
FOREIGN TRADE OF PAKISTAN

Basic Weaknesses

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Strategic Elements

The basic weaknesses in the foreign trade of a country must be looked for mainly on the export side. For imports, which are the rationale of all export activity, are a function of the value of exports. Basic defects on import side are, therefore, likely to emanate from some underlying defects in the nature and structure of exports. If the export side of a country is strong, if it is earning enough foreign exchange, then the problems on the import side which are mainly administrative in character and relate chiefly to commercial policy, present no great difficulty.

Criteria of Strength and Weakness

Accepting imports to be the end-purpose of the foreign trade of a country, which is the same thing to say as that consumption is the end of all productive activity, the criteria for judging the strength or weakness of a country's foreign trade are obvious. The strength of a country lies in its ability to maintain a high and stable (in the sense of progressively increasing and denoting avoidance of drastic falls) level of exchange earnings as to provide adequately for its import requirements.

The strength of our export trade must, therefore, be judged in the light of its ability to come up to the above criteria:

Basic Weaknesses — Exports

1. *Instability.* The very first salient feature of our export trade is the instability of our foreign exchange earning as revealed by the following table showing our export receipts from sea-borne trade which comprise about 90% of our total export earnings:

	(Crores of rupees)						
Period	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53	1953-54
Exports	70	94	87	205	165	131	106
Change	+24	-7	+118	-40	-34	-25	...

Thus we see that our export earnings have not kept a steady level. There have been sudden falls of great magnitudes in the export proceeds between 1949 and 1950, as well as in all the years after 1951. There was a considerable rise in 1948 and a record expansion in 1951 due to the Korean Boom.

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The table thus clearly shows the extremely unstable character of our export earnings with a tendency, on the whole, to fall down rather than to rise. The annual decline in the export earnings since 1951 has been of the order of Rs. 40 crores in 1952, Rs. 34 crores fall in 1953, and Rs. 25 crores fall in 1954. These are huge declines in our export earning and connote some basic weakness in our foreign trade.

Even if the declines in export earnings since 1951 are due to gradual recession of world demand for our export commodities, jute and cotton, so that the level of export earnings in 1954 is higher than that in 1948-49, the fact remains that our export earnings are extremely unstable in character.

This instability is a basic weakness in the structure of our foreign trade by reason of its grave consequences for the internal economy:

- (i) On account of the fluctuations in export earnings, our imports have had to follow a similar pattern of sharp fluctuations. Imports had frequently to be cut down seriously in order to correspond to the sudden declines in export proceeds, leading to the scarcity of both consumer and producer goods thus raising the cost of living and arresting the rate of capital development. This is revealed by the following table:

Sea-Borne Imports							
(Crores of rupees)							
Period	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53	1953-54
Exports	29	128	98	129	172	84	60
Change	+99	-30	+31	+43	-88	-24	...

The changes from year to year in the value of imports allowed are of the order of Rs. 45 crores at the average. The figures speak eloquently of the instability of our Imports consequent upon the instability of our exports, and leading to frequent jerks and jolts to the internal economy.

Bearing in mind the impact of the volume of imports on the rate of our industrial development, and on the cost of living of the urban classes in particular and the prices of consumer goods in general, we can not but single out the instability of our export earnings as the basic weakness of our foreign trade.

- (ii) Likewise, our balance of payments position has frequently turned unfavourable on account of the sudden fluctuations in our export fortunes while imports had been liberalized in expectation of higher earnings, or could not be lowered beyond a certain minimum even if exports fell (proportionately) to a greater extent. This frequent deficit led to a constant

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drain on our foreign exchange reserves and weakened the external position of our currency until it had to be devalued in August 1955.

The statement above is corroborated by the following figures:

		<i>Balance of Payments</i> (Crores of rupees)					
Period	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53	1953-54
Balance of Payments	+21	-45	-34	+57	-47	-40	+6

		<i>Foreign Exchange Reserves</i> (Crores of rupees)				
Year*	1948	1949	1950	1951	1952	
Value	51	165	95	151	104	
Change	+114	-50	+56	-47	...	

*On June 30th of the year.

(iii) A third major implication of the fluctuations in the volume of our export and hence of import trade is the resultant instability of the Revenue Receipts of the Central Government which comprise mainly the revenue from Custom Duties (contributing about 60% of the total revenue). This instability has repercussions on the public expenditure for capital development. The relevant figures are as follows:

		(Crores of rupees)				
Period	1948-49	1949-50	1950-51	1951-52	1952-53	
Duties on —						
Exports	18	12	43	36	23	
Imports	19	36	41	55	45	
Total	37	48	84	91	68	
Change	+11	+36	+7	-23	...	

2. *Insufficiency.* The second prominent feature of our export trade is the insufficiency of export earnings relatively to the demand for imports. This is reflected in the predominantly deficit balance of payments in the last few years and the drain on foreign exchange reserves:

		<i>Balance of Payments</i> (Crores of rupees)					
Period	1947-48	1948-49	1949-50	1950-51	1951-52	1952-53	1953-54
B.P.	+21	-45	-34	+57	-47	-40	+6

		<i>Foreign Exchange Reserves</i> (Crores of rupees)					
Year	1948	1949	1950	1951	1952	1953	1954
Value	51	165	95	151	104
Change	+114	-50	+56	-47

The figures above show only the 'actual' deficit after the imposition of strong restrictions on imports. Keeping in view this fact as well as our ambitious program-

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mes for economic development, the inadequacy of our export earnings is greatly enhanced.

The inadequacy of our exports has another aspects, *i.e.*, inadequacy with regard to currency areas. Thus, we have been in constant deficit with the dollar and the sterling areas, although enjoying a substantial surplus with the rest of the world.

<i>Balance of Payments by Currency Areas</i>		(Crores of rupees)			
Period	1947-48	1948-49	1949-50	1950-51	1951-52
Balance with —					
Dollar Area	-1.95	-11.37	-8.98	-8.07	-25.87
£ Area	+0.93	-46.03	-35.45	-25.36	-56.01
Rest of the world	+22.70	+11.86	+9.46	+91.12	+34.56
Total	+21.68	-45.54	-34.97	+57.69	-48.46

Having indicated the nature of the malady in our foreign trade, instability and insufficiency of our export proceeds, we may now proceed to examine the causes of that maladjustment.

The most obvious weakness of our 'export trade' is that it is confined overwhelmingly to two agricultural raw materials for foreign country. This fact contains the three-fold weakness:

- (i) Export of industrial raw materials as compared with the export of consumer and producers' finished goods is more vulnerable and subject to greater fluctuations in demand. This hypothesis is proved by empirical evidence and may be explained by the fact that while prices of the exports of raw material producing countries depend entirely upon world market (they have virtually no home market), the prices of exports of industrial countries depend upon their domestic market and not on the export market in agricultural countries which for marginal market.

Moreover, while the agricultural countries' demand for manufactured goods for consumption or production is fairly irreducible, the industrial countries' demand for imported raw materials, insofar as they are required for processing for the home market, fluctuates frequently with the pace of productive activity at home.

For this reason, the exports of raw material producing countries fluctuate in economic activity in the industrial countries.

- (ii) The impact of dependence on conditions beyond our control is enhanced because of our inability to export a large variety of commodities so that the adverse movement in respect of one group of commodities could be counter-acted or mitigated by favourable conditions for other exports.

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The extremely high degree of our dependence for foreign exchange earnings on two commodities only is reflected by the following figures:

Share of Principal Exports as Percentage of Total

	1949-50	1952-53	1953-54	Average 1948-52
Cotton	33	45	39	43
Jute	44	37	44	43
Wool	2.9	3.7	3.3	4
Hides and Skins	2.4	2.4	2.9	4
Tea	3.8	2	2.9	6
Others	13.9	9.9	7.9	

Thus, jute and cotton, two vulnerable commodities, together account for about 86% of our total export earnings.

(iii) Another implication of our raw material exports is that we get less than what we could by using those very raw materials in domestic industries and sending out manufactured goods instead. Recent industrialization programmes are removing to some extent the colonial pattern of trade that existed before Partition. They are gradually decreasing our dependence on imports of finished consumer goods and there are beginnings in the export of manufactured goods, *e.g.* jute and sports goods.

Even if we cannot substantially increase our exports of finished goods, reduction in our dependence both on imports, and on the disposal of our entire jute and cotton in foreign markets, will substantially mitigate the weakness of our foreign trade. We will, through, industrialization, therefore, strengthen our position both as sellers of raw material by reducing the amounts necessary for us to dispose of, and as buyers by having home-made goods to fall back upon instead of relying entirely on foreign goods.

Other reasons for the instability and insufficiency of our export earnings refer to the marketing of our actual or potential exports. Marketing problems include both the lack and limitation of our commercial contacts with foreign markets and the indifferent quality of our exports. The magnitude of our export earnings is a function of our marketing genius and if the former has to be maintained at a high level in the interest of both the private exporter and the country, the two parties concerned must be prepared to put in the required amount of effort and imagination in the cause of boosting up the export trade. Action is required on the following lines for the above purpose:

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1. Quality of our exports must be very high in order to attract the consumers of the foreign countries which are usually far more advanced than we are. This requires serious thought and planning. We must try to improve the quality of our exports — whether agricultural raw materials or finished goods — and carefully grade and differentiate goods of various qualities and types. There must be no dishonest or irresponsible adulteration in our exports. This is a matter of reputation on which very largely depends the export trade of any country. We must labour hard to attain high standards for our produce and jealously guard their purity and reputation.

Successful accomplishment of this task involves a good deal of effort on a national scale and relates ultimately to the whole technique of production. For example, we must discover and popularize improved seeds for our agricultural products, improve the technique and quality of their processing or package; we must introduce improved designs for the finished products of our large and small scale (cottage) industries, and inspire the producers, all over the country, with a desire to raise the standard of whatever they bring to the market.

All this is a question of education and tradition. It will, therefore, take a correspondingly long period of time. Meanwhile the implementation of the Agricultural Produce (Grading and Marketing) Act of 1937 and utilization of the services of the Pakistan Standards Institute seem to hold an answer,

2. Almost as important as quality is the publicity of goods — which does not, however, necessarily mean exaggeration because ultimately the consumer is sure to find you out. One important function of the entrepreneur-producer is an effective marketing of his produce, whatever be its quality. What we need, in order to increase our export earnings, is to explore the possible profitable markets for all our actual and potential exports. It is the duty of our Trade Commissioners abroad to furnish the Exporting Agencies of the country through the Department of Trade Promotion and Commercial Intelligence with full information as to cover all possible items of exports. Private Export Agencies should then be helped by the Department of Trade Promotion to establish trade contacts with the foreign markets and to help carry out the transaction.

This requires diligent exploration in foreign markets by our Trade Commissioners and trade delegations and a full realization by the Government of the fact that Export Promotion is in many ways directly helpful not only to the private exporters but to the Government themselves.

This also involves appropriate education and training of the Trade Commissioners as well as a proper understanding by them of the purpose of their functions. In the absence of such understanding the Trade Commissioners tend unconsciously

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to become Sales Agents of the foreign producer rather than of the home producer, supplying the home country with information as to what she can get from a certain country rather than what she can sell to her.

After collection of information as to what can be absorbed by a particular foreign market; arrangements should be made to exhibit and introduce those goods which Pakistan can supply so that the foreign buyers may satisfy or at least acquaint themselves with the quality of our goods. Establishment of show rooms, participation in foreign trade and industry fairs, sending out of trade delegations to explore foreign markets for our goods are important devices for trade promotion which have been adopted in the past but need to be better utilized.

Following suggestions seem to be particularly relevant to the problem:

- (i) Trade Commissioners and trade delegations must be selected, educated and trained properly so as to perform their duties well. Preparation of a manual has been suggested to serve as a basic guide for the farmer, by the Economic Appraisal Committee.
 - (ii) Sending out trade delegations seems to be more useful than inviting such delegations — the latter may merely concern themselves with finding export potentials for their own countries.
 - (iii) Trade delegations must not be sent to countries where we have our permanent Trade Commissioners — this involves duplication of agencies for identical functions.
3. Cheaper and more adequate shipping facilities and expansion of port facilities are also important factors for the promotion of our foreign trade. Thomas Mun had long ago advocated the cause of a national mercantile marine.

Facilities Required

4. Provision of adequate financing facilities and internal freight concessions to the export trade are other important stimulants. Quick refund of excise duties and sales tax on exported goods, exploration of possibilities and encouragement of re-exports; minimization of delays in custom houses, etc., establishment of a Pakistan Arbitration Association; evolution of a simple and automatic licensing system for controlled exports; are some other steps necessary for the smooth flow and promotion of our foreign trade. It should be the duty of the various Government agencies and departments concerned to see that the existing obstacles in the above-mentioned respects are removed from the way of our exported trade.

5. Regulation of area under our exportable crops jute and cotton in accordance with the production conditions abroad is necessary to avoid overproduction and

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subsequent marketing difficulties as well as to avoid the danger of food shortage involving, as it does, the necessity of increased expenditure of foreign exchange on food imports.

6. Bilateral and barter agreements are important devices for trade promotion. They have been affected in the past with a number of countries (39 agreements, including extensions and renewals, were affected with 18 countries during the period 1947-52) and although the actual level of trade under the bilateral agreements has been less than the level envisaged, the Appraisal Committee recommended rightly the continuation of the existing pattern of such trade agreements.

7. Participation in International Commodity Agreements has also recommended by the Appraisal Committee. Such agreements prove useful by ensuring a floor price and a definite offtake by the foreign buyers. Arrangements for the adjustment of price variations in response to general world price movements and the inter-relation of prices of primary and manufactured goods are problems that have to be tackled separately for individual commodities.

8. Avoidance of cumbersome export duties and maintenance of a convenient rate of exchange are important factors to be kept in view in the interest of export promotion. The cotton and jute support schemes launched a few years back by the Pakistan Government were rightly commended for their salubrious exports. Similar export bounties and reduction of export duties should be extended to other deserving exportable commodities also.

9. The above measures were designed to increase the marketability of available produce but obviously another way to increase the export earnings is to increase the quantum of exports so long as the elasticity of demand for our exports is greater than unity.

Imports

On the import side the basic problem is the judicious, economical avocation of the scarce foreign exchange resources among the competing demands. Two basic considerations have to be kept in view while making this allocation: ample provision must be made both for capital development and consumers' satisfaction. Extreme care must be taken to avoid hold-tips in any industry due to lack of important raw materials or machinery. Again, licenses should be given to genuine importers and fair prices ensured for the general consumer through the evolution of a proper system of distribution in the case of important commodities. Thirdly, the licensing procedure should be simple and efficient; announcement of the import policy and award of licenses should be well in advance of the shipping period. Fourthly, any wastage of

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scarce foreign exchange on unnecessary articles of ostentations, luxurious consumption must be avoided.

It will be seen that the above decisions are taken entirely by government officials. For a wise allocation of the foreign exchange resources among various needs, firms and countries the following may be mentioned as important prerequisites:

(i) A knowledge of the requirements and domestic resources of the country and fixation of import ceilings in the light of carefully collected statistics and the current national plan for economic development. Importance of organization of reliable statistics is obvious.

(ii) Knowledge of cheapest sources for individual import goods.

(iii) Avoidance of creation of monopolies of import as well as of very small importers with little bargaining power to exert against the foreign exporter, Consumers cooperative stores may rightly be encouraged to make direct imports.

(iv) The Government should continually ascertain the needs and views of industrialists and the traders on all matters relating to commercial policy. Establishment of the Foreign Trade Development Council which includes representatives of various trades and commerce associations is a step in the right direction. The Appraisal Committee have also suggested the establishment by the various chambers of commerce of 'a secretariat similar to the bureaus of foreign trade in other countries which could analyze statistical data, conduct market research and study other problems of trade'.
