in developed markets (44% in Europe). To take full advantage of these potential opportunities, Pakistan may be required to invest more in packing, marketing facilities, storage, transportation and to simplify the existing rules and procedures, etc. It is expected that rice and cotton, the major export commodities of Pakistan, will face tough competition in the international market. Wheat is the staple food and the country imports more than two million tons of wheat every year. However, Pakistan did not request to be listed as a recognized net food importer to the WTO Committee on Agriculture. Therefore, it is expected that after abolishing the subsidy on wheat imports, and opening up its economy, the price of wheat in the country might increase considerably.

The trade and environment interface has been the subject of much debate between advocates of environmental protection and free trade, who are linking trade and the environment. Environmental degradation has been attributed to many factors, such as, economic activity, trade policy, and the failure of product prices to reflect the cost of exploitation of resources, pollution, or environmental damage. In the light of such debate, importing firms from developed countries are increasingly insisting on the country's adherence to standards based on the environmental circumstances and priorities of the importing nations. Therefore, countries like Pakistan may face such trade-related barriers on production and processing methods related to their exportable agricultural commodities including rice, cotton, fruits and vegetables, fish and fishery products. Pakistan's exports may be vulnerable to trade restriction on the grounds that they have failed to comply with environmental standards based on non-product-related process and production methods (PPMS). Some developed countries are also putting a ban on Pakistani exports mainly on the basis of sanitary and phytosanitary conditions and child labour in production, which is also a big concern for countries like Pakistan.

Pakistan is not a member of any free trade agreement, and generally applies its tariff on a MFN basis. However, preferential tariffs are extended to certain developing countries in the framework of the GATT Protocol Relating to Trade Negotiations Among Developing Countries. Meanwhile, Pakistan continues to pursue the goal of further liberalization. Tariffs on many industrial and agricultural goods have been reduced considerably (from a maximum of more than 90% to 45%) in recent years, together with the lifting of some bans and quantitative restrictions and non-tariff barriers.

1.3 Review of effects of trade liberalization on agriculture in Pakistan

Both positive and negative effects of trade liberalization on agriculture in Pakistan have been widely discussed during the last decade. Most of the studies on trade liberalization on agriculture in Pakistan have just discussed the possible effects, and did not quantify these impacts, which is more important in countries like Pakistan. Those studies which support the process of trade liberalization argued that Pakistan has a strong comparative advantage in most of the agricultural commodities over the developed countries mainly due to low cost of production. They have shown high expectations in the long run and discussed that most of the agricultural export will be more profitable once the WTO has been completely implemented. Due to a strong natural resource base, Pakistan has a comparative advantage in high value crops, including fruits and vegetables, Basmati rice, non-Basmati rice, cotton, and floriculture. There is significant potential in promoting the export of these crops. On the other hand, it is expected that globalization of Pakistani agriculture will destabilize prices of many agricultural products, especially wheat, which is the main staple food in the country. Also, some argue that opening up Pakistan's markets for foreign competitors and liberalization of agricultural exports will result in changing the existing cropping pattern, especially the area under wheat might decrease in favour of other high value crops, and the import bill of this food commodity might increase many times over what is already a big source of negative trade balance and budget deficit.

Dorosh and Valdes (1990) discussed the direct and indirect effects of exchange rate and trade policies on agriculture in Pakistan using nominal and effective rates of protection for major agricultural commodities and using free-trade equilibrium real exchange rates. They concluded that production of most agricultural products in Pakistan was significantly lower during the last three decades mainly due to government intervention through support prices and procurement policies. For example, due to the combined effects of trade and exchange rate policies and agricultural price policies, wheat production was 24% lower and Basmati rice 52% lower in the 1983-87 period than they would have been with no government intervention and free trade policies. Also, farm income from the five major crops in Pakistan would have been 40% higher during the same period.

FAO (1995a) studied the impact of the Uruguay Round on selected world agricultural commodity markets. FAO World Food Models (WFM) were used to study the impact of specific policy changes, while simple single commodity models were developed to cover some of the commodities not included in the WFM. For different countries and selected commodities, models have been developed which simultaneously determine production, consumption, imports, exports and world prices to the year 2000 under the Uruguay Round assumptions. The existing "baseline" projections to the year 2000 are driven by income growth, productivity changes and demographic trends. The prices in each country are linked to world market prices by tariffs and other policy effects and natural forms of protection. For the "Uruguay Round scenario" the reduction in tariffs changes these price linkages. In the case of Pakistan under the Uruguay Round scenario, it is expected that producer prices of all major agricultural commodities will increase considerably and result in increasing production and income of farmers.

Naqvi and Mahmood (1994) discussed possible implications for different sectors of the economy mainly based on perceptions rather than on any data or facts. They argued that the Uruguay Round Agreement would make Pakistan’s agricultural products more competitive in international markets. Prices of most of the commodities are likely to increase over the longer term with freer trade, but Pakistan will face increased competition from other LDCs. For rice, Pakistan will not be able to compete in the South East Asia market, because Pakistan does not produce the kind of rice which is popular there. For raw cotton, the problem of market access is not critical. Pakistan will be able to benefit in the category of “Other agricultural product”, and will have to spend more on wheat imports. Chaudhry (1995) suggested that increasing agricultural commodity prices to world levels is a prerequisite for creating a distortion-free market economy with increased agricultural production, self-sufficiency in food, reduced imports, more exports, rising industrial output, new employment opportunities and improvement of income distribution. Faruqee (1995) emphasised bringing structural changes in various sections of the agriculture sector. He suggested that trade policy in Pakistan should be based upon comparative advantages, and protection for industry (which hurts agriculture) should be removed. It is recommended that the government of Pakistan aim at replacing the current distortionary system of high custom duties, exemptions, and non-tariff barriers with a uniform duty scheme. The government needs to consider removing taxes on cotton exports, duties on sugar imports, and quantitative restrictions on both. Also, he emphasized liberalizing the agricultural input market in the country.

In the present scenario, it may be presumed that Pakistan will not benefit fully from such measures of 'free trade' unless its exports become competitive with other countries producing similar goods. A breakthrough in exports largely depends on a distinct improvement in the quality of Pakistani products, strict adherence to delivery schedules, competitive, aggressive marketing, well-developed institutional and physical infrastructure, and so on. Presently Pakistan has a narrow export base of agricultural commodities, the cost of production is very high and exporters have certain traditional problems, such as cumbersome export procedures, poor post-harvest technology, inadequate packaging, inadequate market information, poor infrastructure, etc. Therefore, Pakistan needs to make such improvements on a priority basis in its system to compete in the international market under the trade liberalization policy. In addition, there is a need to enhance the present low productivity levels of almost all major and minor crops.

In order to fully understand the impact of trade liberalization on agriculture in a country like Pakistan, and how to fully benefit and minimize its adverse effects, there is a need to conduct a detailed study on impacts of trade liberalization on agriculture in Pakistan. Agriculture is one of the main sectors of the economy, contributing a considerable share to national income and employing more than 50% of the labour force. Also, in order to smoothly proceed with the adjustment process towards a more liberalized economic environment, the effects of trade liberalization, especially those on the small-holder sector, need to be identified and analyzed.

1.4 Objectives

The present study is part of a larger study of the Asian region by the United Nations, ESCAP CGPRT Centre, Bogor, Indonesia. This study is being conducted in ten Asian countries, including China, India, Indonesia, Japan, Malaysia, Pakistan, the Philippines, Thailand, Republic of Korea and Vietnam under the title "Effects of Trade Liberalization on Agriculture in Selected Asian Countries with Special Focus on Upland Crops (TradeLib)". The project objectives are:

- To describe the international trade of agricultural products, with special focus on upland crops in the region under further liberalized market conditions;
- To characterize the situation and prospects of agriculture in selected Asian countries with special attention to the effects of trade liberalization;
- To specify policy options for improving farmers' income in the process of trade liberalization; and
- To provide concerned policy-makers and researchers with discussions and suggestions on the above.

The present study is the first part of the above project and mainly focuses on the following objectives:

- To present a brief history of the trade regime in Pakistan;
- To discuss strategies and measures followed by Pakistan in the process of trade liberalization;
- To present the infrastructural developments affecting international trade in Pakistan;
- To analyze the trends of agricultural trade and the overall effects of trade liberalization in Pakistan; and
- To identify problems, policy options, and recommendations for a smooth adjustment process of trade liberalization in Pakistan.

1.5 Organization of the report

The first chapter contains the introduction, Pakistan's commitment towards the Uruguay Round Trade Agreement and its possible impacts, and a review of effects of trade liberalization on the agricultural sector in Pakistan. The next chapter presents an overview of various trade-related policies including trade policies, investment policies, fiscal and monetary policies, and government privatization programmes. Chapter 3 presents the development over time in trade-related infrastructure in Pakistan, including road networks, railway, air transport, and ports and shipping services. Chapter 4 discusses the role of trade-related institutions in the public sector. Chapter 5 analyzes trade-related indicators including trade trends, export and import of major agricultural commodities, import of agricultural inputs, direction of export and import of major agricultural commodities, production of selected agricultural products and ratios of various trade-related indicators. The last chapter of the report summarises the main findings, and suggests strategies and policy measures in order to smoothly proceed with the adjustment process towards a more liberalized economic environment in the country.

2. Trade-Related Policies

An overview of some of the major policies followed by the government of Pakistan related to trade, including trade policy, investment policy, fiscal policy, monetary policy, is given in this section of the report.

2.1 Trade policy

Trade policies differ from one country to another and they mainly depend upon the country's specific needs, objectives and socio-economic characteristics. For countries with little or no industrial base (mainly LDCs), the major objective of a trade policy is to develop supply capacity and establish the base for an expanding export sector. For countries which have already conducted some degree of import substitution, the main issue is to make their domestic industries competitive at national and international levels and to expand exports. Countries with some export base should place greater emphasis on product upgrading and development so as to exploit new opportunities in domestic and world markets. Trade policy needs to be development-oriented and dynamic, and should take into account changes in domestic markets and world markets over time.

Various governments in Pakistan have introduced a number of trade policies during the last fifty years. All these policies emphasized product improvement and development, aiming at building up supply capacity at the firm and national levels. Generally, Pakistan's trading policy is composed of various sub-policies administered by various government ministries and departments (Ahmed and Amjad 1984). These sub-policies include (i) the Exchange Control Policy, administered by the Foreign Exchange Committee of the Ministry of Finance which regulates the inflow and outflow of foreign exchange and allocates it among the public and the private sectors; (ii) the Import Licensing Policy to deal with the disbursement of foreign exchange allocated to the private sector for different trade-related activities; (iii) the Export Promotion Policy administered by the Ministry of Commerce to promote the export of different commodities from Pakistan; and (iv) the Tariff Policy directed by the Ministry of Finance as a revenue-raising device in the country.

Trade Policy in Pakistan has gone through many reforms during the last fifty years and can be divided into five periods, i.e., 1947-1958, 1959-1971, 1972-1980, 1981-1988, and 1989-onward (Ahmed and Amjad 1984; Naqvi 1970; Andrus and Mohammad 1966; Lewis 1970; Government of Pakistan, various issues; Thomas 1970).

2.1.1 Trade policy during 1947-1958

During the first period (1947-1958) which started with independence on August 14 1947, all trade-related policies concentrated on short-term crises and reactions to various developments in the foreign trade sector because the economy was mainly dependent upon foreign trade. Pakistan exported a large portion of the raw material produced in the country and also imported a lot of its development and non-development requirements. The major objective of the government was to maintain the required supplies of consumer goods to stabilise price levels in the country. Another major factor was the Korean War boom which increased the demand for raw material due to the fear of a third World War, and both the demand and prices for raw materials for stockpiling purposes increased considerably. The export earnings, mainly from raw materials, increased significantly. During the 1950s, Pakistan was also able to diversify its export trade relations, which were previously confined mainly to India and the UK.

In the beginning, the government was following a liberal import policy, but a trade crisis during that period forced the government to restrict imports, which was instrumental in accelerating the industrialisation process in the country. During this period, export earnings were quite stable and in most years, the country had a surplus trade balance (Table 2.1). The bulk of the exports from Pakistan consisted of primary commodities. The government gave very limited attention to export promotion activities, and only bilateral trade agreements with a number of countries were used to promote export of various commodities. In 1954, the Export Incentives Scheme was introduced to promote a number of minor export items, but this scheme was also not very effective. Therefore, the Pakistani rupee was devalued in July 1955, and this resulted in a 45.8% increase in exports compared to the previous year. However this trend did not persist for long and export earnings again declined considerably. The balance of trade showed a deficit from 1956 onwards, while exports declined, and imports increased due to the growing development needs and the import of wheat and rice.

Table 2.1 Trade balance of Pakistan during 1948-58 (million Rs).

F/Year	Import	Export	Balance
1948/49	1,487	1,871	+ 384
1949/50	1,284	1,218	- 66
1950/51	1,620	2,554	+ 934
1951/52	2,237	2,009	- 228
1952/53	1,384	1,510	+ 126
1953/54	1,118	1,286	+ 168
1954/55	1,103	1,223	+ 120
1955/56	1,325	1,784	+ 459
1956/57	2,335	1,608	- 727
1957/58	2,050	1,422	- 628

Source: CSO, Twenty-five Years of Pakistan in Statistics, 1947-72, Karachi, 1972.
Note: financial year is from July to June.

2.1.2 Trade policy during 1959-1971

During this period, the government realized the need to speed up the process of industrialization in the country and started formulating new trade policies. Compared to consumer goods industries during the early period, more emphasis was given to intermediate and investment goods industries. To influence the inter-sectoral terms of trade and the flow of resources and income among various sectors and various regions, the Export Bonus Scheme was introduced in 1959. The major objective of this policy was to make exports more attractive. Exporters were permitted to transfer a part of excess profits in imports to the export sector. Similarly, exporters of all commodities, except the traditional primary commodities, were awarded bonus import licences worth a certain percentage of the foreign exchange earned, which varied for different export commodities. The government allowed traders to use these export bonus vouchers to import large quantities of consumer goods, industrial raw materials, and capital goods. These vouchers could also be sold in the open market at a considerable premium ranging from 100 to 190% of their face value (Andrus and Mohammad 1966). This scheme was continuously modified, and its coverage, rates of bonus, and the composition of importable items on the bonus vouchers were expanded. Major changes were made in 1967, when a “Cash-cum-Bonus” system was introduced and the regular licence system was used in conjunction with the Bonus Scheme for the import of a wide range of raw materials. In 1970, primary commodities were included in this scheme (Lewis 1970).

To promote exports, many other measures were also introduced, such as the Export Credit Guarantee Scheme in 1962. Under this scheme, exporters were provided guarantees against certain financial risks which are not normally covered by insurance companies. Export Performance Licences for importers were also given to exporters on the basis of the f.o.b. value of their exports. The government also supported many other export promotion activities, such as the establishment of trade offices and display centres in many countries. From 1968/69 onwards, it was decided to announce export polices on an annual basis. The import policy was also further liberalized with the general policy of emphasizing economic growth, relaxing economic control, and greater reliance on market forces. Compared to earlier years, the import trade had become more competitive and the composition of imports underwent drastic changes. The share of consumer goods in the total import sharply declined and corresponding improvements in the share of capital goods increased considerably. On the other hand, the share of industrial raw materials in total imports was modestly increased. The composition of imports during 1959-70 is given in Table 2.2. Also there was a considerable change in the composition of exports in favour of manufactured goods. Their share in total exports increased from 17% in 1958/59 to 56% in 1969/70. The share of industrial raw materials in total exports decreased substantially (Table 2.3).

Table 2.2 Composition of imports (% of total imports) in Pakistan, 1959-70.

F/Year (July-June)	Capital Goods	Industrial Raw Material	Consumer Goods
1958/59	46.63	26.12	27.25
1964/65	50.04	27.85	22.11
1969/70	47.51	36.19	16.30

Source: Pakistan Economic Survey, 1972/73, Islamabad.

Table 2.3 Composition of exports in Pakistan, 1959-70 (% of total exports).

F/Year (July-June)	Industrial Raw Materials	Food, Drinks and Tobacco	Manufactured Goods
1958/59	75.8	6.6	17.6
1964/65	56.8	11.1	32.1
1969/70	36.5	7.8	55.7

Source: Pakistan Economic Survey, 1972/73, Islamabad.

Table 2.4 Exports, imports, and trade balance (million Rs) in Pakistan.

F/Year	Exports	Imports	Balance	Exports as % of imports
1958/59	1,325	1,578	-253	84.0
1959/60	1,843	2461	-618	74.9
1960/61	1,799	3,188	-1,389	56.4
1961/62	1,843	3,109	-1,266	59.3
1962/63	2,247	3,819	-1,572	58.8
1963/64	2,299	4,430	-2,131	51.9
1964/65	2,408	5,774	-3,366	44.8
1965/66	2,718	4,208	-1,490	64.5
1966/67	2,913	5,192	-2,279	56.1
1967/68	3,348	4,655	-1,307	71.9
1968/69	3,305	4,897	-1,592	67.5
1969/70	3,337	5,098	-1,761	65.4
1970/71	3,362	5,178	-1,816	64.9

Source: Pakistan Economic Survey, 1972/73, Islamabad.

2.1.3 Trade policy during 1972-1980

There was a drastic change in the pattern of foreign trade management mainly due to the events of the early 1970s under a socialist type government. After the disastrous civil war in East Pakistan (now Bangladesh) during 1971, Pakistan was divided into two countries, i.e. Pakistan and Bangladesh. The de-linking of East Pakistan, which was the main trade partner of West Pakistan, forced the government to undertake structural changes in the Pakistan's foreign trade as part of the country's internal trade was externalized. Thus Pakistan had to find new markets for a number of commodities previously sold to East Pakistan. These commodities included oilseeds, raw cotton, tobacco, rice and other food grains, and manufactured goods such as cotton fabrics, yarn and thread, machinery, drugs and medicines, tobacco manufactures, and cement. Similarly, the government had to find alternate import markets for many commodities including jute goods, tea, paper and matches, which were previously purchased from East Pakistan.

The Pakistan People's Party (PPP) came into power on December 20, 1971 and remained in power until July 4, 1997. The new government tried to establish the supremacy of the state and socialist ideology, and a large-scale programme of nationalization of key industrial units and financial institutions was started. Also the government planned to get wide-scale control of domestic markets, imports and exports were stimulated, and trade in agricultural inputs and commodities at pre-specified prices was given to public sector departments and corporations.

Many state-owned enterprises (SOEs) were established to keep monopolies in the public sector. Some SOEs such as the Rice Export Corporation of Pakistan, and the Ghee (Edible Oil) Corporation of Pakistan (GCP), had enjoyed monopolies in their respective trade commodities. However, the large scale nationalization, establishment of SOEs, and government intervention did not help much to bring desired changes in the economy of Pakistan. These management related decisions contributed to growing inefficiencies of SOEs and budgetary deficits, and excessive control on the private sector resulted in curtailment of private investment in the country. In such circumstances, the country had no option but to depend heavily on foreign loans (Chaudhry 1995).

Under the Export Bonus Scheme, bonus vouchers issued against exports were as high as 35% of total exports up to 1971. Proceeds and goods imported under this scheme accounted for almost 40% of total imports. This scheme was finally abolished in 1972 when the government abolished the multiple exchange rate system in the country. The Pakistan rupee was devalued by around 57% from the US dollar parity of Rs 4.76 to Rs 11.00 in May, 1972. However, with the devaluation of the US dollar by around 10% in February, 1973, the parity of the rupee in terms of gold was maintained and the new exchange rate was fixed at Rs 9.90 per US dollar. The devaluation of the rupee and the abolition of the Export Bonus Scheme were expected to boost the country's exports.

In addition to the devaluation of the Pakistan rupee and the end of the Bonus Voucher Scheme, the government also took many other steps to boost exports and imports. For example, the procedure of import licensing was further simplified; all the permissible imports were placed on either the free list (the list of those goods which could be imported from any source once an import licence was awarded to any importer) and the "tied list" (consisting of those commodities that could be imported from specified countries or by the public sector). Those commodities which were not on either of these two import lists were banned. On many intermediate and capital goods, import duties were also reduced, and the import of certain consumer goods, such as luxury items, was either banned or taxed at a very high rate. The government had withdrawn all export subsidies except tax rebates and export financing. Export duties were imposed on a number of commodities including raw cotton, cotton yarn, cotton fabrics, etc.

A constant nominal exchange rate was maintained throughout the 1970s and the rupee appreciated in real terms. To improve the balance of trade, the government instead of devaluation of the rupee, followed a policy of export subsidies and imposed quantitative restrictions on imports. The government also further tightened the import licensing procedures and the Raw Material Replenishment Scheme (RMR) was introduced to provide exporters with access to raw materials, including some that were otherwise banned. Different duty rates were introduced for commercial and industrial users of various commodities. Export subsidies were provided on various selected commodities through compensated rebates ranging from 7.5 to 12.5% of f.o.b. value of specified products. From 1972 until 1977, the government intervened in almost all the sectors of financial institutions, life insurance and various industries (Ahmed and Amjad 1984).

On July 5, 1977, the military government came into power and started a gradual process of decreasing government intervention in industry and encouraging the private sector to invest in various industries. The process of denationalization of various industries was also started. As a first step to encourage private sector investment, the government denationalized many agricultural processing industries (such as cotton ginning, flour milling and rice husking units) which were nationalized by the previous government. Also the government encouraged the participation of private sector investment in cement, fertilizers, tractors, automobiles and many other industries which had earlier not been permitted in the private sector. The government also gave a number of incentives to exporters including export rebates, liberal raw material and machinery import facilities, income tax concessions and export finance at reasonable rates.

From 1972/73 to 1979/80, foreign exchange earnings from exports increased by around 173% and the increase in imports was about 459%. Exports as a percentage of imports decreased from 101.8% in 1972/73 to only 49.8% during 1979/80. The details of exports, imports and trade balance are given in Table 2.5. The country also tried to diversify its trade relations and found new markets for exports. The Middle East emerged as a new export market for Pakistan. Similarly, countries in East Asia also emerged as new potential export markets for Pakistani goods. The composition of imports also changed in favour of industrial raw materials mainly at the cost of consumer goods. Similarly, the share of capital goods in total imports improved considerably. This shows the country's increasing dependence upon the import of machinery and other capital goods. There was a substantial increase in the share of manufactured goods in exports. However, the share of semi-manufactured goods decreased by almost half the percentage of total exports from 1972/73 to 1979/80. During the same period, the share of primary commodities did not change much. The composition of exports from 1972/73 to 1979/80 is given in Table 2.6.

Table 2.5 Exports, imports and trade balance (million Rs) in Pakistan, 1972-80.

F/Year (July-June)	Exports	Imports	Balance	Exports as % of Imports
1972/73	8,551	8,398	+153	101.8
1973/74	10,161	13,479	-3,318	75.3
1974/75	10,286	20,925	-10,639	49.1
1975/76	11,253	20,465	-9,212	54.9
1976/77	11,294	23,012	-11,718	49.0
1977/78	12,980	27,815	-14,835	46.6
1978/79	16,925	36,388	-19,463	46.5
1979/80	23,410	46,929	-23,519	49.8

Source: Pakistan Economic Survey, 1981/82, Islamabad.

Table 2.6 Composition of exports from 1972 to 1980 in Pakistan (% of total exports).

F/Year (July-June)	Primary Commodities	Semi-Manufactures	Manufactured Goods
1972/73	39.4	30.2	30.4
1973/74	39.4	22.6	38.0
1974/75	48.0	12.7	39.3
1975/76	43.7	18.4	37.9
1976/77	40.9	16.7	42.4
1977/78	35.7	14.7	49.6
1978/79	32.3	20.6	47.1
1979/80	42.0	15.0	43.0

Source: Pakistan Economic Survey, 1981/82, Islamabad.

2.1.4 Trade policy during 1981-1988

In the 1980s, Pakistan was characterized by an economy of mixed enterprises, that is private and government operated enterprises. Economic liberalization started slowly in the early 1980s, but expanded considerably during the late 1980s. The process of economic liberalization mainly started with moving away from fixed exchange rates to a policy of flexible exchange rates. In January 1982, the Pakistani rupee was de-linked from the US dollar. Previously the rupee/dollar exchange rate was fixed and appreciation of the US dollar in 1980/81 had reduced the competitiveness of Pakistan's exports in the international market. The floating exchange rate policy helped the import liberalization process by allowing the government to eliminate restrictions without running into balance of payment problems. Import bans were lifted from 122 products in 1983, and a negative list (of banned import products) was adopted in the country. Another tied list of imported products that were only allowed by the public sector and only from specific countries was also introduced. In 1987/88, 124 products and in 1988/89, 162 products were removed from the negative list. The negative list consisted of items banned for religious or security reasons, luxury consumer goods, and products banned to protect selected industries. In addition to introducing the concept of a negative list, another main feature of the import liberalization process was the virtual elimination of licensing ceilings for permitted imports in the presence of the import licensing policy. The import liberalization measures were mainly taken to increase the availability of raw material and capital goods to the industrial sector rather than to open domestic industry for foreign competition. For many imported products, the government started to replace quantitative restrictions with tariffs. Although the importance of quantitative restrictions had decreased since the 1960s, by 1980/81 quantitative restrictions were still the dominant type of protection for more than one-third of all imported items (Pakistan Institute of Development Economics 1983).

2.1.5 Trade policy for 1989 - onward

Due to political instability in the country, the government changed frequently from 1989 to 1996. However, the process of economic liberalization was continued mainly due to the pressure of various donor and international financial institutions. During the late 1980s and 1990s, more emphasis was given to decentralization and deregulation of many SOEs, and national financial institutions, liberal export and import policies, participation of the private sector in domestic markets and import and export business, removal of many market distortions, removal of subsidies on various agricultural inputs (fertilizers, insecticides, agricultural machinery, etc.), softening of terms or removal of restrictions on foreign investment, etc. Previously, the private sector was not allowed to export rice and raw cotton, and government institutions had full control of the rice and cotton export business. Because of the economic situation in the country, the private sector was allowed to participate in the export of rice, raw cotton, fruits and vegetables, etc. The private sector was given various incentives, such as a facility of duty draw back to exporters of fresh fruits and vegetables, 25% freight subsidy on air and sea freight on national carriers for exporters of fruits and vegetables, cut flowers, fresh fish products, etc. The Export Financing Scheme was further extended and packed Basmati rice (brand name), fruits, vegetables, animal casings and mushrooms were included in the list of eligible items for this scheme. Licensing requirements for the import of goods not on the negative list have been abolished. The tariff structure has been further modified under the conditions of WTO. New industrial zones, export processing zones and dry ports have been established in the country. Support prices of various agricultural commodities have increased considerably. However, the government still fixes the support prices of many agricultural commodities and prices are not determined by market forces. Support prices of major agricultural commodities are given in Table 2.7.

The deregulation policies of the government have greatly widened the scope of foreign investment in the country. Several measures have been taken to increase the flow of foreign private investment and foreign investors are now eligible for all monetary and fiscal concessions at par with local counterparts (on 100% equity basis), and they are permitted to select any area of investment of their own choice from the allowed list. Some of the areas are power generation, petrochemical, petroleum, gas, fertilizer, hi-tech industry, agro-based and export-oriented industries, etc.

Table 2.7 Support prices (Rs/100 kg) of major agricultural commodities.

F/Year (July-June)	Paddy Basmati	Paddy IRRI	Wheat	Seed Cotton	Sunflower Seed	Potato
1986/87	255	133	200	518	425	111
1987/88	325	138	205	518	425	111
1988/89	338	150	213	525	443	125
1989/90	358	165	240	563	513	138
1990/91	375	183	280	650	563	138
1991/92	388	195	310	725	625	163
1992/93	438	213	325	775	700	168
1993/94	463	225	400	813	788	193
1994/95	525	258	400	1,058	788	210
1995/96	555	280	433	1,058	788	210
1996/97	638	320	600	1,350	1,125	288

Source: Pakistan Economic Survey, 1996/97.

To improve the persistent negative trade balance, the government repeatedly devalued the Pakistani rupee. The value of the rupee has depreciated considerably during the last ten years. In a desperate bid to increase exports, the rupee was depreciated more than 25% from 1994/95 to 1996/97. However, it did not help much to increase exports and to reduce the trade balance. The policy of a managed floating system, which was started after freeing the Pakistan rupee from the US dollar in January 1982, is presently in operation. In this system, the US dollar is used as an intervening currency to determine exchange rates with a basket of other currencies. The Pakistan rupee has depreciated by around 80% against the US dollar since its de-linking from the dollar in 1982. The value of one unit of various foreign currencies in terms of rupee is given in Table 2.8.

Table 2.8 Pakistani rupee exchange rates.

F/Year (July-June)	US Dollar	UK Pound	Japan Yen	Germany Mark	France Franc	India Rupee
1986/87	17.18	26.21	0.11	8.92	2.70	1.34

1987/88	17.60	30.85	0.13	10.19	3.02	1.33
1988/89	19.21	32.91	0.15	10.36	3.05	1.26
1989/90	21.44	34.92	0.15	12.12	3.58	1.26
1990/91	22.42	41.58	0.16	14.12	4.18	1.28
1991/92	24.84	43.74	0.19	15.08	4.44	0.96
1992/93	25.96	42.03	0.22	16.57	4.89	0.94
1993/94	30.16	45.16	0.28	17.90	5.20	0.96
1994/95	30.85	48.69	0.33	20.68	5.96	0.98
1995/96	33.57	51.92	0.33	22.97	6.69	0.98
1996/97	38.53	62.05	0.33	24.69	7.29	1.08
Jan. 1998	44.30	72.25	0.35	24.23	7.24	1.17

Source: Pakistan Economic Survey, 1996/97, Government of Pakistan, Islamabad.
The Daily News, Islamabad, Jan 1998 Issues.

From 1984/85 to 1995/96, exports expanded consistently. Imports increased even faster and the trade gap was on the high side. Export earnings increased from US$ 2.96 billion in 1980/81 to US$ 8.71 billion in 1995/96. Import growth was relatively sluggish during the last half of the 1980s, averaging about 5%. However, imports have considerably increased since 1989 mainly due to (i) the surge in oil prices during the Gulf crisis, (ii) the quickening imports of industrial raw materials, and (iii) domestic deregulation and more liberal trade policies. From 1980/81 to 1995/96 the trade balance fluctuated from US$ -1.5 billion to US$ -3.4 billion. The balance of trade during the last 10 years or so came under pressure mainly due to increase in imports (mainly wheat and edible oil) compared to exports. The exports as a ratio of imports increased from 55% in 1980/81 to 79% in 1993/94 and again decreased to 74% in 1995/96. The exports, imports and trade balances are given in Table 2.9.

Table 2.9 Balance of trade (million US$) in Pakistan, 1981-1996.

F/Year (July-June)	Exports	Imports	Trade balance	Exports as % of imports
1980/81	2,958	5,409	-2,451	54.7
1981/82	2,464	5,622	-3,158	43.8
1982/83	2,694	5,357	-2,663	50.3
1983/84	2,768	5,685	-2,917	48.7
1984/85	2,491	5,906	-3,415	42.2
1985/86	3,070	5,634	-2,564	54.5
1986/87	3,686	5,380	-1,694	68.5
1987/88	4,455	6,391	-1,936	69.7
1988/89	4,661	7,034	-2,373	66.3
1989/90	4,954	6,935	-1,981	71.4
1990/91	6,131	7,619	-1,488	80.5
1991/92	6,904	9,252	-2,348	74.6
1992/93	6,813	9,941	-3,128	68.5
1993/94	6,803	8,564	-1,761	79.4
1994/95	8,137	10,394	-2,257	78.3
1995/96	8,707	11,805	-3,098	73.8

Source: Pakistan Economic Survey 1996/97, Government of Pakistan, Islamabad.

The Federal Minister of Commerce announced the trade policy for 1996/97 in July 1996 (Government of Pakistan 1997). The policy was outward-looking and a major step towards further liberalization of trade. The various measures aimed at doing away with restrictions and opening up trade in line with current international trends. Also it sought to meet the country's obligation towards globalization of merchandised trade under WTO. The policy endeavoured to simplify the previous complicated rules and procedures for boosting exports by giving incentives for the diversification of exports, commodity-wise as well as country-wise. The policy also focused on increasing the country's share in world trade and benefiting from regional groupings. In addition to policy measures for streamlining trade procedures, the government announced the following important trade policy measures:

- The export finance facility for 180 days has been extended for cotton textile goods, non-textile, export items, and minerals;
- The facility of duty-free import of machinery has been extended to industries including canning of foods (fish products), manufacturing of audio/video cassettes, software floppies, manufacturing of kitchen utensils, and other plastic products;
- Export of carpets as personal baggage has been allowed on production of proof of foreign currency exchange;
- To encourage deep water fishing facilities, the import of factory ships and fishing vessels for processing and preserving fishery products is allowed at an import duty of 10%;
- For raw cotton and cotton-based products, a standing committee has been set up to provide a pro-active cotton policy to ensure a common denominator of protection to the divergent interests of growers, ginners, exporters and manufacturers of textile goods;
- Procedures for import of pesticides and insecticides have been simplified and made more transparent;
- Special facilities were provided to enhance exports to neighbouring countries by air and sea;
- The use of child labour is to be discouraged; and
- In order to check any spread of viruses or other plant diseases, it has been decided that import of sugarcane seed and banana suckers will be subject to prior approval of the Department of Plant Production;

The trade policy for 1997/98 gives more emphasis on export growth by providing a number of incentives to the exporters of traditional and non-traditional goods (The News International, July 17, 1997). It has been realized that the decline in exports in previous years is mainly due to a shortfall in production. The new trade policy contributed a good number of new export incentives, meaningful tariff reductions for raw material and intermediates for export production and procedural adjustments to reduce bureaucracy that hampers exports and impinges on the time of exporters that should better be devoted to production. The trade regime has been further liberalized by reducing tariff rates from the existing 65% to 45% to speed up economic recovery through export-led growth.

There are three plans on which the edifice of the new trade policy has been raised and can be described as: (i) the competitive edge of exportables should be improved, (ii) export of value-added goods should be encouraged, and (iii) trade facilitation services may be provided to the maximum extent, especially with reference to manufactured exports. These will be mainly provided by the Export Promotion Bureau (EPB). In this respect, export facilities shall be provided by streamlining procedures in custom houses, ports and shipping, railways and commercial banks. The functioning of the EPB will be radically improved by sharpening its market intelligence role and strengthening its ability to support supply responses of exporting firms.

2.2 New investment policy for 1997

To improve the economic situation in the country, the present government has also announced a comprehensive investment policy for the country to attract investment and to provide an investment-friendly atmosphere for businessmen from within and outside the country (The News International, November 21, 1997). This policy opens major new sectors of business activity to foreign investment. The details of opportunities for these sectors are:

- Services/infrastructure:
  - wholesale, distribution and retail trade;
  - transportation including storage and communications, infrastructure projects including development of industrial zones;
  - real estate development, supermarkets/shopping malls, urban development, etc;
  - technical testing facilities;
  - audio-visual services;
  - sporting and other recreation services;
  - rental/leasing services relating to other transport equipment and machinery;
  - equipment and tools for land development and agriculture purpose; and
  - environment services.
- Social sectors:
  - education; and
  - technical/vocational human resource development as well as hospital and medical/diagnostic services.
- Agriculture:
  - land development/reclamation of barren, desert and hilly land for agricultural purposes and crop farming;
  - reclamation of waterfront areas/creeks, crops, fruits, vegetables, flower farming, integrated agriculture;
  - modernization and development of irrigation facilities/water management; and
  - plantation/forestry and horticulture.

The following conditions have to be met for foreign investment in the above sectors:

- Investment can only be made through the medium of a company which is registered both under the Companies Ordinance 1984 and with the Board of Investment.
- Foreign equity investment has to be a minimum of one million US dollars.
- 40% of the equity in the company/project must be provided by a Pakistani company/investor.
- For investment in the agriculture sector, approval of the Board of Investment, provincial and federal government will also be required. There is provision for granting of land on long lease of 30 years extendible for another 20 years implying that the land need not be purchased. However, the transfer of such land will not be allowed without the permission of federal and provincial government.

In the policy, the manufacturing sector has been divided in to four categories:

- value-added or export industries including firms/units which export at least 80% of their production. Industries where there is value addition of at least 40% of the production will be categorized as value-added industries.
- high tech industries;
- priority industries; and
- agro-based industries.

A package of incentives was also announced for the industries in the above four categories. For the first two categories, the import tariff will be 0% on import of plant and machinery (not locally manufactured). For the remaining two groups of industries, 50% of the duties will be deferred for the following three years. A number of other incentives were also announced to encourage foreign and local investors.

An overriding concession for all investment under the new policy package is that no question will be asked regarding the source of investment. A whole range of facilitation measures are proposed for the benefit and convenience of potential investors. These will be in matters relating to industrial zones, immigration, visa, citizenship, labour laws, unionism, hiring and firing of labour, consolidation of various provincial and local taxes, 50% reduction in land title transfer fee, import valuation process, liaison offices of foreign firms and infrastructure development.

The government estimates foreign investment of around US$ 5 billion up to the year 2000 under the new investment policy. To meet this target, the government is focusing on investment from countries such as USA, UK, Japan, Western Europe, Turkey, the Middle East, Kuwait, Saudi Arabia, China, South Korea, and Singapore. All these countries are interested in manufacturing, petro-chemical, infrastructure and communication sectors.

2.3 Fiscal system of Pakistan

Fiscal policy, which refers to the government's programs for public spending and its resource mobilization strategy for meeting these expenditures, remains a crucial instrument of state policy in Pakistan. The three main instruments of fiscal policy are taxation, borrowing from the public and credit creation. These instruments are related with the internal economy and greatly influence production and income distribution in the country.

In Pakistan, the large budgetary deficit is currently a very serious economic issue. The consolidated fiscal deficit during 1980/81 to 1991/92 was around 7.2% of GDP per annum. It increased to 7.5% of GDP during 1992-94, and declined to 6.1% annually during 1994-96, while during 1996/97 it was 6.2% of GDP annually. The persistent huge deficit has caused debt servicing to grow considerably. Debt servicing, including repayment of foreign loans, has emerged as one of the largest items in the federal government's budgetary expenditure in recent years. The budgetary deficit is generally met through external borrowing, domestic non-bank borrowing, and borrowing from the banking system. In 1995/96, the share of external borrowing was 19.6%, domestic banking 37.9%, and non-bank 42.5% borrowing, which is the main source of domestic borrowing, and kept on raising the level of internal debt as well as interest liability. Pakistan's total debt which was only Rs 525.1 billion in 1991/92 increased to Rs 1000 billion in 1996/97. As a percentage of GDP, domestic debt slightly declined from 43.3% in 1991/92 to 39.89% in 1996/97, while interest on domestic debt increased from 4.2% of GDP in 1991/92 to 4.5% of GDP in 1996/97.

The taxes are both federal and provincial in nature, and direct and indirect taxes are collected by the government. Federal direct taxes comprise personal and corporate income tax and capital taxes (wealth tax and capital value tax). Indirect taxes include custom duties, sales tax and central excise duty. Over time, the tax system in Pakistan has undergone major changes, both in policy and methods of collection (Government of Pakistan, various issues). To promote the process of industrialisation, savings, export, welfare and charities and other key economic activities, previous governments had introduced various measures, such as tax exemption, investment and tax-credits, tax rebates, accelerated depreciation of assets, lower tax rates, higher exemption limits, tax holidays, etc. The government has taken many steps to broaden the tax base, and eliminated a number of exemptions in import duties and sales tax. Also the scope of the central excise duty has been expanded.

The contribution of the tax system of Pakistan in GDP is not much. The ratio of direct taxes to GDP, total tax revenue, and total domestic revenue is given in Table 2.10. It is very clear that direct taxes do not play an important role in the fiscal policy in the country. From1986 to 1996, direct taxes were only 2.2 to 3.67% of GDP. Similarly, the ratio of direct taxes to total tax revenue is also not much. However, it improved from only 14% in 1985/86 to 26% in 1995/96. It is expected that with widening the tax base, the share of direct taxes in total revenue will considerably improve. The ratio of direct taxes to total domestic revenue also improved from only 11% in 1985/86 to around 22% in 1995/96. From these figures, it can be concluded that Pakistan's fiscal policy is more dependent on indirect taxes. From 1989/90 to 1995/96, direct tax revenue receipts (income and corporate taxes and taxes on property) increased from Rs 15,741 million to Rs 79,768 million. During the same period, indirect tax receipts (excise duty, sales tax, tax on international trade, surcharges, and other taxes) improved from Rs 103,694 million to Rs 225,568 million. It is observed that the tax base is still narrow and composed of a small number of corporate tax-payers including mainly corporations (more than 80%), registered firms, and individuals, etc. The major sector contributing direct taxes was the manufacturing sector, followed by wholesale and retail trade, financial institutions and business services. The small share of direct taxes in total revenue from taxes shows that major tax reforms are required to bring revolutionary changes in the economy of Pakistan. In this regard, the present government has tried to restructure the existing taxation system in the country. The major philosophy behind restructuring is to reduce tax rates and broaden the tax base to the hitherto untaxed or under-taxed sectors. The idea is that reduction in tax rate will not only stimulate production and investment but will also promote voluntary compliance on the part of tax-payers and reduce tax evasion and corruption. Broadening of the tax base will contribute to a fairer distribution of the tax burden in society. Many tariffs and sales and income tax rates have been reduced significantly.

Table 2.10 Percent of direct taxes in GDP, total tax revenue and total domestic revenue.

F/Year (July to June)	GDP (current prices)	% of Direct Taxes in GDP (Rs billion)	% of Direct Taxes in Total Tax Revenue	% of Direct Taxes in Total Domestic Revenue
1985/86	514,53	2.00	14.18	11.42
1990/91	1,020.60	2.03	16.02	12.67
1991/92	1,211.38	2.46	18.14	13.76
1992/93	1,341.63	2.82	21.19	15.78
1993/94	1,572.76	2.84	21.39	16.47
1994/95	1,882.07	3.36	24.49	19.86
1995/96	2,171.26	3.67	26.13	21.64

Source: Pakistan Economic Survey, 1996/97, Islamabad.

More than 80% of total tax revenue is comprised of indirect taxes. Similarly the share of indirect taxes is more than 60% per annum of total domestic revenues. However, there was little decrease in the share of indirect tax in GDP and in total tax revenue, and total revenue (Table 2.11). The share of international trade taxes in total indirect is the highest, followed by excise duty, sales tax surcharges and provincial taxes (Table 2.12). Tax from international trade was the main source of government revenue through indirect taxes. The share of import duties (more than 90%) was far more than that of export duties. The ratio of provincial indirect taxes to total indirect tax was around 4%. These taxes were locally collected and expended on both developmental and current expenditures under the jurisdiction of local councils. These taxes include stamp duties, motor vehicles and others, such as town committee tax, district council taxes on goods and municipal corporation taxes of different kinds.

Tax revenues constitute around 83% of the total revenue and the rest (17%) non-tax revenues. The main components of non-tax revenues are interest, dividends and receipts from civil administration, and these are around 3% of GDP.

Table 2.11 Percent of indirect taxes in GDP, total tax revenue, and total domestic revenue.

F/Year (July to June)	% of Indirect Taxes in GDP	% of Indirect Taxes in Total Tax Revenue	% of Indirect Taxes in Total Domestic Revenue
1985/86	12.08	85.82	69.16
1990/91	10.67	83.99	66.44
1991/92	11.10	81.86	62.11
1992/93	10.48	78.81	58.69
1993/94	10.42	78.61	60.51
1994/95	10.35	75.52	61.26
1995/96	10.39	73.88	61.18

Source: Pakistan Economic Survey, 1996/97, Islamabad.

2.4 Monetary policies

Pakistan's monetary policy refers to the measures which the State Bank of Pakistan takes in controlling the money and credit supply to bring about the desired changes in the economy. Since its establishment in 1948, the State Bank of Pakistan has regulated money and credit to achieve rapid economic growth, price stability, new job opportunities, and a balance of payments in the country. During the first ten years after independence in 1947, the government followed a policy of increasing money supply mainly due to an expansion in the financial operations in the country on which the State Bank had only limited control.

Table 2.12 Share of different kinds of indirect taxes (IT).

F/Year (July to June)	% of Excise Duty in IT	% of Sales Tax in IT	% of Taxes on International Trade in ID	% of Surcharges in IT	% of Provincial Taxes in ID	Total
1985/86	25.12	80	47.20	15.03	4.72	100
1990/91	22.98	15.53	46.41	11.29	3.79	100
1991/92	22.83	15.46	45.96	11.01	4.74	100
1992/93	25.33	16.79	44.97	8.69	4.22	100
1993/94	21.40	18.54	39.21	16.17	4.68	100
1994/95	22.81	22.37	39.87	10.63	4.32	100
1995/96	23.01	22.11	39.42	11.03	4.43	100

Source: Pakistan Economic Survey, 1996/97, Islamabad, Pakistan.

During the 1960s, the government granted liberal concessions to the private sector to establish industries. There was an increase in the money supply in the country in accordance with the extent of absorption of the economy. From 1955 to 1965, the money supply increased from Rs 1,956.9 to Rs 2,804.4 million, and bank credit in the private and public sectors increased from Rs 1,617.4 million to Rs 4,770.3 million. The Export Bonus Scheme was introduced in 1959 mainly to improve exports and the worsening balance of payment situation (Government of Pakistan, various issues). In 1962, the Export Credit Guarantee Scheme was developed to protect exporters' risks against the commercial and political situation. One year later, the State Bank increased the cash reserve requirements of scheduled banks' time liabilities from 2 to 5% and then to 7.1% in 1965. These measures were adopted to check an undue expansion of credit in the country. In 1967, the liquidity ratio of commercial banks was increased from 20 to 25%. These monetary policy measures during the 1960s gave good results and the economy showed a satisfactory increase in the rate of growth, price stability and employment. There were considerable changes in the monetary policy during 1972-80, which include devaluation of the currency, elimination of the Export Bonus Scheme, increased interest rate from 5 to 10%, considerably increased monetary assets, etc. (Government of Pakistan, various issues).

The government imposed these policies to improve the economy but was unable to achieve the desired results. There was a drastic increase in the prices of almost all commodities, the production and employment situation deteriorated, the balance of payment got further disturbed, production subsidies doubled, and many major manufacturing industries, banks, insurance, shipping and educational institutions were nationalised. The public sector played a major role in the economic growth compared to previous years. All these measures taken by the government created inefficiency in many sectors of the economy and government expenditure was significantly increased (Chaudhry 1995).

During the 1980s, the rate of growth of monetary expansion became more restrained. The rupee was de-linked from the US dollar, and a floating exchange rate system was introduced in 1982. The process of deregulation, privatisation of government-owned assets, and liberalisation of markets, institutions and manufacturing industries had started. The growth rate of the economy of Pakistan showed signs of improvement. During the 1990s, monetary policy underwent rapid changes in Pakistan and mainly moved towards being market-oriented (Government of Pakistan, various issues).

The market-oriented monetary and credit policies of the early 1990s were further geared to planned growth, anticipated inflation and expected changes in net foreign assets of the banking system in 1995/96 and 1996/97. Under the financial sector reform programme of the government, the State Bank of Pakistan was given full authority to conduct the monetary policy of the country. The main features of the monetary policy are noted below:

- The State Bank of Pakistan (SBP) followed a tighter monetary policy, and the monetary expansion was 14% compared to 16.6% in 1994/95. Money supply and percentage change are given in Table 2.13. Similarly, credit expansion was also restricted to 8.4% compared to 9.8% in 1994/95.
- To continue the process of financial liberalization, the Credit Deposit Ratio (CDR) was abolished in September 1995. It was decided that the SBP would monitor the bank-wise position of overall credit expansion on a weekly basis.
- The SBP increased the rate charged on financial accommodations to meet the temporary liquidity shortages of the banks. The rate was increased from 15.5% to 17%.
- The SBP advised all commercial banks to keep special deposits with SBP equal to 3.5% of their total demand and time liabilities (excluding foreign currency deposits). These special deposits would carry a rate of return of 9.2%. In addition to the special deposit, the SBP also required a 5% statutory cash reserve.
- Under the prescribed prudent regulations, the banks and financial institutions were required to follow prescribed limits regarding exposure, debt/equity ratio, etc.
- The Monetary and Fiscal Policies Co-ordination Board was set up in 1994. The purpose of this Board was to review the progress of various macro-economic targets achieved during the financial year as well as government expenditure, incurred loans and government borrowing.
- The export finance scheme was enhanced from 150 days to 180 on hand-knotted carpets, garments made of cotton, leather manufacturing and electronic goods.
- A new Credit Plan was introduced to promote self employment activities and development of human resources especially those engaged in the financial sector. The National Self Employment Scheme (NSES) was also introduced. To improve crop productivity and income, disbursement of loans under a mandatory credit scheme to small farmers was also introduced.

Table 2.13 Money supply in Pakistan.

Year (July to June)	Money Supply (Rs million)	Change (%)	Monetary Assets (Rs million)	Change (%)
1980/81	75.56	18.7	104.62	13.2
1985/86	134.83	13.3	211.11	14.8
1986/87	159.63	18.4	240.02	13.7
1987/88	184.97	15.9	269.34	12.2
1988/89	204.53	10.5	281.64	4.6
1989/90	236.98	16.0	317.22	12.6
1990/91	261.33	10.3	368.78	16.3
1991/92	300.28	14.9	480.54	30.3
1992/93	326.21	8.9	567.17	18.0
1993/94	357.45	9.6	662.81	16.9
1994/95	421.73	17.98	773.00	16.6
1995/96	446.47	5.9	888.24	14.9

Source: Pakistan Economic Survey, 1996/97, Islamabad, Pakistan.

2.5 Privatization programme

Basically, Pakistan was a free market economy until 1969/70. However, during the 1970s, the government followed a policy of supremacy of the state, and a large-scale programme of nationalization of key industrial units and financial institutions was launched. The government took control of domestic markets, imports and exports were instituted, and trade in agriculture inputs and commodities at pre-specified prices was handed over to public sector institutions, such as RECP, CECP, etc. The large-scale nationalization was not very successful in reviving the economy, and resulted in growing inefficiencies of SOEs (Chaudhry 1995). Also, excessive control of the private sector resulted in curtailment of private investment, and the country was forced to depend mostly on foreign loans. It was realised in the 1980s that SOEs were inefficient and the process of denationalization and deregulation was started. For this purpose, the government set up a Privatization Commission on January 12, 1991, which tried to make the privatization process more attractive and rewarding for potential investors, and enhanced the role of the private sector as the engine of growth, employment and income. The agenda of privatisation covers a wide range of institutions such as industries, banks, development finance institutions, telecommunications, power generation, highways, construction of roads, shipping, airlines, post operations and cargo handling, etc. Until 1996, around 85 SOEs in the industrial sector had been privatised , and 33 others were available for privatisation including non-industrial units. The industry-wise position of privatization is given in Table 2.14. In the financial sector, three commercial banks including Muslim Commercial Bank, Allied Bank and Women's Bank have been privatised and the rest, Habib Bank and United Bank, are yet to be privatised. Privatisation of many other prestigious government owned organizations is under process. It is expected that this process will further enhance private investment in the country. The government has also allowed foreign investors to purchase divested public assets along with their local counterparts. In addition to privatization of many SOEs, the government has allowed the private sector to export/import many agricultural traded goods including rice, cotton, fruits and vegetables, inputs, etc.

Table 2.14 Industry-wise position of privatisation of SOEs up to 1997.

Unit	No. Identified for Privatisation	No. Privatised	No. Under Privatisation
Automobile	11	7	4
Cement	15	11	4
Chemicals	14	12	2
Fertiliser	7	1	6
Engineering	12	10	2
Ghee (edible oil)	25	16	9
Roti (bread) plants	14	12	2
Rice mills	8	8	0
Miscellaneous	12	8	4
Total	118	85	33

Source: Government of Pakistan 1997.

3. Trade-Related Physical Infrastructure

A well-developed transport network is a basic requirement for the economic development of a country like Pakistan. The transport system in the country has not grown according to the needs of the expanding economy and population. It is argued that trade liberalization would lead to increasing commercialization of the agricultural economy in developing countries like Pakistan. This would include growing agro-based processing industries, production of new emerging products, changing from traditional to commercial farming, increasing the volume of exportable surplus, etc. To take full advantage of these emerging opportunities from trade liberalization, a well-developed institutional and physical infrastructure is a prerequisite. However, in the presence of an existing poor physical and institutional infrastructure, the country may not be able to fully benefit from trade liberalization. Thus, to compete in the international market, the country requires a well-developed infrastructure for efficient transportation of goods, handling, packaging and processing technology and information, disseminating network, etc. Therefore, to maximize the positive impacts of trade liberalization and minimize its negative impacts (e.g. increasing imports), if any, the country would require a well-built institutional and physical infrastructure.

This chapter explains developments in the transport system in the country. The major components of the transport system include roads, railway, air transport, and ports and shipping services.

3.1 Road network

The road network, in terms of length and various types of roads, has made remarkable progress. The progress in the development of roads from 1947/48 to 1995/96 is given in Table 3.1. The total length of all types of roads in Pakistan was 217,853 km in 1995/96. More than half of the total length of roads is the high quality type. Progress in the case of high quality type of roads has been very pronounced. The length of this type of road has increased from only 8,130 km in 1947/48 to 117,356 km in 1995/96. Development work in the construction of all types of roads was more pronounced during 1980s. The highest traffic density is on the Grand Trunk Road (GT Road/N-5) running from Peshawar in the north to Karachi (port) in the south, and the Super Highway from Karachi to Hyderabad.

In addition to construction of new roads, emphasis has also been given to the upgrading of existing roads, construction and improvement of bridges, national highways, secondary and feeder roads, roads for the northern areas, etc. Despite the fact that the length of all types of roads has increased many-fold, the road network is still very limited for the growing needs of the country. On average, there were only 14.7 km of high quality type roads and 12.6 km of low quality type roads for every 100 square km of total area in the country in 1997. Also, only a limited number of villages were connected with main roads and wholesale markets, which was a major factor in the poor growth of the agriculture sector.

Pakistan's road system bears over 80% of the country's total passenger and freight traffic and the rest is shared by railway, air and other modes of transportation. Most of the major industries are installed around the Grand Trunk (GT) Road, the only north-south link running from Karachi (port and the major industrial city) to Peshawar in the south. More than 50% of total traffic runs on the GT road. In the past, a few other road construction projects were started, but never completed. For example, in 1974, the Indus Highway Project (IHP) was launched to develop another link road between Karachi and Peshawar, but it was not completed.

Table 3.1 Statistics on different types of roads in Pakistan.

F/Year	High Quality Roads* (km)	High Quality Roads* (%)	Low Quality Roads** (km)	Low Quality Roads** (%)	Total (km)
1947/48	8,130	37	14,108	63	22,238
1954/55	12,840	42	17,895	58	30,735
1959/60	14,114	56	16,740	54	30,854
1964/65	20,220	28	51,019	72	71,239
1969/70	24,253	34	47,900	66	72,153
1974/75	28,222	36	50,408	64	78,630
1979/80	35,890	38	58,283	62	94,173
1983/84	48,325	43	63,591	57	111,916
1988/89	74,355	49	77,094	51	151,449
1990/91	86,839	51	83,984	49	170,823
1991/92	96,509	53	87,335	47	183,844
1992/93	100,268	53	90,238	47	190,506
1993/94	104,007	53	92,816	47	196,823
1994/95	110,462	53	96,239	47	206,701
1995/96	117,356	54	100,497	46	217,853

Source: Pakistan Economic Survey 1996/97.

* Highways, inter-city double roads, and the roads that get regular maintenance from NHA.

** The rural all weather roads are generally called low quality roads.

The National Highway Authority (NHA) was established under the National Highway Authority Act 1991 to plan, promote, organise and implement programmes for construction, development, operation, repair and maintenance of national highways and strategic roads. The NHA has started many new projects in the country, such as widening the GT road, Indus Highway, by-pass roads, many bridges, etc. Keeping in view future needs, NHA has also offered many projects to the private sector for construction of a modern highway communication system in the country. To start with, M/S Daewoo, a private South Korean firm, has recently launched the first phase of the gigantic Pakistan Motorway Project, and completed the six lane Lahore-Islamabad Motorway (339 km) in November 1997. Islamabad-Peshawar is the second phase of this project, and NHA has awarded the contract to a private Turkish company. The ground-breaking ceremony of this project was performed on December 19, 1997 (The News International, December 20, 1997). By launching such projects, the government plans to provide a country-wide link of controlled access, high speed modern highways to bring most parts of the country together and this could result in economic growth, commercial activity and trade with neighbouring countries. To achieve this goal, the contracts for the two north-south links for expansion of the GT Road and the Indus Highway have already been awarded. These main highway projects between the north and the south of the country will link Karachi, Gawadar and other ports to different parts of the country, and beyond to the central Asian states. These ports present great potential for Pakistani business houses to benefit from the transit traffic to central Asian states (CAS). Due to their close proximity to the five CAS, Pakistani ports offer a better and more economical option than the Iranian Bander Abbas port. The Karachi route has an advantage for Kazakhstan, Kyrgyzstan and Uzbekistan as it is shorter by 1,000 to 1,600 km than the link to Bander Abbas port through both the Afghanistan and Karakoram road. Presently Iran enjoys an edge as far as the Turkmenistan-Tajikstan traffic is concerned.

The five central Asian republics are surrounded by the Russian Federation in the north, China in the east and Afghanistan, Pakistan and Iran in the south. The whole of this sub-region is landlocked and has no direct access to sea. Since independence in the 1990s, these republics have been seeking trade links with the Gulf-Middle East and Southeast Pacific countries. Pakistan had already committed two of the five landlocked central Asian states to use the Karakoram route to Karachi port through China. It links Kazakhstan, Kyrgystan and China to the Karachi port. Pakistan ratified a quadripartite agreement for "Traffic in Transit" after deliberations and exploratory visits during the last three years. Karachi's closeness with these central Asian states has encouraged many countries to establish various types of industries in Karachi. However, the shorter route for all the five republics is through Afghanistan.

In 1997, the government invited expressions of interest for other projects in the motorway programme, such as establishing industrial zones along the motorway. The completion of the motorway project from north to south in the country and its adjoining industrial zones is expected to give a great boost to Pakistan's industry. Therefore, it is expected that the planned system of modern roads in Pakistan will enable the country to step into the 21st century equipped with a first rate system of communication. This modern system will be able to meet the increasing needs of industry, trade and agriculture. Also it will accelerate the pace of economic development in the country and will help in the generation of new job opportunities and finally economic prosperity in the country.

A National Logistic Cell (NLC) was established in 1978 for speedy clearance and transportation of essential goods to and from the Karachi Port. NLC expedites the delivery of essential commodities, such as wheat, edible oil, petroleum products, etc., to up-country markets to control the shortage of these commodities in the country.

3.2 Railways

The railway in Pakistan is a multi-gauge system that operates on three gauges, i.e. broad gauge, meter gauge and narrow gauge. Due to uneconomic factors, narrow gauge sections have been closed. The Pakistan railway network comprised 8,775 route km (broad gauge 7,718 km, meter gauge 446 km, and narrow gauge 611 km) and 781 stations in 1995/96 (Government of Pakistan 1997). Presently its major assets comprise 631 locomotives, 2,130 passenger coaches and 26,683 freight wagons. The details of route km, locomotives, and number of freight wagons from 1947/48 to 1995/96 are given in Table 3.2. During the last 50 years, the increase in length of the railway track and the number of freight wagons has been slight. The number of locomotives has slightly decreased during the same period. In the past, Pakistan Railways did not emphasize extending the railway facilities to those parts of the country which were not previously served by the railway, rather more emphasis was given to rehabilitation and replacement of old rolling stock and better utilization of the available capacity. Shortage of resources has been the major factor in the development of this sector in the country. A major part of the railway track still needs replacement and a considerable proportion of the rolling stock is old on many sections in the country, and this badly affects the speed and carrying capacity of trains. The inefficiency and inability of the railways to meet the increasing needs for movement of goods is in many cases an obstacle to the full utilisation of the productive capacity in agriculture and industry in the country. It also results in greater use of road transport, although railway transport is more economical compared to road transport in terms of fuel consumption.

The condition of most of the assets of Pakistan Railways is not satisfactory as almost 60% of rails, 54% of sleepers, 60% of diesel locomotives and 100% of steam and electric locomotives are old and need to be replaced (Government of Pakistan 1997). Therefore, major emphasis may be given to the rehabilitation of the old assets and modernization of the system. To achieve this objective, in 1997, an open access policy was adopted by the government to allow the private sector to invest in railway and operate freight and passenger trains using rail track access by paying charges to Pakistan Railways. In addition, it is planned that the private sector will be involved in ticketing of selected inter-city routes, parcel services, washing and cleaning of passenger coaches, janitorial services on major stations, etc.

Table 3.2 Railway track and rolling stock in Pakistan.

F/Year (July to June)	Route (km)	Locomotives (no.)	Freight Wagons (no.)
1947/48	8,554	821	23,815
1948/49	8,554	821	23,815
1953/54	8,554	882	23,391
1958/59	8,580	851	25,798
1963/64	8,570	1,011	33,127
1968/69	8,664	1,045	37,252
1973/74	8,811	992	37,339
1978/79	8,815	979	36,276
1983/84	8,775	943	35,782
1988/89	8,775	773	36,249
1990/91	8,775	753	34,851
1991/92	8,775	752	30,369
1992/93	8,775	703	29,451
1993/94	8,775	676	29,228
1994/95	8,775	678	30,117
1995/96	8,775	622	26,755

Source: Pakistan Economic Survey, 1996/97, Islamabad, Pakistan.

3.3 Air transport

At the time of independence in August, 1947, there was only one major airport, i.e. Karachi, and no airline was based in Pakistan. Most of the air transport services were developed in 1955, and Pakistan International Airlines Corporation (PIA) was established as a semi-autonomous public corporation. The Civil Aviation Department of the Government of Pakistan built a number of airports in the country and further developed the already existing airports. PIA made very rapid progress in the development of domestic and international air services.

Table 3.3 Type of aircraft in PIA's fleet.

Type of Aircraft	1980	1996
Boeing -747	4	8
DC-10-30	4	-
Air Bus A300-B4	-	8+1*
Air Bus A310	3	6
Boeing 707	6	2
Boeing 720-B	6	-
Boeing 737	-	6+1*
Fokker F-27	9	13
Others	-	2
Total	32	47

* On Lease

Up to December 1997, PIA's network covered 55 international and 35 domestic stations. It had 9 weekly services to the UK, 7 weekly services to New York, 2 services to Toronto, extended two weekly New York flights to Chicago and extended two weekly New York flights to Washington DC. On the European routes, PIA provides terminator services to Copenhagen, Istanbul, Paris and Zurich. The airline network in the Far East covers Bangkok, Beijing, Tokyo, Singapore, Jakarta, Kuala Lumpur. PIA operates many fights to the Middle East including Jeddah, Riyadh, Dhahran, and various points in the Gulf states. Also the airline operates many flights to Bombay, Delhi, Dhaka, Katmandu and Rangoon. In addition to international routes, PIA has extended its flights to many small towns all over the country.

The PIA fleet in 1980 and 1996 is shown in Table 3.3. The number of aircraft increased from 32 in 1980 to 47 in 1996. Also PIA embarked upon fleet modernization and took many improvement measures in the services sector including the flight service area, airport service, reservations, aircraft appearance and cargo facilities at various airports.

It was observed in various papers that many of the services of PIA were inefficient and the quality had greatly deteriorated over time. PIA faced huge financial losses mainly because of a phenomenal increase in staff and unproductive policies. To improve PIA and make it profitable, structural changes in its organization are required.

3.4 Ports and shipping services

Pakistan's large coastline (over 450 miles) and good harbours are ideal for sea-borne trade and commerce, which is presently carried out mostly by foreign ships. Around 97% of Pakistan's trade is sea-borne mainly due to lack of required infrastructure for trade across land borders with India, Iran and Afghanistan. Karachi seaport and Qasim seaport are the two main ports in Pakistan. Also Gawader fish harbour-cum-mini port has been substantially completed by December 1997. Another port named Kati Bunder has been planned as a fish-harbour-cum-mini port.

Table 3.4 Cargo handled at Karachi Port ('000 tons).

F/Year (July to June)	Imports	Exports	Total
1960/61	3,973.6	1,085.1	354.0
1965/66	5,267.0	1,099.0	7,166.0
1970/71	6,380.0	3,208.0	9,588.0
1975/76	7,690.0	2,393.0	10,083.0
1980/81	11,037.0	3,617.0	14,654.0
1985/86	12,510.0	3,309.0	15,819.0
1990/91	14,714.0	3,996.0	18,710.0
1991/92	15,266.0	5,186.0	20,452.0
1992/93	17,255.0	4,914.0	22,170.0
1993/94	17,610.0	4,959.0	22,569.0
1994/95	17,526.0	5,572.0	23,098.0
1995/96	18,719.0	4,862.0	23,581.0

Source: Statistical Year Book of Pakistan (various issues), Islamabad, Pakistan.

At the time of independence in 1947, Pakistan had only one port, Karachi. It had only 17 berths up to 1997, and these were more than 60 years old. The facilities at this port have been considerably expanded and improved, and the port is able to handle an increasing volume of cargo (Table 3.4). Karachi port handled only 3.6 million tons in 1947/48, but the port established an annual cargo handling record of over 23.6 million tons of cargo in 1995/96. This target was achieved with nearly zero waiting time of vessels at Karachi Port. The management of this port has invited private sector participation on various projects which include an integrated container terminal, real estate development and management, specialized cargo handling, operation and management of berths 22-24 at West Wharves on BOT basis, recreational facilities for the public in the port area, terminal for bulk fertilizer handling, specialized cargo handling equipment, Manora workshop and dry dock complex, and development of the western back water and desalination plant. The implementation of these projects, and further improvement of cargo and ship handling operations will make Karachi Port more efficient to handle the increasing shipping and cargo handling traffic at this port.

Port Qasim Authority was established in 1973. The major objective of this Authority was to plan, design, develop, operate, manage and maintain the second seaport in the country. The first berth at this port was established during 1980, and seven multipurpose berths with requisite supporting infrastructure and back-up facilities became operational in 1983. A bulk oil terminal was added in 1995 to handle imports of furnace oil. Another two-berth container terminal was developed for gearless cellular container vessels and a chemical jetty for handling and storage of chemicals/products during 1997. PQA has involved the private sector for extending and improving the port facilities and operation as well as investment in industries and commercial activities in PQA industrial zones. From 1980 to 1996, Port Qasim has handled a cargo volume of 84 million tons carried by 3,470 vessels (Government of Pakistan, various issues).

Pakistan had only four ships of 27,347 dead-weight tons in 1947. Keeping in view the fast growing needs of the country in this sector, the shipping industry was encouraged to increase tonnage and coastal trade. The National Shipping Corporation (NSC) was established as a semi-autonomous body in 1963. The major objective of the NSC was to stimulate the shipping industry through healthy competition and to have adequate tonnage to provide safe and efficient shipping services on international and inter-wing routes. Up to 1970, NSC was handling the whole national inter-wing trade and 14% of the sea-borne foreign trade. The shipping industry was nationalized in January 1974, and all the private shipping companies were taken over by the government and their management was given to Pakistan Shipping Corporation. In 1979, PSC and NSC were merged into a single corporation, Pakistan National Shipping Corporation (PNSC). The progress made by the shipping industry from 1947 to 1995/96 is shown in Table 3.5. Presently PNSC is handling the bulk shipment of imports and exports. The transportation of goods by the Corporation is carried out by its own vessels and chartered vessels. The PNSC owned 17 vessels with a dead-weight tonnage of 290.35 million tons in 1995/96. In the private sector, Tristar Shipping Lines Ltd., is operating with 6 cargo ships with capacity of 310 thousand dead-weight tons.

Table 3.5 Number of vessels and dead-weight tonnage.

F/Year July-June	Vessels (number)	Dead Weight ('000 tons)
1947/48	4	27.35
1954/55	29	195.27
1960/61	41	354.00
1965/66	53	516.14
1970/71	71	749.05
1975/76	53	631.34
1980/81	50	645.45
1985/86	33	559.30
1990/91	28	495.00
1991/92	28	495.00
1992/93	29	519.00
1993/94	27	595.84
1994/95	15	264.41
1995/96	17	290.35

Source: Statistical Year Book of Pakistan (various issues), Islamabad, Pakistan.

4. Trade-Related Institutions in the Public Sector

This section explains the role of various major government institutions related to agricultural trade in Pakistan. These institutions are mainly involved in the promotion of trade with other countries. Pakistan is one of the major exporters of rice and cotton in the world. Export of these two agricultural commodities was fully under the control of the government in the past. Rice was exported by the Rice Export Corporation of Pakistan and cotton by the Cotton Export Corporation of Pakistan. On the other hand, wheat is a major import food commodity, and Pakistan spends a considerable amount of foreign exchange on its import. The private sector was not allowed to export and import wheat, and its trade was fully controlled by the Federal Ministry of Food and Agriculture. The Trading Corporation of Pakistan, another institution involved in external trade, was also involved in the import of essential commodities like sugar and pulses.

4.1 Export Promotion Bureau

The Export Promotion Bureau (EPB) is a government agency under the Ministry of Commerce, Government of Pakistan. Its major objective is to promote and support sustained growth in the export of goods and services in terms of volume and value. The Bureau has its head office in Karachi and branches in almost all cities all over Pakistan. All potential exporters of all commodities are required to register their firms or companies as exporters with the offices of EPB or with any of its regional/sub-regional offices under the Importers and Exporters Registration Order 1993. Only registered exporters are eligible to fully benefit from services provided by the EPB. Exporters are also required to be members of Chambers of Commerce and Industry or any of the relevant trade associations in their area. The EPB activities to promote export of both traditional and non-traditional products including agricultural commodities from Pakistan include the following:

- help exporters of various commodities to establish contact with prospective buyers abroad;
- explore possibilities for export markets and identify items possessing export potential;
- regularly publish specialised publications featuring export opportunities;
- conduct product/market surveys abroad and provide up to date intelligence to registered exporters and Chambers of Commerce and Industry;
- act as a dynamic vehicle and a trusted link between Pakistani exporters of all products and foreign buyers;
- identify suitable suppliers in Pakistan able to cater for goods and services according to buyers' needs;
- organize seminars/conferences and training programmes for motivating people to export and apprise them of ways and means of going about export business;
- help in enhancing the skills and knowledge of established exporters in marketing and promotion for exporters;
- formulate recommendations for new export policies to the Ministry of Commerce;
- organize/render assistance in organizing exhibitions and fairs of exportable agricultural commodities at home and abroad and assist participation of exporters in such trade displays;

- arrange visits of oversees buyers, exploratory missions, and delegations to Pakistani export markets of various commodities;
- help in resolving trade disputes and operational constraints; and
- co-ordinate with other organizations such as customs, PIA, PNSC, financial institutions, insurance corporations, etc. to resolve operational problems and facilitate exports.

4.2 Pakistan Standards Institute

The Pakistan Standards Institute (PSI), which is the national standards body of Pakistan, was set up in 1951 as a government department attached to the Ministry of Industries. This status was changed to an autonomous organization after its registration under the Societies Act XXI of 1860, as per Government of Pakistan Resolution dated October 3, 1958. It was given statutory status in 1961 and has also been entrusted with the responsibility of operating the Pakistan Standard Institution Certification Marks Scheme under the Certification Marks Ordinance, 1961. From 1995, PSI has been a part of the Ministry of Science and Technology. The PSI's main role is to draw up voluntary standards by agreement among all interests concerned and to promote their adoption on a voluntary and compulsory basis. The PSI was established with the following objectives (PSI Brief, Karachi):

- To coordinate the efforts of producers and users for the improvement, standardization and simplification of engineering and industrial materials so as to simplify production and distribution and to eliminate the national waste of time and material involved in the production of an unnecessary variety of patterns and sizes of articles for one and the same purpose;
- To set up standards of quality and dimensions and prepare and promote the general adoption of Pakistan Standard Specifications and Schedule in connection therewith and from time to time to revise, alter and amend such specifications and schedules as experience and circumstances may require;
- To register, in the name of the Institute, marks of all descriptions, and to prove and affix or license the affixing of such marks or other proof, letter, name, description or device; and
- To take such action as may appear desirable or necessary to protect the objects or interests of the Institutions.

The present activities of PSI include: preparation, printing, sale and implementation of Pakistan Standards, registration of inspection agencies, introduction of S.I. System, collaboration with international organizations such as ISO, IEC, OIML and other national standards organizations, and dissemination of knowledge and information of standardization and quality control. PSI has established a considerable number of national standards for many products as per procedures recommended by ISO and followed by other national standards bodies. PSI is responsible for the issuance of quality control certificates of many items in the home and export markets under the compulsory Certification Marks Ordinance 1961. The monitoring of the quality control system of manufacturing units for the aforesaid items is performed by the Certificate Marks Division of PSI through its offices at Karachi and Lahore. Moreover, PSI has also registered 33 inspection agencies under the Inspection Agencies Ordinance 1981.

In addition to preliminary inspection, PSI also arranges at least four periodical inspections of each licensee besides taking random samples from the open market, godowns or otherwise for continuous checking of product quality whether it is sold in the open market or manufactured within the factory. By these checks PSI ensures that the manufacturer sets up a quality control system for the production of quality end products.

PSI also acts as an agent of international and other standards bodies for procuring and selling their standards required in the country. Presently this institution is not directly involved in the trade of agricultural commodities. In the near future, the role of PSI will be very important in the rapidly changing scenario of international trade of many products, especially since Pakistan needs to improve the standards of its many products to compete in the international market.

4.3 Rice Export Corporation of Pakistan

The Rice Export Corporation of Pakistan (RECP) was established in August 1974 with headquarters in Karachi and regional offices at Lahore and Larkana. The main functions of RECP are (RECP 1997):

- To carry on the business of export of rice from Pakistan, including all operations connected with rice procurement, milling, cleaning, storage, packing and sales for export;
- To take all measures necessary for promoting export of rice from Pakistan, including internal and foreign publicity delegations to foreign countries, and invitation to foreign delegations to visit Pakistan.

In Pakistan, export of rice was in the public sector until August 1987 and RECP enjoyed a monopoly. However, export of Basmati rice was allowed in the private sector from July 1987 and export of IRRI type rice was allowed in the private sector from August 1990. However, as a result of the government's policy of privatisation of rice exports, RECP stopped procurement of rice during 1996, and totally discontinued export of rice after 1997. Presently the private sector enjoys full control over export of rice in Pakistan and external trade of rice is no longer a government monopoly, and it is expected that the export of rice, especially Basmati rice, will improve in the near future. So far the present government has not taken any decision regarding the future of RECP with respect to its merger/down-sizing, etc.

4.4 Cotton Export Corporation of Pakistan

The Cotton Export Corporation of Pakistan (Private) Limited (CEC) was established on November 29, 1973, to handle the export trade of raw cotton exclusively in the public sector. Later, its role and functions were extended to include implementation of government policies relating to the cotton sector, including improvement of cotton ginning, price support operations, standardization, improvement in quality, modernization of the ginning industry and development of modern storage facilities, import of cotton as required/directed by the government and development projects related to cotton. In order to meet the stringent requirements of foreign buyers, CEC tried to improve the quality of cotton from picking to packing. The CEC is a wholly-owned enterprise of the government of Pakistan and it has developed its own necessary infrastructure (including modern storage facilities) and management capabilities to handle large volumes of purchases as well as exports. Previously, the private sector was not allowed in the cotton export and import business in Pakistan, and CEC enjoyed a full monopoly. Under the government's programme of privatization and deregulation, and to meet country's obligation towards globalization of merchandised trade under WTO, the private sector is presently allowed to export raw cotton from Pakistan.

4.5 Export Processing Zone Authority

The Government of Pakistan established the Export Processing Zone Authority (EPZA) in 1981. The main task of this authority was to plan, develop, manage and operate export processing zones across the country. As an initial project, the EPZA developed Karachi Export Processing Zone (KEPZ) in 1981. The major objective of establishing this zone in the port city was to attract foreign capital, technology and modern management skills for export-oriented industries and to provide new employment opportunities for the country's work force(Government of Pakistan 1997). All infrastructure facilities, such as electricity, water, gas, and telecommunication services were provided to the investors under "one window" services. By the end of January 1997, 173 industrial units had been approved in the zone for setting up various types of industries including industries which were directly or indirectly related to agriculture, such as food processing industries. In addition to industrial units, 46 warehouses/trading units, four banks, and two insurance companies are already fully functional.

The country's second export processing zone was approved in January 1997 at Sialkot. The government is planning to establish such zones throughout the country with the active collaboration of local Chambers of Commerce and Industry and provincial governments.

The government has also established many industrial estates throughout the country. By the end of March 1997, there were 72 industrial estates in the country. These estates are administered by respective provincial governments and enjoy varying degrees of exemption from customs duty on imported machinery and other incentives and facilities available under the rural industrialisation scheme. The private sector has also been allowed to establish industrial estates in the country. It is expected that the EPZs and industrial estates in the country will further help to boost export of various commodities including agricultural commodities, such as processed foods.

5. Trade-Related Indicators

This sections explains the national account, general trade indicators, total exports and imports, import of agricultural inputs, directions of agricultural trade, production of selected agricultural commodities, exports and imports by SITC selection, export and import of major agriculture commodities, overall and agricultural trade balance, etc.

5.1 Importance of agriculture in the national account

Like many developing countries, agriculture in Pakistan is one of the most important sectors in the economy, as it contributes to nearly one-fourth of the GDP and engages about half of the total employed labour force. This sector also contributes indirectly in the economic growth of the country because of its requirements of input and output processing from the non-agricultural sector. The crucial role of agriculture in contributing to GDP has remained almost unchanged since 1980 (Table 5.1). Its share in the economy has slowly declined and that of the non-agricultural sector (mainly industry) is slowly increasing. Crops remain the most important sub-sector in the agriculture sector, but their share in agricultural GDP is decreasing slightly. The share of the livestock sub-sector in agricultural GDP is increasing slowly and now it accounts for around 40% of agricultural GDP. The contribution from fisheries and forestry has also increased slightly.

5.2 Total exports, imports and trade balance

The total trade reached a record level of US$ 20.5 billion in 1995/96 from only US$ 8.3 billion in 1980/81. Exports increased considerably from only US$ 2.96 billion in 1980/81 to US$ 8.7 billion in 1995/96. Total exports, imports and the trade balance are shown in Table 5.2. Despite an overall improvement, exports suffered a setback during the 1990s mainly due to the following reasons (Government of Pakistan 1997):

- Levy of a Regulatory Duty on imports resulted in increased cost for exports.
- Cotton is the major export commodity of Pakistan. Due to leaf-curl virus attack, cotton production in the country significantly declined.
- Exports of sports goods declined due to negative child labour propaganda abroad.
- With the internationalization of cotton prices and a gradual rise in labour costs, textile exports suffered.
- Exports were affected by an increased cost of raw material for synthetic textiles, coupled with the fact that export rebates were delayed.
- Antidumping and countervailing charges and duties created obstacles and uncertainties.
- An increase in air and sea freight charges made exports from Pakistan less competitive.
- Higher rate of inflation also affected export products.

Table 5.1 National account of Pakistan at current market prices (million US$).

F/Year	Non-Agri		Agricultural GDP				Total
(July to June)	GDP	Crops	Livestock	Fish	Forest	Total	GDP
1980/81	20,367	5,328	2,033	272	78	7,711	28,078
	(72.54)					(27.46)	(100)
1981/82	23,410	6,638	2,302	283	84	9,307	32,718
	(71.55)					(28.45)	(100)
1982/83	20,856	5,396	2,104	245	76	7,821	28,678
	(72.73)					(27.27)	(100)
1983/84	23,380	5,091	2,328	248	86	7,754	31,134
	(75.10)					(24.90)	(100)
1984/85	23,224	5,288	2,402	167	83	7,940	31,163
	(74.52)					(25.48)	(100)
1985/86	23,900	5,132	2,532	235	82	7,981	31,881
	(74.97)					(25.03)	(100)
1986/87	25,448	4,852	2,740	231	89	7,876	33,324
	(76.36)					(23.64)	(100)
1987/88	29,490	5,273	3,264	255	94	8,885	38,376
	(76.85)					(23.15)	(100)
1988/89	30,479	5,815	3,385	283	96	9,580	40,059
	(76.09)					(23.91)	(100)
1989/90	30,706	5,366	3,462	270	109	9,207	39,913
	(76.93)					(23.07)	(100)
1990/91	35119	6,160	3,845	271	121	10,397	45,516
	(77.16)					(22.84)	(100)
1991/92	37,394	6,922	4,054	288	102	11,366	48,759
	(76.69)					(23.31)	(100)
1992/93	40,209	6,461	4,537	367	106	11,472	51,681
	(77.80)					(22.20)	(100)
1993/94	40,286	6,728	4,697	335	106	11,866	52,152
	(77.25)					(22.75)	(100)
1994/95	46,838	8,103	5,609	339	115	14,166	61,004
	(76.78)					(23.22)	(100)
1995/96	49,651	8,690	5,910	343	88	15,030	64,682
	(76.76)					(23.24)	(100)
1996/97	50,179	8,077	6,317	316	83	14,793	64,972
(Provisional)	(77.23)					(22.77)	(100)

Source: Pakistan Economic Survey 1996/97, Government of Pakistan, Islamabad, Pakistan.
Figures in parenthesis are percentages.

The government took measures to improve exports, such as devaluation of the Pakistan rupee in terms of the US$, introduction of a package of incentives for textiles and other sectors, together with improvement in the Export Finance Scheme. However, all these measures did not help much to increase exports and control of the trade balance. The absolute increase in exports is attributed to higher exports of rice, raw wool, fish and fish preparations, fruits, crude animal materials, cotton fabrics, knit wear, bed wear, towels, cotton bags and sacks, ready-made garments, synthetic textiles, other textile made-ups, waste textile fabrics, petroleum products, sports goods, leather products, cutlery, and onyx manufactures. During the 1990s, the export of many items did not increase compared to earlier years, including raw cotton, leather, guar and guar products, vegetables, oilseeds, nuts and kernels, cotton yarn, tarpaulin and canvas, tule lace embroidery, carpets, surgical instruments, chemicals and pharmaceuticals and molasses. Overall, the share of manufactured goods in total exports remained higher over time compared to semi-manufactured and primary commodities. The share of Pakistan's exports in total world exports is very small ranging between 0.10 and 0.21% during the last more than twenty-five years (Government of Pakistan 1997). This share was 0.18% in 1995.

Table 5.2 Exports, imports and trade balance of Pakistan (million US$).

F/Year (July-June)	Exports	Imports	Balance
1980/81	2,958	5,409	-2,451
1981/82	2,651	6,004	-3,353
1982/83	2,694	5,357	-2,663
1983/84	2,768	5,685	-2,917
1984/85	2,491	5,906	-3,415
1985/86	3,070	5,634	-2,564
1986/87	3,686	5,380	-1,694
1987/88	4,455	6,391	-1,936
1988/89	4,661	7,034	-2,373
1989/90	4,954	6,935	-1,981
1990/91	6,131	7,619	-1,488
1991/92	6,904	9,252	-2,348
1992/93	6,813	9,941	-3,128
1993/94	6,803	8,564	-1,761
1994/95	8,137	10,394	-2,257
1995/96	8,707	11,805	-3,098

Source: International Trade Organization Wing, Ministry of Commerce, Islamabad, Pakistan.

From 1980/81 to 1995/96, total imports rose sharply from only US$ 5.41 billion to US$ 11.81 billion. The increase in value of imports was concentrated largely in chemicals, petroleum and petroleum products, iron and steel, power generating machinery, electrical machinery and appliances, wheat, road motor vehicles, aircraft, ships, boats, sugar, etc. Items showing a fall in imports included edible oils, synthetic fibre, tea, agriculture machinery, medical products, insecticides, etc. Imports also increased significantly during the early 1990s mainly due to a surge in oil prices caused by the Gulf crisis.

The trade balance increased from US$ -2.45 billion to US$ -3.1 billion from 1980/81 to 1995/96 mainly due to higher imports than exports.

5.3 Agricultural exports

Agriculture plays a key role in the external trade of Pakistan. This sector is an important source of foreign exchange earnings through export of agricultural raw and agriculturally-based products. Raw cotton and its products, rice, and leather products are the major export commodities. Fruits and vegetables, spices, and fish and its products are the next highest export earning products. Agriculture directly accounts for more than 25% of total exports. If one takes into account the raw material content of cotton textiles and other agro-based manufactured exports, agriculture's share would be around two-thirds of total exports. Agricultural exports of Pakistan by SITC (Standard International Trade Classification) selection are given in Table 5.3. The export of food and live animals was around US$ 600 million per year from 1981/82 to 1993/94. The export of beverages and tobacco and oils and fats was minimal during the same period.

Raw cotton, rice, fruits and vegetables, and fish are the major export commodities of Pakistan. Other minor agricultural export products include spices, chillies, natural honey, raw wool, etc. The details of agricultural export earnings by principal commodity are given in Table 5.4. Among the major items exported from Pakistan, cotton and cotton manufactured goods are the most important, presently constituting around 62% of total export earnings, which means that Pakistan is mainly dependent on the export of raw cotton, textile and textile-related products, which are subject to climatic hazards year after year. For example, export of raw cotton was as high as US$ 930 million in 1988/89 and as low as US$ 62 million in 1993/94.

Table 5.3 Agricultural exports of Pakistan by SITC selection (US$ million).

F/Year (July to June)	Food & Live Animals	Beverages & Tobacco	Animal & Vegetable Oil
1981/82	605.67	10.70	0.03
1982/83	490.90	9.66	0.47
1983/84	650.31	10.84	0.04
1984/85	408.41	10.60	-
1985/86	533.28	12.44	0.02
1986/87	514.09	13.08	0.09
1987/88	627.81	18.24	0.26
1988/89	549.85	1.23	-
1989/90	481.22	9.91	0.07
1990/91	585.62	5.19	0.02
1991/92	692.77	10.90	0.01
1992/93	647.95	6.62	0.02
1993/94	614.59	4.44	0.04

Source: FAO 1995.

Table 5.4 Agricultural exports of principal commodities of Pakistan (million US$).

F/Year	Raw Cotton	Rice*	Fruits & Vegetables	Fish & Products	Others
1980/81	525.6	565.8	24.53	56.5	21.85
1981/82	275.6	387.2	31.24	74.1	28.28
1982/83	304.9	288.1	42.04	70.2	32.10
1983/84	132.4	422.5	39.70	75.1	31.56
1984/85	297.2	222.1	37.93	81.7	39.35
1985/86	513.3	342.3	41.84	82.6	35.70
1986/87	446.3	299.7	42.95	112.5	38.49
1987/88	610.0	363.1	50.31	124.3	47.25
1988/89	929.6	303.6	46.99	110.3	46.73
1989/90	443.0	239.2	53.60	94.4	42.94
1990/91	411.8	346.3	49.02	114.9	32.88
1991/92	518.3	415.7	47.28	114.7	45.50
1992/93	270.8	317.1	52.72	181.7	35.90
1993/94	79.5	242.2	56.30	154.7	33.37
1994/95	62.2	454.2	50.81	154.3	35.22
1995/96	506.8	504.0	54.14	140.7	22.26

Source: International Trade Organization Wing, Ministry of Commerce, Islamabad, Pakistan, 1997.
* Rice includes Basmati & non-Basmati rice.
** Seeds of coriander, poppy, cumin and castor, natural honey, chillies and raw wool.

Export earnings from cotton declined considerably during 1993 to 1995 mainly due to cotton leaf-curl virus and climatic factors. Similarly, from 1980/81 to 1995/96, rice exports from Pakistan fluctuated between US$ 222 million and US$ 566 million, which was also mainly due to climatic factors. Despite the fact that Pakistan is blessed with diverse agro-climatic conditions and one of the best irrigation systems in the world, and a variety of fruits and vegetables can be produced year-round, export earnings from fruits and vegetables did not increase from around US$ 56 million during the last ten years. Export earnings from fish and fish preparations almost doubled from 1980/81 to 1995/96.

The major buyers of Pakistan's raw cotton during 1995/96 were Indonesia, Thailand, Hong Kong, other Asian countries, China, Japan, Bangladesh, South Korea, the Philippines and Brazil. Country-specific exports of raw cotton from Pakistan from 1984 to 1996 are given in Table 5.5.

In 1992, world trade in rice was around 15.8 million tons, Pakistan's share in rice world trade was around 10%, and it was 14% in Asian rice trade. Rice exports from Pakistan accounted for about 5% of total production. Pakistan is the major producer and exporter of Basmati rice, which is a fine, non-glutinous, long grain and aromatic variety mainly grown in the province of Punjab (Akhtar 1997). Pakistan earns considerable foreign exchange from the export of Basmati rice. In addition, it also exports non-Basmati rice, which is mainly cultivated in Sindh province. The market for Pakistani exports of Basmati rice is concentrated in a few importing countries in the Near East, which account for about 95% of the total exports of Basmati rice. The major competitor of Pakistan in the international market for Basmati rice is India. The main markets of Pakistani Basmati rice are Saudi Arabia, Kuwait, Oman, Dubai, Abu Dhabi, Qatar, Bahrain, Iran, Mauritania, Malaysia, UK, USA and Canada. The demand for non-Basmati rice mainly comes from African nations and recently from Bangladesh, Singapore and Mauritius, the Philippines, Sri Lanka, Turkey, Iran, etc. The major competitors for this type of rice in the international market are Burma, China, and Indonesia. Country-specific exports of rice (both Basmati and other varieties) from Pakistan are given in Table 5.6.

Because of the variation in altitude and latitude in Pakistan, it is possible to harvest a long list of fruits and vegetables over a long period, starting in the south and then moving north. This results in a year-round supply of both fruits and vegetables and shows the export potential of Pakistan. There is tough competition among the fruit and vegetable exporting countries and all countries compete for better quality produce in the foreign markets. Pakistan has had partial success only with oranges and mangoes, but with other produce Pakistan still needs to improve quality and look for more new markets (Akhtar 1997). Pakistan exports a considerable quantity of mango every year, mainly to the Middle East and Europe. The main buyer of Pakistani citrus (mainly Kinnow, which is an easy peel variety with a very good distinctive flavour) is Dubai, followed by Indonesia, Singapore, Hong Kong, Saudi Arabia and other countries. Fruits and vegetables are mainly exported by sea to the Middle East countries, and by air to European countries. The Middle East countries and Gulf States are important markets for Pakistani fruits and vegetables. These markets are still expanding very rapidly, and Pakistan has a lot of potential to increase the export of fruits and vegetable to these countries. The country-specific exports of fruits and vegetables of Pakistan from 1984 to 1996 are given in Table 5.7.

Fish and its preparations are another important export commodity from Pakistan. However, the export of fish has not increased mainly because marine pollution, use of fine mesh nets and over-fishing have reduced the fish stock, and also unhygienic conditions at fish harbours have made Pakistani fish exports susceptible to microbial contamination and led to suspension. Also, during the last few years, export of fish was adversely affected by an embargo imposed by the US government on shrimp imports from all countries (including Pakistan) which used mechanical nets for shrimp trawlers, besides black-listing some Pakistani exporters on the issue of bacterial contamination (Government of Pakistan 1997). Japan, UK, the Netherlands, USA, Sri Lanka, China, Dubai, Hong Kong, and Saudi Arabia are the main buyers of Pakistani fish and fish preparations. Country-specific exports of fish and fish preparation of Pakistan from 1984 to 1996 are shown in Table 5.8.

Table 5.5 Country-specific exports of raw cotton from Pakistan (million US$).

Country	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Indonesia	5.78	10.24	25.79	25.17	33.28	63.99	36.42	17.81	74.44	49.34	20.01	10.43	82.42
Thailand	2.96	14.18	24.88	42.21	42.58	81.68	24.16	41.53	66.29	42.11	13.52	10.67	76.86
Hong Kong	1.10	37.50	47.46	48.67	90.28	168.79	54.01	65.14	110.32	51.56	15.93	6.03	61.48
China	13.89	0.00	0.00	3.31	38.73	170.28	38.00	42.26	20.57	0.32	0.00	0.00	40.50
Brazil	0.00	0.00	2.51	7.24	0.81	2.90	1.17	0.00	0.00	0.00	1.86	0.00	28.54
Japan	37.87	60.90	69.56	77.43	72.12	98.60	33.23	49.34	48.13	36.21	5.31	3.70	28.07
Bangladesh	14.99	13.67	14.43	3.07	18.73	29.17	44.06	31.05	57.37	32.62	7.97	4.36	27.57
South Korea	9.59	12.82	39.22	17.01	18.00	46.64	12.00	42.65	15.48	7.16	0.43	3.36	23.64
Philippines	0.82	0.36	12.65	7.80	10.46	22.93	4.20	4.16	5.68	6.47	2.73	1.50	17.39
Other *	45.14	129.57	248.36	208.22	290.24	244.59	195.77	119.28	120.02	45.02	11.71	22.04	120.51
Total	132.14	279.24	513.271	444.86	615.23	929.57	443.02	413.22	518.3	270.81	79.47	62.09	506.98

Source: Ministry of Commerce, Government of Pakistan, Islamabad, 1997.

* African Countries, Algeria, Belgium, Brunei, Bulgaria, Burma, Czechoslovakia, Dubai, Denmark, France, Finland, Germany, Greece, Hungary, India, Italy, Irish Republic, Iraq, Malaysia, Mauritius, Morocco, Netherlands, Portugal, Poland, Romania, Sri Lanka, Singapore, Saudi Arabia, Spain, Switzerland, Sweden, Turkey, USA, UK USSR Vietnam, Yugoslavia, other countries.

Table 5.6 Country-specific exports of rice from Pakistan (million US$).

Country	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Iran	115.82	2.86	27.33	42.76	8.34	36.58	49.36	52.73	92.67	30.18	10.09	53.84	99.08
Dubai	15.92	19.74	18.45	14.50	16.11	46.82	20.25	0.00	32.49	63.46	35.42	58.05	84.37
Indonesia	11.36	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	47.70	41.66
Saudi Arabia	51.96	34.18	69.42	66.95	62.29	27.11	27.35	52.40	62.00	70.48	35.77	28.22	29.12
Oman	20.93	32.20	26.44	17.35	9.66	3.74	8.36	17.15	14.61	14.13	15.51	16.69	23.65
Kenya	3.58	0.10	2.19	2.69	0.00	0.00	0.88	8.77	13.32	12.45	8.36	14.57	17.97
Philippines	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.06	16.90
Bangladesh	1.18	0.46	2.03	33.45	59.06	4.58	11.29	4.43	2.92	0.43	11.97	50.28	11.56
Mauritius	5.36	2.91	0.47	1.04	7.03	9.90	13.19	1.40	1.28	4.97	4.10	4.75	9.59
Other African Countries	3.14	7.32	7.25	0.00	19.02	48.45	45.19	53.50	29.64	15.95	38.02	77.99	58.37
Others *	193.28	121.80	188.71	120.90	181.59	126.405	63.339	124.88	166.74	105.06	82.926	102.10	111.67
Total	422.52	221.57	342.28	299.64	363.11	303.59	239.21	315.26	415.68	317.12	242.17	454.24	503.96

Source: International Trade Organization Wing, Ministry of Commerce, Islamabad, Pakistan, 1997.

* Afghanistan, Jordan, Malaysia, Qatar, Singapore, U.A.E., Cameroon, Madagascar, Senegal, Togo, Brazil, Romania, Kuwait, Bahrain, UK, USA, Canada, Sri Lanka, Turkey, Malagasy, etc.

Table 5.7 Country-specific exports of fruits and vegetables* of Pakistan (million US$).

Country	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
India	4.09	3.31	4.09	4.89	10.49	11.35	11.32	14.55	12.01	18.70	15.27	18.68	18.99
Dubai	10.99	8.92	10.29	10.06	10.26	10.68	13.08	6.93	7.44	8.26	10.17	7.53	8.70
France	1.27	1.21	1.81	2.31	2.16	2.66	2.82	2.50	3.39	3.35	4.15	3.31	3.04
Switzerland	0.94	1.27	1.07	2.09	1.45	1.57	0.75	0.17	0.81	1.84	1.87	2.32	3.00
Indonesia	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.77	1.68	2.70
UK	1.07	1.24	2.00	2.30	2.75	1.90	2.05	3.19	2.96	2.83	3.35	2.17	2.68
Saudi Arabia	8.58	6.44	8.27	7.61	5.93	4.72	4.53	2.73	3.43	3.67	3.17	3.15	2.66
USA	1.59	2.74	0.62	0.83	1.73	4.16	3.66	3.18	3.68	3.27	3.78	1.37	2.39
Netherlands	0.16	0.34	0.11	0.27	0.19	0.63	2.23	0.72	0.55	0.19	0.60	0.86	1.43
Germany	0.25	0.27	0.46	0.40	0.28	0.39	0.39	0.84	1.27	0.76	1.14	1.12	1.12
Singapore	0.20	0.30	0.35	0.21	0.48	0.44	0.79	1.41	1.33	0.87	1.25	0.58	1.05
Other**	10.66	11.91	12.78	12.00	14.60	8.51	11.98	12.80	10.41	8.98	10.78	8.04	6.38
Total	39.70	37.93	41.84	42.95	50.31	46.99	53.60	49.02	47.28	52.72	56.30	50.81	54.14

Source: International Trade Organization Wing, Ministry of Commerce, Islamabad, Pakistan, 1997.

* Fruits include fresh, dried, and processed. Vegetables include fresh and processed.

** Afghanistan, Abu Dhabi, Australia, Bahrain, Bangladesh, Belgium, Bulgaria, China, Canada, Denmark, Finland, Hong Kong, Italy, Japan, Kuwait, Malaysia, New Zealand, Oman, Qatar, Sharjah, Sri Lanka, South Korea, Sweden.

Table 5.8 Country specific exports of fish and fish preparation of Pakistan (million US$).

Country	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Japan	24.61	26.33	21.27	28.15	34.49	25.72	19.41	38.12	29.23	49.48	41.47	34.42	22.60
UK	7.6	9.80	8.32	14.28	17.87	19.91	16.10	23.31	15.09	18.59	20.03	26.01	21.36
Netherlands	0.30	0.06	0.07	0.34	0.27	0.32	0.32	1.18	0.62	3.65	7.81	11.17	19.89
USA	23.76	25.43	29.48	41.67	32.21	25.89	24.87	21.95	16.60	14.62	17.70	22.30	16.31
Sri Lanka	4.01	5.64	7.91	10.53	13.10	12.50	11.21	13.76	14.91	14.66	10.86	11.96	13.80
China	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.00	0.00	0.00	1.07	7.48	8.10
Dubai	1.62	3.10	2.34	1.19	0.99	1.16	1.48	2.43	2.39	1.61	3.91	3.68	7.68
Hong Kong	1.11	0.84	1.11	1.50	2.84	2.72	2.64	3.29	4.65	5.13	6.51	5.63	7.53
Belgium	0.06	0.21	0.48	1.07	2.58	1.14	2.23	3.96	4.53	3.69	7.87	7.63	3.62
Saudi Arabia	0.84	1.09	1.32	1.99	1.73	1.40	1.28	1.08	1.59	2.16	2.19	2.56	2.86
Others*	10.72	9.18	10.35	11.76	18.16	19.54	14.87	15.87	25.11	68.15	35.26	21.50	16.97
Total	74.79	81.67	82.63	112.48	124.26	110.28	94.38	114.93	114.71	181.74	154.67	154.33	140.72

Source: International Trade Organization Wing, Ministry of Commerce, Islamabad, Pakistan, 1997.

* Australia, Afghanistan, Oman, Qatar, Bangladesh, Bulgaria, Bahrain, Canada, Denmark, Italy, India, Jordan, Finland, France, Germany, Kuwait, Luxembourg, Lebanon, Malaysia, New Zealand, Singapore, South Korea, Sweden, Spain, Thailand and Qatar.

5.4 Agricultural imports

Imports of agricultural commodities contribute considerably to the negative trade balance of Pakistan. The major agricultural import commodities are edible oils, grains, pulses and flour, tea and coffee, and milk and its products. These commodities accounted for around half of the trade balance deficit. Palm oil and soybean oil imports were the major import items comprising 80% and 20% of the total import bill of edible oils, respectively. The value of imports of grains, pulses and flour is primarily for wheat imports (around 85%). The next largest import commodities were tea and coffee followed by milk and milk products. Overall, around 12% to 18% of the total value of imports to Pakistan consisted of agricultural commodities during the last ten years (Akhtar 1997). The details of agricultural imports by SITC selection in Pakistan from 1981/82 to 1993/94 are given in Table 5.9. Pakistan spent a considerable amount of foreign exchange on import of food and oilseeds during the last twenty years. The import of food items increased by more than 50% from 1982 to 1994. During the same time period, import of beverages and tobacco increased by 60% and vegetable oils by around 40%.

Wheat, edible oils, tea and coffee, and milk and milk products are the major agricultural import commodities of Pakistan (Table 5.10). A large amount of foreign exchange was spent every year for the import of edible oil in Pakistan. This drain of foreign exchange was only US$ 265 million in 1980/81, but increased to US$ 997 million in 1994/95 and decreased to US$ 856 million during 1995/96. Up to 1983/84, soybean oil was imported to substitute for cottonseed oil in better quality 'Ghee' (edible oil). However, due to comparatively low prices of palm oil in the international market during the last ten years, its import into Pakistan increased many-fold compared to soybean oil. In 1975/76, 43% of the total edible oil import was soybean and 57% palm oil. However, due to low international prices of palm oil, its import has increased to more than 80%. Most of the palm oil was imported from Malaysia and Indonesia, while soybean oil came from USA and Brazil. The details of country-specific import of edible oil into Pakistan from 1982 to 1996 are given in Table 5.11.

Table 5.9 Agricultural imports of Pakistan by SITC selection (million US$).

F/Year (July to June)	Food & Live Animals	Beverages & Tobacco	Animal & Vegetable Oil
1981/82	398.49	1.87	401.74
1982/83	353.42	2.10	327.92
1983/84	394.33	2.05	533.94
1984/85	525.39	1.83	521.07
1985/86	610.38	1.94	425.93
1986/87	525.94	2.09	291.25
1987/88	435.86	2.08	510.07
1988/89	736.25	1.76	502.89
1989/90	802.05	2.32	446.29
1990/91	612.58	3.58	465.28
1991/92	724.90	3.83	462.52
1992/93	888.56	2.95	642.07
1993/94	600.99	3.00	552.55

Source: FAO 1995.

Table 5.10 Agricultural imports into Pakistan by principal commodity (million US$).

F/Year (July to June)	Edible Oil	Wheat	Tea & Coffee	Milk & Products
1980/81	264.86	63.91	119.47	39.54
1981/82	341.38	80.81	110.06	39.61
1982/83	288.46	68.69	131.84	45.83
1983/84	530.73	63.71	190.36	42.96
1984/85	458.98	181.56	231.47	34.32
1985/86	379.88	292.40	134.84	29.44
1986/87	236.45	68.91	154.26	31.78
1987/88	441.59	105.14	127.79	23.29
1988/89	446.24	364.82	154.89	31.55
1989/90	384.89	400.61	180.96	23.77
1990/91	401.89	139.06	166.53	31.55
1991/92	403.86	341.56	173.31	34.50
1992/93	585.11	465.34	207.85	31.10
1993/94	487.58	239.86	186.46	20.86
1994/95	998.03	413.44	187.99	17.75
1995/96	854.22	452.53	170.79	31.41

Source: International Trade Organization Wing, Ministry of Commerce, Islamabad, Pakistan, 1997.

Wheat is the main staple food in Pakistan, and the total domestic production is not sufficient for the country. Therefore, the government imports around 2 million tons of wheat every year. The foreign exchange spent on wheat import was only US$ 64 million in 1980/81, but increased to US$ 452.53 million in 1995/96 (Table 5.10). USA, Australia and Canada were the major suppliers of wheat to Pakistan during the last more than fifteen years (Table 5.12).

The import value of tea and coffee (but mainly tea) in 1995/96 amounted to US$ 170.79 million compared to only US$ 119.47 million in 1980/81, showing an increase of more than 40%. The import of this item jumped up to US$ 207.85 million in 1992/93, but during the preceding years, it started declining (Table 5.10). Kenya was the major supplier of tea to Pakistan, followed by Indonesia, Sri Lanka, Bangladesh Tanzania, Rwanda and other many countries (Table 5.13).

The value of imports of milk and milk products to Pakistan ranged between US$ 18 million and $46 million from 1980/81 to 1995/96 (Table 5.10). Pakistan mainly imported milk and its products from European countries (Table 5.14).

In addition to the drain of foreign exchange on import of food-related agricultural commodities, Pakistan also spent a considerable amount of foreign exchange on import of agricultural inputs which include fertilizers (mainly DAP), seeds, pesticides/insecticides and machinery. Imports of selected agricultural inputs are given in Table 5.15. During the last fifteen years, the value of imported fertilizer ranged from as low as US$ 84 million to US$ 357 million. Pakistan also imported selected seeds of vegetables (mainly potato), flower seed, clover seed, etc., and spent a few million dollars every year. The other two major imported agricultural inputs were insecticides/pesticides and farm machinery, which were imported for the agriculture sector.

Table 5.11 Country-specific imports of edible oil into Pakistan (million US$).

Country	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Malaysia	147.55	150.43	220.63	305.41	189.60	121.20	181.22	207.16	189.13	235.31	326.38	450.67	397.38	782.42	683.38
USA	157.72	103.65	229.93	107.35	128.10	75.94	192.74	230.32	169.94	126.12	23.76	0.04	44.75	97.80	85.02
Argentina	1.64	0.02	0.02	0.00	10.74	5.60	1.21	0.00	0.00	11.54	18.86	55.70	16.60	29.34	28.91
Brazil	22.57	12.29	8.74	34.33	0.00	3.93	5.09	0.06	0.07	16.69	14.50	53.47	13.25	24.21	22.96
Indonesia	10.15	0.00	0.00	0.00	37.50	1.62	0.00	0.00	0.00	0.00	0.00	7.40	7.07	15.12	11.91
Singapore	3.33	2.19	0.22	0.49	3.67	5.00	1.21	1.73	5.82	2.46	2.99	5.96	6.39	11.10	11.05
Netherlands	0.15	2.41	0.21	4.55	2.07	2.02	4.68	1.08	0.00	6.64	19.38	14.65	2.72	3.53	1.60
Japan	0.60	0.00	0.00	0.00	0.00	0.01	0.66	0.00	0.03	0.02	0.19	0.45	1.66	2.21	1.30
Spain	1.32	2.93	13.64	0.39	2.59	5.79	19.54	0.78	0.12	0.26	0.19	0.22	0.23	1.51	0.75
Nepal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04	0.00	0.19	0.60	0.40
Others*	3.19	14.91	9.83	6.42	5.50	15.33	36.07	5.69	20.32	11.50	1.40	3.84	0.37	10.19	6.94
Total	348.21	288.85	483.23	458.94	379.78	236.44	442.42	446.83	385.44	410.54	407.70	592.40	490.61	978.03	854.22

Source: International Trade Organization Wing, Ministry of Commerce, Islamabad, Pakistan, 1997.

* Belgium, Bermuda, Canada, China, Dubai, France, Germany, Guyana, Grace, Italy, Japan, Panama, Portugal, United Kingdom, Sri Lanka, South Korea, Sweden, Malta, Turkey, Vietnam, Falkland, Brunei, Jamaica, Philippine, Switzerland, Sharjah, Luxembourg, Thailand and Malawi.

Table 5.12 Country-specific wheat imports of Pakistan (million US$).

Country	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
USA	30.45	30.19	29.20	50.22	140.64	38.66	67.45	310.68	290.26	110.41	213.16	228.79	225.11	348.45	393.42
Germany	11.29	2.86	6.04	8.58	18.70	2.26	3.25	4.36	5.71	0.00	4.65	4.07	7.76	16.11	0.00
Canada	16.50	0.00	0.00	11.60	7.20	9.61	9.36	3.95	13.51	12.06	34.00	57.40	6.54	4.53	2.19
Australia	10.36	1.82	0.00	89.36	97.63	8.69	3.50	25.43	75.79	3.09	62.08	41.35	0.42	19.47	55.53
France	10.48	8.26	5.84	11.68	0.00	3.20	15.90	14.27	0.00	4.66	22.54	7.90	0.00	0.00	0.00
UK	0.00	2.74	1.84	0.00	0.00	5.49	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.84	1.40
Belgium	1.70	0.54	0.00	0.00	8.59	0.00	0.00	1.15	0.00	8.87	0.00	0.00	0.00	0.00	0.00
Philippines	0.00	4.79	5.11	0.00	0.00	0.00	5.13	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Others*	0.00	17.49	15.63	10.08	19.70	1.01	0.56	4.98	15.42	0.00	5.06	65.88	0.00	22.04	0.00
Total	80.78	68.69	63.67	181.53	292.45	68.92	105.15	364.81	400.69	139.09	341.49	465.38	239.83	413.44	452.53

Source: Ministry of Food and Agriculture, Islamabad; Federal Bureau of Statistics, Islamabad, Pakistan.

* Albania, Argentina, China, Cyprus, Eastern Europe, Greece, Italy, Japan, Norway, Panama, South Korea, Saudi Arabia and Turkey.

5.5 Direction of agricultural trade

Pakistani agricultural goods are traded almost globally. A large number of countries around the world purchased Pakistani products, such as raw cotton, textiles, rice, fish and fish preparations, fruits and vegetables, etc. The direction of agricultural exports of major agricultural commodities from Pakistan is given in Table 5.16. Review of a country-wise agricultural export matrix reveals that the principal trade partners of major agricultural commodities from Pakistan were Indonesia, Dubai, Iran, Thailand, Hong Kong, some African countries (mainly non-Basmati rice), Japan, China, Bangladesh, and Saudi Arabia. There is a long list of countries that purchased very small quantities of Pakistani agricultural products. Middle East countries mainly purchase Pakistani fruits and vegetables and rice, and the industrialized countries mainly buy raw cotton and its products, and fish and its products. The share of major agricultural export products with the main buyer countries from 1984 to 1996 is given in Table 5.16.

The sources of Pakistan's major agricultural imports are also spread all over the world. The principal source countries for the bulk of the agricultural commodities (mainly edible oil and un-milled wheat, tea, milk and milk products) include USA, Malaysia, Indonesia, Kenya (mainly tea), Argentina, Brazil, Germany, Canada, Sri Lanka, Singapore, Australia, and Bangladesh. There are many other countries from which Pakistan imported agricultural products in small quantities. More than 75% of these agricultural commodities were only purchased from USA, Malaysia, and Indonesia during 1995 and 1996. USA continued to be the main supplier of agricultural imports (both edible oil and wheat). The share of imports with the major sellers of the world is given in Table 5.17.

5.6 Production of major agricultural crops

Pakistan is blessed with diverse agro-climatic conditions, which are conducive to growing various crops almost all the year, and one of the best irrigation systems in the world. Given these natural resources, it is possible to plant tropical, sub-tropical, and temperate crops. Major crops grown in Pakistan are wheat, cotton, rice, sugarcane, gram, maize, sorghum, millet, rapeseed/mustard and tobacco. Minor crops include pulses (chickpea, lentil, mungbean, and black gram), potato, onion, chilli, garlic, etc. The main fruit plants grown in Pakistan are citrus, mango, banana, apple, guava, apricot, peach, pears, plums, grapes, etc. The production of major crops from 1980/81 to 1996/97 is given in Table 5.18. Among the major crops, wheat is the staple food in Pakistan, and cotton and rice are the main export crops of Pakistan. Pakistan is not self-sufficient in wheat, and imports more than two million tons of wheat mainly from USA. Sugarcane is another main cash crop for Pakistan growers and the country exports sugar to neighbouring countries. Citrus and mango are the main fruit plants and Pakistan exports around 5% of its total production.

The production of all major crops has increased considerably during the last fifteen years; however, most of the increase in the production of almost all crops is due to total increase in area of these crops. The productivity of almost the major and minor crops in Pakistan did not increase much during the last ten years (Akhtar 1997).

Table 5.13 Country-specific imports of tea and coffee in Pakistan (million US$).

Countries	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Kenya	26.16	25.65	4.81	96.73	73.96	88.68	33.63	47.69	85.21	77.48	78.56	94.58	85.45	87.04	79.17
Indonesia	22.90	25.15	27.16	35.54	13.04	13.34	16.53	23.06	22.79	24.91	34.73	43.58	37.05	37.79	34.37
Sri Lanka	27.31	24.06	15.11	21.79	12.28	16.85	26.63	29.67	18.25	12.45	11.66	10.05	13.59	13.91	12.65
Bangladesh	20.88	27.10	33.47	25.50	14.25	9.79	18.43	15.68	8.91	7.31	6.77	14.88	11.73	11.84	10.77
Tanzania	0.86	1.04	1.68	2.18	1.86	4.08	6.57	8.88	12.03	12.33	13.71	12.21	9.85	9.96	9.06
Rwanda	0.00	0.14	2.95	5.01	2.40	3.32	5.30	8.31	9.66	10.94	11.45	8.41	8.81	9.02	8.21
China	5.19	10.51	17.41	9.65	7.13	7.27	7.72	5.13	9.14	5.35	2.55	5.82	4.50	4.51	4.10
Malawi	2.02	0.06	0.01	5.41	1.53	2.86	3.30	4.89	4.88	7.22	5.24	2.19	4.00	4.14	3.76
Brundi	0.00	0.01	0.01	0.15	0.02	0.07	1.82	2.46	1.39	0.85	1.69	3.09	2.18	3.26	2.05
India	0.04	0.00	1.43	5.29	1.40	1.21	1.26	2.15	1.09	0.54	0.94	5.58	2.01	2.07	1.88
Zimbabwe	0.00	0.00	0.00	0.00	0.00	0.19	0.32	1.56	1.19	1.34	0.55	0.19	0.95	0.85	0.91
Zaire	0.02	1.10	0.83	0.72	0.25	0.53	0.18	0.59	0.38	0.78	0.38	0.41	0.69	0.70	0.50
Others*	4.60	16.39	84.75	18.83	5.51	4.74	4.47	3.84	5.69	4.04	3.89	5.22	3.77	3.91	3.37
Total	109.99	131.21	189.60	226.79	133.64	152.92	126.16	153.91	180.62	165.54	172.12	205.80	184.59	187.99	170.79

Source: Federal Bureau of Statistics, Islamabad, Pakistan.

* Afghanistan, African Countries, Algeria, Argentina, Asian Countries, Australia, Austria, Bulgaria, Burma, Belgium, Bermuda, Brazil, Brunei, Cameroon, Canada, Chad, Central African Countries, Denmark,
Dominican Rep, Ecuador, Equatorial, Ethiopia, France, Falkland Island, Finland, Gabon, Gambia, Germany, Ghana, Gibraltar, Greece, Guatemala, Guinea, Haiti, Hong-Kong, Hungry, Iran, Iraq, Italy, Ivory
Coast, Japan, Lebanon, Lesotho, Liberia, Luxembourg, Macao, Malaysia, Maldives Island, Mali, Mauritius Mongolia, Morocco, Netherlands, Antilles, Netherlands, Nepal, New Guinea, New Zealand,
Nicaragua, Niger, Oman, Peru, Philippines, Portugal, Portuguese, Qatar, Rep of Cre, Rep of the Congo, Rep of Benin, Reunion Island, Romania, Saudi Arabia, Sierra Leon, Singapore, South Korea, South
Vietnam, Spain, Thailand, Tunisia, Turkey, USSR, USA, Uganda, United Kingdom, Uruguay, Vietnam, Yemen, Yugoslavia and Zambia.

Table 5.14 Country-specific imports of milk and milk products (million US$).

Country	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Irish Rep	0.88	1.46	1.17	1.48	1.07	5.29	6.23	7.31	4.57	8.02	8.96	3.35	5.07	4.40	7.63
Italy	0.05	0.01	0.00	0.00	7.10	0.15	0.87	1.73	0.66	0.18	0.04	8.77	3.98	3.46	6.12
Sweden	0.58	0.26	0.40	1.11	0.43	0.64	0.43	0.58	0.51	0.40	0.30	0.97	2.98	2.59	4.59
Poland	0.81	1.03	0.05	0.14	1.10	0.53	0.12	0.31	0.07	3.69	1.40	0.00	2.10	1.83	3.23
Netherlands	9.79	6.54	5.33	6.02	5.49	3.28	8.23	7.54	3.59	2.93	2.51	1.44	1.49	1.30	2.29
Japan	0.57	0.47	0.36	0.36	0.05	0.48	0.78	0.72	0.21	0.38	1.53	1.20	0.83	0.73	1.29
Germany	4.13	1.79	16.26	4.60	0.93	1.52	0.89	6.10	4.93	4.51	3.13	1.20	0.79	0.69	1.22
Denmark	4.21	1.61	4.91	3.44	2.31	2.69	3.29	1.86	1.85	1.22	1.04	0.35	0.45	0.39	0.69
UK	2.02	1.10	1.06	2.21	1.55	3.93	3.73	1.57	3.19	0.31	0.60	0.31	0.43	0.37	0.66
Dubai	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04	0.00	0.06	0.29	0.25	0.43
Singapore	0.37	0.74	0.46	1.71	1.55	1.39	0.71	0.72	0.62	0.16	0.17	0.12	0.23	0.19	0.34
Others*	16.19	30.50	15.53	12.99	7.57	11.81	8.27	2.98	3.45	9.67	13.54	12.85	1.81	1.58	2.92
Total	39.61	45.50	45.53	34.08	29.14	31.72	33.56	31.42	23.63	31.51	33.22	30.62	20.44	17.75	31.41

Source: Federal Bureau of Statistics, Islamabad, Pakistan.

* Abu Dhabi, Afghanistan, African Countries, Argentina, Asian Countries, Australia, Austria, Bahrain, Belgium, Bhutan, Brazil, Bulgaria, Burma, Canada, Chad, China, Cambodia, Fiji, Finland, France, Germany, Greece, Hong Kong, Hungary, Iceland, Indonesia, Iraq, Kenya, Kuwait, Lesotho, Luxembourg, Malaysia, New Zealand, Norway, Pacific Island, Philippines, Poland, Rep of Estonia, Rep of Latvia, Romania, Russian Fed, South Korea, Spain, Sri Lanka, Thailand, Yugoslavia, etc.

Table 5.15 Imports of major agricultural inputs (million US$).

F/Year	Fertilizers	Total Seeds	Pesticides	Farm Machinery
1980/81	357.3	2.00	32.68	-
1981/82	83.8	5.99	23.28	144.00
1982/83	165.6	0.99	31.22	152.93
1983/84	114.9	3.98	50.86	165.11
1984/85	120.1	4.16	78.98	124.86
1985/86	128.2	5.20	87.79	98.23
1986/87	188.2	5.02	109.32	94.42
1987/88	179.9	9.53	100.53	82.49
1988/89	189.1	12.63	71.97	83.21
1989/90	206.7	8.14	58.25	51.36
1990/91	264.2	13.03	66.42	41.49
1991/92	256.8	8.01	78.33	58.63
1992/93	249.5	10.00	66.66	61.42
1993/94	267.0	12.95	56.57	44.34
1994/95	127.9	7.25	-	-
1995/96	345.2	15.84	-	-

Source: Pakistan Economic Survey, 1996/97, Islamabad; Ministry of Commerce, Islamabad, Pakistan.

Table 5.16 Direction of agricultural exports of major commodities* of Pakistan (million US$).

Countries	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Indonesia	17.14	10.24	25.79	25.17	33.28	63.99	36.42	17.81	74.44	49.34	20.78	59.81	126.78
(%)	4.19	2.94	5.25	4.64	5.13	6.46	6.57	2.72	9.61	8.29	5.30	9.61	13.34
Dubai	28.53	31.76	31.08	25.75	27.36	58.66	34.81	29.36	42.32	73.33	49.50	69.26	101.11
(%)	6.97	9.13	6.32	4.75	4.22	5.92	6.28	4.49	5.46	12.32	12.63	11.13	10.64
Iran	115.82	2.86	27.33	42.76	8.34	36.58	59.36	52.73	92.67	30.18	10.09	53.84	99.09
(%)	28.30	0.82	5.56	7.88	1.29	3.69	10.71	8.07	11.96	5.07	2.57	8.65	10.42
Thailand	2.96	14.18	24.88	42.21	42.58	81.68	24.16	41.53	66.29	42.11	13.52	10.67	76.86
(%)	0.72	4.08	5.06	7.78	6.57	8.24	4.36	6.35	8.56	7.08	3.45	1.72	8.09
Hong Kong	2.21	38.34	48.57	50.17	93.12	171.51	56.65	68.43	114.97	56.69	22.44	65.92	69.01
(%)	0.54	11.02	9.88	9.25	14.36	17.30	10.22	10.47	14.84	9.53	5.73	10.60	7.26
Japan	62.48	87.23	90.83	105.58	106.61	124.32	52.64	87.46	77.36	85.68	46.78	38.12	50.67
(%)	15.27	25.07	18.48	19.47	16.44	12.54	9.50	13.38	9.99	14.40	11.94	6.13	5.33
China	13.89	0.00	0.00	3.30	38.73	170.28	38.00	42.26	20.57	0.32	1.07	7.48	48.60
(%)	3.39	0.00	0.00	0.61	5.97	17.18	6.86	6.47	2.66	0.05	0.27	1.20	5.11
Bangladesh	16.17	14.13	16.46	36.52	77.79	33.75	55.34	35.48	60.29	33.05	19.94	54.64	39.13
(%)	3.95	4.06	3.35	6.73	12.00	3.40	9.98	5.43	7.78	5.55	5.09	8.78	4.12
Saudi Arabia	61.38	41.69	79.01	76.55	69.95	33.23	33.16	56.21	67.02	76.31	41.13	33.93	34.64
(%)	15.00	11.98	16.08	14.12	10.79	3.35	5.98	8.60	8.65	12.82	10.49	5.45	3.64
African countries	3.14	7.32	7.25	0.00	19.02	48.25	45.19	53.50	29.64	15.95	38.02	77.99	58.37
(%)	0.77	2.10	1.48	0.00	2.93	4.87	8.15	8.19	3.83	2.68	9.70	12.54	6.14
Other countries **	85.58	100.21	140.25	134.32	131.52	169.01	118.54	168.85	129.12	132.20	128.67	150.41	246.36
(%)	20.91	28.80	28.54	24.77	20.29	17.05	21.39	25.83	16.67	22.21	32.83	24.18	25.92
Total Exports	409.3	347.96	491.45	542.33	648.3	991.26	554.27	653.62	774.69	595.16	391.94	622.07	950.62
(%)	100	100	100	100	100	100	100	100	100	100	100	100	100

Source: Ministry of Commerce, Government of Pakistan, Islamabad, 1997; Federal Bureau of Statistics, Islamabad, Pakistan.

* Major commodities include only raw cotton, rice, fruits and vegetables, and fish and its preparations.

** Philippines, Brazil, UK, Oman, South Korea, Netherlands, India, U. S. A., Kenya, Sri Lanka, Mauritius, Belgium, France, Switzerland, Germany, and Singapore.

Table 5.17 Source of agricultural imports of major commodities* of Pakistan (million US$).

Country	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
USA	258.60	157.55	268.74	114.60	210.17	541.00	460.20	236.53	236.92	228.83	269.86	474.03	492.30
(%)	40.80	18.82	34.21	25.56	36.16	56.50	48.92	33.61	26.20	20.16	29.24	29.26	32.24
Malaysia	220.63	305.41	189.60	121.20	181.22	207.16	189.13	235.31	326.38	450.67	397.38	782.42	683.38
(%)	34.82	36.49	24.14	27.03	31.18	21.63	20.11	33.43	36.09	39.70	43.05	48.29	44.75
Indonesia	27.16	35.54	50.54	14.96	16.53	23.06	22.79	24.91	34.73	50.98	44.12	100.61	87.94
(%)	4.29	4.25	6.43	3.34	2.84	2.41	2.42	3.54	3.84	4.49	4.78	6.21	5.76
Kenya	4.81	96.73	73.96	88.68	33.63	47.69	85.21	77.48	78.56	94.58	85.45	87.04	79.17
(%)	0.76	11.56	9.41	19.78	5.79	4.98	9.06	11.01	8.69	8.33	9.26	5.37	5.18
Argentina	0.02	0.00	10.74	5.60	1.21	0.00	0.00	11.54	18.86	55.70	16.60	29.34	28.91
(%)	0.00	0.00	1.37	1.25	0.21	0.00	0.00	1.64	2.09	4.91	1.80	1.81	1.89
Brazil	8.74	34.33	0.00	3.93	5.09	0.06	0.07	16.69	14.50	53.70	13.25	24.21	22.96
(%)	1.38	4.10	0.00	0.88	0.88	0.01	0.01	2.37	1.60	4.73	1.44	1.49	1.50
Germany	16.30	13.18	19.63	3.78	4.14	10.46	10.64	4.51	7.78	5.27	8.55	13.09	15.84
(%)	2.57	1.57	2.50	0.84	0.71	1.09	1.13	0.64	0.86	0.46	0.93	0.81	1.04
Canada	0.00	11.60	7.20	9.61	9.36	3.95	13.51	12.06	34.00	57.40	6.54	11.20	13.50
(%)	0.00	1.39	0.92	2.14	1.61	0.41	1.44	1.71	3.76	5.06	0.71	0.69	0.88
Sri Lanka	15.11	21.79	12.28	16.85	26.63	29.67	18.25	12.45	11.66	10.05	13.59	13.91	12.65
(%)	2.39	2.60	1.56	3.76	4.58	3.10	1.94	1.77	1.29	0.89	1.47	0.86	0.83
Singapore	0.68	2.20	5.22	6.39	1.81	2.45	6.44	2.62	3.16	6.08	6.62	11.29	11.39
(%)	0.11	0.26	0.66	1.43	0.31	0.26	0.68	0.37	0.35	0.54	0.72	0.70	0.75
Australia	0.00	89.36	97.63	8.69	3.50	25.43	75.79	3.09	62.08	41.35	0.42	9.21	11.35
(%)	0.00	10.68	12.43	1.94	0.60	2.66	8.06	0.44	6.86	3.64	0.05	0.57	0.74
Bangladesh	33.47	25.50	14.25	7.79	18.53	15.68	8.91	7.31	6.77	14.88	11.73	11.88	10.77
(%)	5.29	3.05	1.81	1.74	3.19	1.64	0.95	1.04	0.75	1.31	1.27	0.73	0.71
Other countries *	47.54	43.8	35.77	46.33	69.42	50.98	49.75	59.3	68.99	65.61	48.95	51.88	56.9
(%)	7.51	5.23	4.55	10.33	11.94	5.32	5.29	8.43	7.63	5.78	5.3	3.2	3.73
Total Imports	633.06	836.99	785.56	448.41	581.24	957.59	940.69	703.80	904.39	1,135.10	923.06	1,620.11	1,527.06
(%)	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Ministry of Commerce, Government of Pakistan, Islamabad, 1997; Federal Bureau of Statistics, Islamabad, Pakistan.

[*] Major agricultural import commodities included are only wheat, edible oil, tea & coffee, and milk and its products.

[**] Tanzania, Rwanda, Irish Republic, Italy, Sweden, China, Netherlands, Malawi, Poland, Japan, India, Spain, UK, and Dubai.

Table 5.18 Production of major agricultural crops in Pakistan ('000 tons).

F/Year	Wheat	Rice	Maize	Gram	Sugarcane	Cotton	Citrus	Mango
1980/81	11,475	3,123	970	337	32,359	715	926	547
1981/82	11,304	3,430	930	294	36,580	748	1,160	652
1982/83	12,414	3,445	1,005	491	32,534	824	1,245	683
1983/84	10,882	3,340	1,014	522	34,287	495	1,300	673
1984/85	11,703	3,315	1,028	524	32,140	1,008	1,373	692
1985/86	13,923	2,919	1,009	586	27,856	1,208	1,434	713
1986/87	12,016	3,486	1,111	583	29,926	1,309	1,467	737
1987/88	12,675	3,241	1,127	372	33,029	1,468	1,411	713
1988/89	14,419	3,200	1,204	456	36,976	1,426	1,565	735
1989/90	14,316	3,220	1,179	562	35,494	1,456	1,576	766
1990/91	14,565	3,261	1,185	531	35,989	1,637	1,609	776
1991/92	15,684	3,243	1,203	513	38,865	2,181	1,630	787
1992/93	16,157	3,116	1,184	347	38,059	1,540	1,665	794
1993/94	15,213	3,995	1,213	411	44,427	1,368	1,849	839
1994/95	17,002	3,447	1,318	559	47,168	1,479	1,933	884
1995/96	16,907	3,966	1,283	680	45,230	1,802	1,960	908
1996/97	16,377	4,305	1,260	680	41,998	1,594	1,998	914

Source: Ministry of Food, Agriculture and Co-operatives, Islamabad.
Federal Bureau of Statistics, Islamabad, Pakistan.

5.7 General trade indicators related to the agricultural economy

In this section, general trade indicators, which show the performance of various trade policies related to the agricultural sector, are given along with overall economic growth in the country. These indicators are in the form of percentages/ratios, and mainly calculated from data given in previous sections (Table 5.19). An explanation of these indicators is given below:

- Balance of trade/GDP: Pakistan continued to have a negative trade balance since the 1950s. The percent of trade balance to GDP at current prices was around -10% during the early 1980s and declined to around -4% in 1995/96 in the domestic economy of the country.
- Total exports/GDP: There has been an increasing trend during the last 15 years in the proportion of GDP exported. The percent of total exports to GDP was less than 10% up to the mid 1980s, and increased to around 12% during the late 1980s. In 1991/92, when the process of economic reforms started, the proportion of GDP exported further increased to more than 13%. The percentage was 13.6% in 1995/96.
- Total imports/GDP: The percent of total imports to GDP at current prices ranged between 16% and 19% from 1980/81 to 1995/96. The ratio of imports to GDP witnessed higher growth compared to the ratio of exports to GDP.
- Agricultural exports/total exports: Agricultural exports do not include manufactured agriculture-based exported products; only products in raw form are included, such as raw cotton, rice, fresh, dried and processed fruits, and fresh and processed vegetables, fish and it preparations, etc. Up to the early 1980s, Pakistan exported mostly products in raw form, but now the share of products in the manufactured form has significantly improved. The share of raw agricultural product exports to total exports has declined from around 40% in the early 1980s to only 15% in 1995/96, and the balance consists of non-agricultural exports.
- Non-agricultural export/total exports: This ratio has increased considerably during the last fifteen years, but most of the non-agricultural exports are also based on agriculture.
- Agricultural export/GDP: The percent of agricultural exports to GDP has declined from more than 4% to only 2% in 1995/96. Agricultural exports in Pakistan are mainly based on cotton, which is prone to climatic conditions and the cotton crop was severely damaged due to cotton leaf-curl virus during the 1990s, so the export of cotton considerably decreased during this time period.
- Agricultural export/agricultural GDP: The percentage of agricultural exports to agricultural GDP fluctuated between 5% and 15% from 1981 to 1996.
- Agricultural balance of trade/GDP: The percent of agricultural trade balance to GDP was less than -1% in 1995/96. The negative agricultural trade balance was mainly due to a big drain of foreign exchange on import of edible oil, wheat and tea.
- Agricultural imports/total imports: Separate data for agricultural and non-agricultural imports were not available. Thus total agricultural imports were estimated as a sum of the major crops, fertilizer, and insecticides/pesticides. The percent of agriculture imports to total imports was around 15% during the 1990s.
- Non-agricultural import/total import: On the other hand, the share of non-agricultural imports in total imports has been more than 80% since 1980.
- Agricultural import/GDP: The percent of agricultural imports to GDP was less than 3% during most of the time period under consideration.
- Agricultural import/agricultural GDP: The percent of agricultural imports to agricultural GDP was around 12% in 1995/96. It was more than 13% in 1994/95 mainly due to a very high import bill for edible oil during this period.
- Import of food crops/agricultural GDP: In addition to pulses, the main imported food crop is wheat. The percentage of imports of food crops in agricultural GDP was more

than 10% during the last few years.

- Import of feed grain/agricultural GDP: Pakistan did not import any grain for feed.
- Import of livestock and livestock products/agricultural GDP: This percentage was less than 1% during the 1990s.
- Import of fish and fishery products/agricultural GDP: Pakistan did not import any fish or fishery products; rather Pakistan is an exporter of fish and its preparations. Pakistan's share in the total world export of fish and fishery products is around 0.5%.
- Export/production (major agricultural exporting commodities): Cotton and rice are two major agricultural export commodities of Pakistan. The percent of raw cotton exports was as high as around 59% of total production during the late 1980s, and fell as low as only 2% of total production in 1994/95 mainly due to the cotton leaf-curl virus and climatic factors, but again improved to around 17% in 1995/96. Pakistan exported more than 50% of its total production of rice in 1994/96, but again this declined to around 40% in 1995/96.
- Import/production (major agricultural importing commodities): Wheat is the only major agricultural import commodity of Pakistan. Pakistan imported more than 2 million tons of wheat every year, which is more than 10% of total domestic production of wheat. On the other hand, the other major import commodity is edible oil, and nearly three-fourths of the local demand of edible oil was met through imports during the last ten years (Akhtar 1997).
- Price ratios: The price ratios are given in Table 5.20. The percent of f.o.b. price of rice to wholesale price of rice was about 77% in 1992/93, and fell to 68% in 1995/96. The percent of c.i.f. price of wheat to the wholesale price of wheat was 105% in 1995/96. The percent of WPPCM/WP of rice and wheat was less than 100% in 1995/96, which indicates the lower prices of these commodities compared to international prices. The ratio of f.o.b. price of rice to its world price shows that Pakistani rice is competitive in the world market.

Table 5.19 General trade-related economic indicators (%) in Pakistan.

F/Year July to June	Balance of Trade/GDP	Total Export /GDP	Total Import/GDP	Agri Export /Total Export	Non-Agri Export/Total Export	Agri Export /GDP	Agri Export /Agri GDP	Agri Balance of Trade/GDP
1980/81	-8.73	10.52	19.25	40.39	59.61	4.25	15.48	1.82
1981/82	-10.25	8.10	18.35	32.18	67.82	2.61	9.17	0.19
1982/83	-9.28	9.45	18.70	28.13	71.87	2.66	9.75	0.19
1983/84	-9.37	8.89	18.27	26.53	73.47	2.36	9.48	-0.89
1984/85	-10.96	8.04	19.01	26.57	73.43	2.14	8.39	-1.38
1985/86	-8.04	9.64	17.68	33.04	66.96	3.18	12.72	-0.17
1986/87	-5.08	11.07	16.15	25.29	74.71	2.80	11.84	0.31
1987/88	-5.04	11.61	16.66	26.87	73.13	3.12	13.48	0.56
1988/89	-5.92	11.72	17.65	31.03	68.97	3.64	15.20	0.52
1989/90	-4.96	12.44	17.39	18.08	81.92	2.25	9.75	-0.97
1990/91	-3.27	13.55	16.77	16.49	83.51	2.23	9.78	-0.17
1991/92	-4.82	14.18	18.98	17.24	82.76	2.44	10.49	-0.06
1992/93	-6.05	13.20	19.28	13.14	86.86	1.73	7.81	-1.24
1993/94	-3.38	13.06	16.42	9.00	91.00	1.18	5.17	-1.05
1994/95	-3.70	13.35	17.05	9.90	90.10	1.32	5.69	-1.74
1995/96	-4.79	13.57	18.31	14.85	85.15	2.02	8.68	-0.80

Continued ……

Table 5.19 General trade-related economic indicators (%) in Pakistan (continued).

F/Year July to June	Agri Import /Total Import	Non Agri Import /Total Import	Agri Import /GDP	Agri Import /Agri GDP	Imports of Livestock & its Products/Agri GDP	Imports of Livestock & its Products /Agri GDP	Exports/ Production (Cotton)	Exports /Production (Rice)	Imports /Production (Wheat)
1980/81	12.61	87.39	2.43	8.84	6.63	1.13	45.53	39.82	0.17
1981/82	13.19	86.81	2.42	8.51	6.94	0.95	30.88	27.73	1.20
1982/83	13.20	86.80	2.47	9.05	7.18	1.00	30.94	26.27	-
1983/84	17.79	82.21	3.25	13.05	10.92	1.19	23.66	37.88	-
1984/85	18.51	81.49	3.52	13.82	11.60	1.13	26.76	21.68	4.65
1985/86	18.99	81.01	3.36	13.41	10.78	0.87	52.47	45.09	11.22
1986/87	15.40	84.60	2.49	10.52	6.67	0.81	48.57	35.58	-
1987/88	15.38	84.62	2.56	11.07	8.28	1.03	34.19	37.34	-
1988/89	17.64	82.36	3.11	13.02	10.99	0.78	58.92	26.70	12.50
1989/90	18.51	81.49	3.22	13.96	11.10	0.74	20.53	23.10	11.20
1990/91	14.32	85.68	2.40	10.51	7.38	0.56	17.26	36.94	4.31
1991/92	13.20	86.80	2.50	10.74	8.87	0.55	20.93	46.62	10.46
1992/93	15.45	84.55	2.98	13.42	11.90	0.44	17.20	33.12	14.59
1993/94	13.55	86.45	2.22	9.77	8.42	0.42	5.60	24.64	9.26
1994/95	17.95	82.05	3.06	13.18	12.12	0.30	2.27	53.74	13.37
1995/96	15.35	84.65	2.81	12.10	10.76	0.44	17.40	40.35	11.42

Table 5.20 Price indicators (%) of major export/import agriculture commodities of Pakistan.

F/Year (July to June)	f.o.b./W (Rice)	c.i.f. /WP (Wheat)	WPPCM/WP (Rice)	WPPCM/WP (Wheat)
1992/93	76.69	108.84	78.13	103.45
1993/94	47.84	83.52	48.64	98.62
1994/95	60.01	87.77	68.70	90.24
1995/96	68.13	105.47	83.49	71.37

Source: Pakistan Economic Survey 1996/97, Islamabad, Pakistan.

Note: f.o.b. and c.i.f. values of rice and wheat are at Karachi, Pakistan. Wholesale price at the principle central market (WPPCM) of rice and wheat are support prices. World prices (WP) of rice and wheat are taken from the FAO monthly bulletin.

6. Summary and Policy Implications

This section summarizes this report on Pakistan, and draws conclusions from this piece of research.

6.1 Summary

- Pakistan has experienced steady economic growth with a real GDP growth rate of about 6% and agricultural GDP increased on an average of 3.8% per year during the last few decades. The agriculture sector is still one of the most important parts of the economy of the country employing more than 50% of the total labour force, directly and indirectly making more than two-thirds of the total export earnings.
- With the fast economic growth in many countries, particularly in Asian developing countries, trade of agricultural products is expanding and it is expected that trade will expand further. The movement towards trade liberalization is active in Asia and the Pacific region, and most of the countries have signed the Uruguay Trade agreement under WTO. However, concern about the effects of trade liberalization on regional agricultural production has been growing. The extent and direction of impacts of trade liberalization of agricultural products differ by country and by product. In order to smoothly proceed with the adjustment process towards a more liberalized economic environment, the effects of trade liberalization, especially on small farmers, need to be identified and analysed. This project "Effects of trade liberalization on agriculture in selected Asian countries with special focus on upland crops (TradeLib)" aims at identifying the changing international trade of agricultural products and characterization of the economic situation in rural communities in selected Asian countries in the process of trade liberalization. The present study is a part of this project and focuses on Pakistan. This is the first part of the study, an institutional study, and it attempts to highlight and analyse institutional aspects of trade liberalization in Pakistan, including an overview of trade-related policies, infrastructural development affecting international trade, trends of agricultural trade and overall effects of trade liberalization, and other issues of importance.
- Being a signatory to WTO, Pakistan has accepted all the Uruguay Round trade agreements under the WTO. It is currently in the process of implementing the agreements and modifying legal and administrative rules to ensure their consistency with rules and practices under WTO. In recent years, the impacts of trade liberalization, especially on agriculture have received considerable attention. However, much of this discussion has been based on perceptions rather than on facts, and, only short-term rather than long-term effects of GATT have been presented. There is a need to understand the long-term benefits of trade liberalization and the role of GATT in inducing long-term structural adjustments.
- Until the end of the 1980s, Pakistan followed highly protective trade policies and most agricultural commodities have been subject to trade measures like quantitative restrictions, licences, quotas and high tariff rates. With its high levels of tariffs and non-tariff barriers, the economy of Pakistan was insulated from the world agricultural market. This high protection put a heavy burden on the country's export sectors, as some of the export products became uncompetitive in the international market. However, the country is presently moving towards trade liberalization and

globalization and has taken substantial steps towards greater reliance on market forces. The levels of tariff and non-tariff protection, and of state intervention in trade, have been reduced considerably. Presently the government has further liberalized the trade regime by reducing tariff rates to 45% to speed up economic recovery through export-led growth. The trade policy for 1997 and 1998 is outward-looking and is a major step towards further liberalization of trade to meet the country's obligation towards globalization of merchandised trade under WTO.

- Since 1950, Pakistan has continued to face serious balance of payment problems, not only because of international economic conditions but also due to its adoption of restrictive trade policies to provide protection to infant industries. Due to over-protection of domestic industries, domestic production of commodities became less competitive in the world market. Pakistan's foreign exchange earnings are mainly dependent on raw cotton and other cotton-based products. Exports from Pakistan are dependent on only a few products and the lack of diversification has resulted in decreasing export performance. The cotton and cotton-based products account for more than 60% of merchandise exports, but the cotton crop is highly prone to natural hazards like cotton leaf curl virus, and climatic factors. Whenever there was any such natural hazard (such as during 1994 and 1995), the country faced serious economic crises. After cotton-based products, the other main export commodities are rice, fish and its preparations, fruits and vegetables, and leather products.
- To proceed further with the process of trade liberalization, the government has recently introduced an investment policy for both local and foreign investors. The investment policy is full of incentives to attract investment and provide an investment-friendly atmosphere from within and outside the country. In addition to other sectors, investment in agro-based industry is also included. Foreign investors are placed at par with local investors in this policy. The incentives for investment range from reduced or zero import duty on machinery and equipment, exemption from levy of tax on income, one window operation, fully developed infrastructure, supply of high quality utilities and availability of other fiscal and monetary incentives. Foreign investors have been allowed to participate in local projects on 100% equity basis.
- To achieve macro-economic stability in the country, the government has recently taken certain steps to improve the fiscal system. The government is trying to expand the tax base, improve tax elasticity and buoyancy, bring about transparency and simplicity in the taxation structure, reduce discretionary powers of the taxation machinery, eliminate tax exemptions that breed evasion, promote horizontal and vertical equity and improve tax administration. Reliance on tariffs and international trade tax is being shifted in a major restructuring effort to domestic taxes (both direct and indirect), and the tax/tariff base is also expanded. To improve the budget deficit, various measures also taken include curtailing expenditure in many sectors of the economy. To broaden the tax base, the government has considerably reduced many tariffs, sales and income tax rates, and has eliminated a number of exemptions in import duties (Government of Pakistan 1997).
- Monetary policy in Pakistan has also undergone rapid reforms since the early 1990s. The market oriented monetary policy, which was introduced in the early 1990s, was further strengthened in 1996/97. Monetary and credit policies were geared to planned GDP growth, anticipated inflation and expected changes in net foreign assets of the banking system. Commercial banks are being impressed upon not to involve themselves in project financing and instead to concentrate on provision of credit for working capital requirements of various sectors of the economy (Government of Pakistan 1997). Under financial sector reforms, the State Bank of Pakistan was granted autonomy by the government.

- The transport network is still not sufficiently well developed to meet the growing needs of the expanding economy. Road transport has been improving but the railway system needs significant overhauling to overcome present constraints. As in air transport, the entry of private sector in railways is a good sign. The major components of the transport system include the road network, the railway system, air transport services and ports and shipping services. Pakistan's road system accommodates 80% of the country's total passenger and freight traffic and the rest is shared by railways and air. More than 90% of Pakistan's trade is sea-borne mainly due to lack of required infrastructure for trade across land borders with India, Iran, and Afghanistan. Pakistan has two main ports, i.e. Karachi Sea Port and Qasim Sea Port. Also Gawadar fish harbour-cum-mini port is near completion.
- The share of the agricultural sector in the economy of the country has slowly declined and that of the non-agricultural sector increased. The share of crops in the agriculture sector has slightly declined and that of livestock, fishery and forestry has increased slightly. The total exports of Pakistan increased significantly from only US$ 2.96 billion in 1981 to $8.7 billion in 1996. Total imports rose sharply from only $5.41 billion to $11.81 billion during the same period. The trade balance increased from $2.45 billion to $3.16 billion from 1981 to 1996, mainly due to higher imports than exports.
- In Pakistan, agricultural exports by SITC selection show that exports of the food group were around US$ 600 million per year from 1982 to 1994. The export of the beverages and tobacco group and vegetable oil and fats was slight during the same time period. Raw cotton, rice, fruits and vegetables, and fish and its preparations are the major export commodities of Pakistan. Among these, cotton is the most important export commodity, as raw cotton and all its manufactured products constitute the more than two-thirds of exports from Pakistan. However, the foreign exchange earnings from cotton varied between US$ 930 million in 1989 and only $62 million in 1994 mainly because this crop is more prone to natural calamities, like cotton leaf-curl virus and climatic factors. Similarly, the other main export commodity is rice, and its exports also varied a lot during the last ten years due to climatic factors. Export of rice varied between US$ 222 million in 1981 and 566 million in 1996. Despite the diverse agro-climatic conditions in the country, the export of fruits and vegetables has not increased from around US$ 50 million during the last 10 years. Export earnings from fish and its preparations almost doubled from 1981 to 1996, and this sector has a lot of potential to grow.
- Agricultural imports by SITC selection show that import of food items increased by more than 50%, the beverages and tobacco group by 60%, and the vegetable oil and fats group by more than 40% from 1982 to 1994. Wheat, edible oil, tea, and milk and its products are the major agricultural import commodities in Pakistan. The drain of foreign exchange by import of wheat increased from only US$ 64 million to US$ 452 million, import of edible oil from $265 million to $997 million and import of tea from US$ 119 million to US$ 171 million from 1981 to 1996. Pakistan mainly imported wheat from USA, edible oil from Malaysia and USA, tea from Kenya and Sri Lanka, and milk and its products from European countries. In addition to imports of food commodities, Pakistan also imported agricultural inputs including fertilizer (mainly DAP), pesticide/insecticide, seed and farm machinery.
- Pakistan trades agricultural products almost globally. The principal trade partners for Pakistani major agricultural export commodities in 1996 were Indonesia, Dubai, Iran, Thailand, Hong Kong, some African countries, Japan, China, Bangladesh, and Saudi Arabia. Countries from which Pakistan imported major agricultural commodities

during 1996 include USA, Malaysia, Indonesia, Kenya, Argentina, Brazil, Germany, Canada, Sri Lanka, Singapore, Australia, and Bangladesh.

- Major crops grown in Pakistan are wheat, cotton, rice, sugarcane, gram, maize, sorghum, millet, rapeseed/mustard, and tobacco. Minor crops of Pakistan include pulses, potato, onion, chilli, garlic, etc. Main fruits grown in Pakistan include citrus, mango, banana, apple, guava, apricot, peach, pears, plums, grapes, etc. Wheat is the main staple food of the country, and cotton and rice are the two main export crops. Among the fruits, mango and citrus are the two major export fruits. Out of the total production of raw cotton in the country, the export was as high as 59% during the late 1980s, and fell as low as only 2% in 1994/95 mainly due to cotton leaf-curl virus and climatic factors but again improved to 17% in 1995/96. Export of rice was around 40% of the total production in the country. The wheat import was more than 2 million tons every year, which was around 10% of the total production of wheat in the country. The direction of movement of prices of various agricultural commodities over time indicates that Pakistan has comparative advantages in the production of Basmati rice, cotton and high value crops including fruits and vegetables.

6.2 Policy implications

- As a signatory to WTO, Pakistan is currently in the process of implementing the Uruguay Round Trade Agreements. This undertaking is very complex and comprehensive and its impacts can not be easily quantified mainly due to uncertainty in the agriculture sector. Therefore, extra precautions may be taken in the interpretation and adoption of its impacts on the agriculture sector. In the presence of the existing economic and political structure in Pakistan, it is expected that the country will face considerable policy challenges in the course of implementation of the Uruguay Round Agreement, including tariff reductions and various other policy adjustments, which will be required to fulfil obligations under WTO.
- To further expand the export of agricultural commodities, Pakistan will have to adopt measures and programmes that will ensure that its export products compete successfully with those of other LDCs, particularly producers of the same commodities in Asia.
- In the agriculture sector, most producers, exporters, and policy makers are presently not well aware about the Uruguay Round Trade Agreement on agriculture. There is an urgent need to pursue public awareness programmes on the impact of trade liberalization on agriculture, including trade policy developments, priorities, and strategies of the major trading partners of Pakistan.
- Presently Pakistan is not a member of any regional trading block, and in the long run, this might result in the diversion of trade and investment away from Pakistan to other countries which participate in regional trade agreements. It may be important for Pakistan to strengthen its trade relations with its neighbouring countries including countries in SAARC.
- From global trade liberalization in agriculture, Pakistan is interested to expand its world market share mainly in rice, cotton and fruits and vegetables. The productivity of almost all traded goods is very low compared to their potential. Therefore, efforts must be made through extension to promote improved cultural and intensive management practices to increase the existing productivity levels. Also support prices of various commodities fixed by the government are below world prices. Therefore, to increase the yields of all crops, farmers may be given price incentives. Commodity

prices may be market-oriented, and the government may slowly phase out all forms of price support policies and control on output markets in the country.

- With trade liberalization, Pakistan may look to markets in East Asian countries, especially for rice. However, there is a need to look carefully at the possibilities to substitute our existing varieties of rice with those in demand in the East Asian countries.
- It is expected that domestic prices of wheat, a main staple food in Pakistan, will increase considerably and the country has to spend a huge amount of foreign exchange on its import. In the case of wheat, the best strategy would be to achieve self-sufficiency by considerably increasing the productivity of the local wheat crop, which is far below the potential yield level.
- Pakistan is blessed with diverse agro-climatic conditions and one of the best irrigation systems in the world. It is easily possible to harvest a long list of fruits and vegetables over a longer period, starting in the south and then moving north. This results in a year-round supply of both fruits and vegetables and shows the export potential of Pakistan in high value crops. There is a big market for high value crops including non-traditional products such as cut flowers. However substantial improvements are required in research and development activities to achieve this potential. Presently Pakistan exports less than 2% of its total production of these high value crops. Research on fruits and vegetables should be market-oriented and should be according to the requirements of export markets, especially research on increasing shelf-life. The most cost-effective technology and storage management improvement should be introduced. The grading, packing and procurement system for export purposes needs to be totally improved to compete in the world markets in the future.
- The trade-related physical infrastructure in the country needs considerable improvement to fulfil the growing needs of international trade in Pakistan. Facilities such as the transport network, equipment for quality control, bulk storage and handling facilities, railway sheds, etc., should be improved through increased private investment to develop the physical infrastructure in the country.

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