EXPORT POTENTIAL OF SILVER FIBER AND ITS IMPACT ON FOREIGN EXCHANGE EARNING IN PAKISTAN FROM 1995-96 TO 2004-05 A CASE STUDY OF SINDH

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ABSTRACT

The study is aimed at the investigation of trade implications for Pakistan in the milieu of globalisation. To this end, it examines the nature and application of WTO and identifies its operative tariff and non-tariff instruments. By doing so, it intends to trace out the place of Pakistan in the world market in comparison to its competitors. The study concludes that the pattern of trade preferences and WTO grants do not necessarily guarantee success in the export performance of the recipients. Similarly, various other demand and supply side factors also play an important role in this regard. Nevertheless, the main focus of the study remained on the investigation of trade implications of WTO for Pakistan’s Cotton exports and impact of EU enlargement on Cotton sector of Pakistan. The examination of comparative trade statistics denotes that Pakistan has been one of the leading trading partners of Cotton products for the world and proved to be a forefront supplier of selected Cotton items over the period under review. Although Pakistan’s export performance has been adequate in comparison to its competitors but still it needs to be accelerated.

1.0 INTRODUCTION

The aim of this research is summed up in its title. It intends to look into the trade implications for Pakistan posed by the WTO. The process of globalisation is one of the most important characteristic aspects of worldwide economic development. Globalisation has had a direct and profound influence on the economies of members of WTO as well as non-member states. The conclusion of the study seems to be in line with the dynamic theories of international trade that their comparative advantage lies in the production and export of different commodities as per differentials in their factor endowments. Finally, the study highlights two very important features of Pakistan’s exports i.e., high concentration both country and commodity-wise and projected a fierce competition due to trade liberalization under the WTO. These changes would carry both immense potential opportunities and serious threats for Pakistan in the years to come. The study suggested that augmented competitiveness of firms would be the key to success. The truism holds that it is firm, not the country, to compete in the changing international trading environment. This calls for the adoption of a properly designed strategy by the government and firms with a clear vision, hope, motivation and passion. So, government should provide friendly investment/production and exporting environment, encouraging firms to compete on the internal and external grounds. And firms need to create access, absorb, and adapt new technologies to compete world market.

Table 1.1: Growth Rates of GDP and its Components

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Mining &amp; Quarrying</th>
<th>Manufacturing</th>
<th>Services sector</th>
<th>GDP %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949-60</td>
<td>1.7</td>
<td>10.4</td>
<td>7.8</td>
<td>3.9</td>
<td>3.1</td>
</tr>
<tr>
<td>1960-70</td>
<td>5.1</td>
<td>8.5</td>
<td>9.9</td>
<td>7.5</td>
<td>6.8</td>
</tr>
<tr>
<td>1970-77</td>
<td>1.6</td>
<td>4.2</td>
<td>3.8</td>
<td>5.9</td>
<td>4</td>
</tr>
<tr>
<td>1977-82</td>
<td>4</td>
<td>8.3</td>
<td>10.6</td>
<td>7.4</td>
<td>6.8</td>
</tr>
<tr>
<td>1982-88</td>
<td>3.8</td>
<td>10.5</td>
<td>7.6</td>
<td>7.5</td>
<td>6.5</td>
</tr>
</tbody>
</table>
It seems that the frequent changes in government policies arising from the changes in government these years affected the performance of the economy adversely. Among others, not only weather unpredictability, pests, disease, and other natural disaster harm crops production but also inconsistent agriculture policies of government made it worse. Due to such a considerable share of agriculture in the economy, agriculture production is highly correlated to Pakistan’s overall economic performance (Ali and Bari, 2000). When the agriculture sector has performed well, the GDP has been elevated and visa versa. Agriculture sector supplies raw material for the Cotton sector as well for sugar mill. Agriculture is not only important for its contribution to GDP but due to its forward linkage effect. However, at the aggregate level the performance of the economy seems not to be so bleak. During the period under study the economy grew on average greater than 5% as the data reflects. Even today, the agricultural sector is the major contributor in the economy accounting for 25% of the GDP, absorbing more than half of country’s total labour force and providing more than 70% of country’s foreign exchange earnings.

Similarly, Table 1.2 shows the composition of country’s GDP and the share of major sectors in its composition. As discussed above, the agriculture sector provides a lion’s share in the composition of GDP accounting for more than 25% of total GDP. While the share of industrial sectors is around 18%, the services sectors account for 53% in 2005. However, the examination of data reflects the declining share of the agriculture in the country’s GDP, while the share of industry seems to be stagnant. On the other hand, the services sectors are gaining the losing share of the agricultural sector.

Table 1.2: Distribution of Sectoral Share in GDP (%age)

<table>
<thead>
<tr>
<th>Years</th>
<th>Agriculture</th>
<th>Manufacturing</th>
<th>Services</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1949-50</td>
<td>53.2</td>
<td>7.8</td>
<td>25.15</td>
<td>13.85</td>
<td>100</td>
</tr>
<tr>
<td>1959-60</td>
<td>45.8</td>
<td>12</td>
<td>35.21</td>
<td>6.99</td>
<td>100</td>
</tr>
<tr>
<td>1969-70</td>
<td>38.9</td>
<td>16</td>
<td>40.2</td>
<td>4.9</td>
<td>100</td>
</tr>
<tr>
<td>1979-80</td>
<td>30.6</td>
<td>17</td>
<td>45.04</td>
<td>7.36</td>
<td>100</td>
</tr>
<tr>
<td>1990-91</td>
<td>25.68</td>
<td>17.71</td>
<td>48.45</td>
<td>8.16</td>
<td>100</td>
</tr>
<tr>
<td>1994-95</td>
<td>24.65</td>
<td>18.17</td>
<td>48.77</td>
<td>8.41</td>
<td>100</td>
</tr>
<tr>
<td>1999-00</td>
<td>25.93</td>
<td>16.69</td>
<td>49.06</td>
<td>8.32</td>
<td>100</td>
</tr>
<tr>
<td>2000-01</td>
<td>25.1</td>
<td>15.9</td>
<td>51.8</td>
<td>7.2</td>
<td>100</td>
</tr>
<tr>
<td>2001-02</td>
<td>24.4</td>
<td>16.1</td>
<td>52.7</td>
<td>6.8</td>
<td>100</td>
</tr>
<tr>
<td>2002-03</td>
<td>24.2</td>
<td>16.4</td>
<td>52.9</td>
<td>6.5</td>
<td>100</td>
</tr>
<tr>
<td>2003-04</td>
<td>23.3</td>
<td>17.6</td>
<td>52.6</td>
<td>6.5</td>
<td>100</td>
</tr>
<tr>
<td>2004-05</td>
<td>23.10p</td>
<td>18.30p</td>
<td>52.40p</td>
<td>6.2</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Economic Survey of Pakistan, Various Issues

On the basis of the above facts, we may conclude that Pakistan’s development experience has been remarkable. Its economic record measured both in terms of growth rates and increase in per capita income despite a quadruple increase in population shows encouraging trends. A good structural transformation in the structure of the economy has taken place from the predominantly agrarian to a more diversified production structure. The country’s integration with the international economy has been fairly rapid and the positive effects of adoption of liberalization and deregulation policies have been poring in.

The Evolution of Economic Development Policies of Pakistan

In the early years, country’s economic policy was shaped according to the immediate needs of the economy. Key aspects of economic policy were expansion of industrial base, establishment of institution, infrastructure
building and provide extra protection to infant industries. But the excessive protection to industry severely harmed market economy by distorted economic incentives for both agriculture and industrial sectors. Moreover, the policy regime was branded by an excessive dependence on economic controls in the form of industrial licensing, administered prices and other regulations.

During the first half of 1950s, government adapted pro-industrial policy and neglected the agriculture sector. Subsequently, low growth rate of agriculture not only exposed the flaws of economic policy but shortage of food emerged. In the later half of 1950s government began to pay more attention on the development of agriculture sector to rectify these problems. Government announced a thorough strategy for development of agriculture sector in 1956.
The key points of new policy were to provide fertilizer at subsidies rate, to distribute better seeds, pest control scheme, and control of salinity and water-logging. However, these policies were not properly implemented due to change of priorities in first five years plan (1955-60) and political instability.

Strict price and profit controls policy in the form of administered price and controlled profit was implemented in the early 1960s but government soon realized that this policy is weakening the incentives to expand production. To promote industrial growth government constructed number of policies like maintaining an over-valued exchange rate to guarantee the cheap availability of capital goods, and by keeping prices of agriculture inputs below to international market prices to ensure handiness of economical domestic inputs to industrial sector. Furthermore, policy of import controls and tariffs, tax holidays, and availability of loans at low rates and introduction of Export Bonus Scheme, which subsidized manufactured goods exports through a system of vouchers, were introduced to help industrialization drive.

**LITRATURE REVIEW**

The liberalization began with trade between high-income countries and spread gradually to capital flows (Quiros, 2004). Bhagwati defines globalisation as an economic integration, trade, movement of capital, and the inter-weaving of national economies. Also it is defined as, the coordination of economic trade, fiscal and monetary policies among countries (IMF). If not globalization then the question is: are trade sanctions then the way to do it? If we want the solution then this is not the way to go because if you start doing it through trade sanctions, you immediately put up people's backs. It's very difficult for poor countries to throw stones at big countries. So it becomes asymmetric and, therefore, people resent it, particularly at this time when the United States has achieved hyper-power status, has gone into the war in Iraq. For us to take up these attitudes saying that we are going to impose something on you in the developing world, when we ourselves are flawed on other dimensions just does not make sense.

There are also broader cultural, political and environmental dimensions of globalisation that are not covered here. The dictionary definition is a great deal drier. Globalisation is the "process enabling financial and investment markets to operate internationally, largely as a result of deregulation and improved communications" (Collins) or - from the US - to "make worldwide in scope or application" (Webster). The financial markets, however, are where the story begins. (Jeffery, 2002)

After 1950s, the roots of globalisation were found in a firm attack on the barriers starting from the movement of goods, services, and capital to the free flow of individuals.

Although Wolf is a major supporter of economic integration but he does not consider economic liberalisation as enough. He considers that poor nations are often unsuccessful economies but the developed country can play an important role in promoting prosperity. Moreover he considers security of property rights and the rule of law very important because in their absence economic integration cannot bring prosperity. Not only good economic policies and open markets but also good governance and a credible, predictable, transparent, and consistent institutional framework are necessary for market economy, both over time and across activities. The state exists to serve its citizens and is duty-bound to protect them from harm, including from itself. We will only have more and better globalisation if we have better states (The Complete Review).

Does freer trade help you or does it harm you? These are the kinds of issues which we economists discuss. Should we be pushing for this or that kind of reform or is it really deform? But there are a whole sway of social issues that which we economists do actually consider. And so a lot of people on the anti-globalisation side really feel that these are the issues which worry us as citizens and as human beings and those are the ones where

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1 This Bonus Voucher often carried a high premium in the market as were automatically issued against the voucher. More than 80% of the local export subsidies import licenses were accounted for this scheme.
globalisation is a malign force. So they may concede in many cases that globalisation is increasing the size of the pie and that, as far as increasing prosperity is concerned, it is fine. But when it comes to all the issues that really matter to us citizens, what I have just generally called social implications, globalisation is a malign force, not a benign force at all (IMF).

We also have to be very careful about the downsides of globalisation, says Bhagwati. The real problem is buying off or compensating or helping workers to adjust to import competition. The advanced countries have been doing it ever since Kennedy’s time. Every trade act has had trade adjustment assistance programs and so on. But the poor countries that are just beginning to liberalize do not have any adjustment assistance programs. That's where the leaders of the poor countries simply cannot hack it. So who's going to finance adjustment programs in many countries? And that's where according to Bhagwati he has been arguing in particular for many years that the World Bank could be of assistance. Trade liberalization is not always associated with an external payments problem, but it's good to have more assistance in case there's a balance of payments implication.

RESULTS

Although the Cotton sector showed a reasonable performance in all sectors of Cotton and clothing but in 1998 it suddenly fall down due to two major reasons, first the domestic crop in Pakistan was badly affected by curl virus and weather. More over Pakistan was still depending on cotton fibre instead of MMF (man made fibre), which increased the problem. Secondly due to experiment of atomic explosion, certain countries posed sanctions on Pakistan especially USA which was a major importer of Pakistan. More over Pakistan was still depending on old importers instead of looking for new markets. Moreover progress in value added goods were not impressive.

Due to poor performance during 1998 government learned the lesson and encourage the industry for MMF. In 1998 industry was using 18% MMF of total Cotton fibre consumption while it increased to 22% in 1999. More over duty on certain inputs was reduced. In 1999 the Cotton industry showed a better performance. There were three reasons for this. First was that due to reduction of quota, Cotton export of Pakistan increased. Secondly product differentiation and shift towards more value added things increased the total volume of exports. Another very important factor which helped the Cotton industry to move faster was the new investment in the Cotton industry. Although most of the investment was made to upgrade the existing technology but new machinery was also imported. As a result the Cotton machinery imports have risen by 218 percent in 1999-2000 (see figure 5.4). Although this investment did not replace all of the old machinery with advanced but still it is a good sign for the sector. If we look at the table 5.7, we will come to know that due to better technology, there is an impressive progress in all sectors of this industry. The picture becomes clearer if we look at the figure 5.6 and table 5.8 which show the correlation between investment and performance. The matrix of table 5.8 shows positive correlation between investment and overall performance. More investment in new technology leads better performance. The most important thing during this period was that all of the investment was made in value added goods (APTMA).

**Figure 5.6: Correlation between Export Performance and Investment (In 2000-01 Prices)**

(Million US $)

Source: All Pakistan Cotton mills Association

*Average Exchange Rate During Base Year (2000-01) was $1=Rs.58.58*
Table 5.8: Correlation Matrix: Overall Exports Vs. Investment

<table>
<thead>
<tr>
<th></th>
<th>Investment</th>
<th>Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment</td>
<td>1.000</td>
<td>0.849</td>
</tr>
<tr>
<td>Export</td>
<td>0.849</td>
<td>1.000</td>
</tr>
</tbody>
</table>

Again 2003-04 cotton crop of Pakistan was hit by drought but due to shift of the Cotton sector towards value added and product differentiation it only affected the export of raw cotton. The data presented in table 5.7 and figure 5.7 indicate that the overall performance of the industry is very good and except few categories (which are lesser value added) industry showed a better performance.

Figure 5.7: Growth of Cotton Exports from 1996 to 2006-07*

(Million US $)

Source: Ministry of Cotton, Pakistan

*This Figure is Based on Table 5.7. Average Exchange Rate During Base Year (2000-01) was $1=Rs.58.58

The above discussion indicates that the exports of the Cotton industry are directly correlated with cotton production, product differentiation and technology (for more details see tables of correlation in appendix 1). If the industry is product differentiated it has more choices to export more products. With advance technology the cost of production decreases along with improvement in quality. More over better cotton crop guarantees the availability of input at home which results into better performance. Although industry is trying to rely on MMF, but due to easy availability of cheap cotton major portion of industry still depend on local cotton. Cotton and clothing industry of Pakistan has come around full circle since early seventies and is gearing to take up hostile competition for not only enhancing its position into the top ten Cotton and clothing exporters in the world but holding its world share. Nevertheless, there are many domestic variables that would need to be secured before actualisation of the prospective that exists.

There is transformed hopefulness in the home industry endorsed to the following factors by APTMA and common observation.

i) Stability of policies
ii) Polyester authorized under DTRE²
iii) Free trade of cotton
iv) Programme of cleaner cotton
v) Enhancement in staple length of cotton
vi) Enlarged market access
vii) Diminishing interest rate
viii) Steady exchange rate policy

Although Pakistan is unable to reap the fruit of WTO as yet, but it has a strong presence in the Cotton trade. Now Pakistan is trying to get a place in top ten exporters of Cotton and top twenty exporters of clothing. For this

² The Duty and Tax Remission on Export (DTRE) Rules allow the import or local procurement of all input goods needed for export production, without payment of customs duty, central excise duty, advance income tax and sales tax. Such duty-free imports or local procurement are available to both direct and indirect exporters. The indirect exporters are those who provide input goods or services to direct exporters for the purpose of export production.
purpose, during 2005 &2006, government has announced to build three industrial cities in Faisalabad, Lahore and Karachi. These clusters will not only provide raw material and primary goods easily but it would also be a good source of information for the other regions. Secondly it would be an easy way for exporters and it will save their cost.

Due to government policies and network of APTMA, it seems that Pakistan soon will be able to compete with large exporters like China, India and Turkey.

Trade Implications for Pakistan’s Cotton Sector

The Cotton industry of Pakistan can be classified into cotton Cotton industry, chemical/man-made fibre, woven Cotton industry and Cotton made-ups and clothing industry. Although wool Cotton industry is also significant but Pakistani woollen Cotton is not very much developed. Pakistan only exports animal wool and a very small portion of blankets, although this sector is growing very fast since 1993 (250% per annum) but still it is insignificant to discuss here. Pakistan’s entry into the WTO will affect these sectors to different extent. In this section we will discuss the structure of these industries, their contribution in the total exports and further opportunities for Pakistan. We will also try to find out the effect of WTO on these industries.

The Cotton Industry/Cotton Fibre Industry

Cotton Fibres can be divided into three basic types according to their source:

1. Cotton Fibre
2. Man Made Fibre
3. Wool

In the last ten years the percent share of cotton has shrunk from 48% to 39% in the total world fibre consumption. Manmade fibres that include polyester, acrylic, nylon and viscose have taken more than 58% of the total share, while cotton fibre is reduced to 38%. Polyester has by far the largest share within the man-made-fibres, which more than 80% (GOP 2000). Although the share of cotton reduced with the passage of time, but cotton production and yields have increased dramatically over the last century. In 1834, estimates of total global production were 340,000 tons. By the end of the 19th century, they had risen almost tenfold to 3 million tons and by 1924-25 to 4.4 million tons (of which 93 per cent were produced by five countries: the US, India (including present day Pakistan and Bangladesh), China, Egypt and Brazil. Global output in the 1990s has varied between 18-21million tons - a fourfold increase over the last half-century. Three quarters of this increase is due to increased yields, which have risen from an average of 200 to close to 600 kilograms per hectare (Banuri 1998.p.15)

As non-food crop, cotton is considers the largest revenue earning crop in the world. It provide directly or indirectly some or all of the cash income of over 250 million people worldwide, including almost 7 per cent of the available labour force in developing countries. These activities are becoming highly concentrated over time; today, 77 per cent of global cotton output and 73 per cent of the cotton crop areas are accounted for by China, the US, India, Pakistan, and the Central Asian Republics. Cotton cultivation covers nearly 33 million hectares, equivalent to about 2.5% of all cultivable land, in 82 countries. Cotton Cotton constitute approximately half the total Cotton fibre and possibly the largest industry in the world (APDMA).

Cotton played very important role in the development of Pakistan domestic Cotton industry – being the major export commodity. It is the major agricultural crop in Pakistan. A bigger crop means not only a larger volume of exports (both raw and processed products), but also a subsidy to the Cotton sector, leading to higher aggregate demand, higher employment, larger fiscal inflows, less pressure on the balance of payments, and thus less exposure to the dictates of international financial organizations. Not surprisingly, government policy has generally been used to maintain a stable and often relatively low domestic price of cotton, especially since 1986-87 (see figure 5.8 below and table in annex) through the imposition of export duties, in order to support domestic industry.

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3 Two-thirds by weight of the cotton plant consists of Cottonseeds, which contain valuable nutrients (18-25 per cent fat and 29-34 per cent proteins), and are used as cattle feed or in the production of cooking oil. Average to moderate cotton yields of 1,500 kilograms per hectare of ‘seed cotton’ (i.e. including both seeds and lint) produce not only 500 kilograms of lint, but also 1000 kilograms of cotton seeds, which contain the same caloric content as a normal harvest (in Southern countries) of 600 kilogram of cereal from the same area. However, this creates some confusion over yield figures, which can refer to lint cotton (i.e. without seeds) or seed cotton (i.e. lint plus seeds). 1,500 kilograms per hectare is high if it refers to lint cotton, but moderate if it refers to seed cotton. Official documents typically refer to lint cotton yields, but some influential writings (e.g. Murray 1994) have used seed cotton yields without saying so explicitly.
CONCLUSIONS

Shortly after the independence of Pakistan in 1947, it started to develop economic relations with other economies. Since the very beginning it started transforming its economy from agrarian to industrial. Joining major trade agreements, it proved its seriousness in trade. Due to very large agriculture sector with cotton being a major crop it rapidly developed its Cotton sector. Despite the poor management and weak policies, the economy continued to grow at a reasonable rate. Moreover different kinds of economic restrictions also affected the performance of Cotton sector of Pakistan. General Agreement on Tariffs and Trade (GATT) 1947, Long Term Agreement (LTA) and Short Term Agreement (STA), (as discussed in chapter 3 and 5) added the problems of Pakistan Cotton sector. Due to these agreements Pakistan would never have been able to utilise its Cotton resources. This under utilisation of resources and quota system blocked the path of modernisation for Cotton sector. Now after the implementation of WTO, the major challenge Pakistan is facing is lack of modern technology and cost of production. This cost of production is also indirectly related to technology.

The study intends to analyse whether the WTO – as many other members produce and export almost the same product mix as produced and exported by Pakistan in the world market - have posed or will pose any threat to Pakistan’s trade expansion in the enlarged market or on the contrary, the enlarged market with its dynamic effects will facilitate Pakistan to expand trade through the various trade diversion effects; and consequently swelling its market share. The main thrust of the study was to concentrate on the widening aspect.

REFERENCES