

Rice Marketing in Pakistan: The Case for Liberalisation?

AMANAT ALI JALBANI

PhD Thesis

Department of Business Studies

The University of Edinburgh

1992



DEDICATED to

Mohammad Rafique -- **my Father**
Kazbano -- **my Mother**
Mahmooda -- **my Wife and**
Ali Aman and Paras Aman -- **my Children.**

DECLARATION.

I hereby declare that this thesis has been composed entirely by myself and that all the work carried out herein is also my own except where specifically stated.

(Amanat A. Jalbani).

"SO ESTABLISH WEIGHT (i.e., what is due) WITH JUSTICE".
(Al-Quran, LV.9)

ACKNOWLEDGEMENT.

The names of personnel and institutions to be acknowledged for their roles in enabling me to complete and write this thesis are many. To my father and mother, I pray to God to give them blessings and protection. I can never thank them enough for the sacrifices they made in laying the foundation during the early stages of my life and I know of their constant prayers for my continued safety and the blessings that brought me to where I am today.

I am honoured to have had *Dr John Sebastian Henley* as my supervisor whose reputation as a scholar is well known and respected especially in the fields of International Business, privatisation and liberalisation. I am greatly indebted to him for steering me through the difficult task, tolerating my moods, peculiarities and weaknesses, always finding time to fit my demands into his busy schedule. I am particularly grateful to him for the critical but constructive comments on my studies. I am sure without his valuable suggestions, proper guidance and hard efforts, this study would not have been completed.

There are other members of the department that contributed significantly to the research. For the encouragement, guidelines and moral support at the initial stage, I am particularly grateful to Mr Thomas Lines (former lecturer in the department of B.Studies) who was my first supervisor during the first year of my joining the university, but he soon left for Luxembourg to join an other office there. There are several other staff in the Faculty that I have approached for certain specific advice and assistance and received sincere and full co-operation; to them I say many thanks.

I appreciate greatly, the time spent in the shared room with Gerry Muuka (a Ph.D student in the Department of B.Studies) and the discussions made with him on many academic and social problems.

In Pakistan, my gratitude and appreciation goes to the two sponsors, the Ministry of Education and S.A.Latif University Khairpur for without their financing and sanctioning the leave respectively to complete my studies, I could never have afforded to pursue this noble exercise. I hope to repay by giving them the services needed, to the best of my capability, and in an area that I am capable of.

Almost four and half months were spent in collecting relevant data from different national and international organisations Like- RECP, Ministry of Commerce, Ministry of Agriculture, USAID, FAO, and the World Bank etc. I owe a special debt to all those who participated in the research. To all of them, I am greatly indebted for information that became the backbone of this research.

Last, but not least, there is always a woman. In this case my wife Mahmooda Jalbani. If one does believe there's a role for spouses to play in the Ph.D process - which it would be insane to argue against - then you can be sure Mahmooda played hers with exceptional diligence and determination. Next, this Ph.D is a special and emotional dedication to all my children, both current and those yet to come. I only wish that I could have spent more time with them. They were the source of energy that inspired, pushed, motivated and drove me to finish what I started. I thank them dearly. To my brothers, sisters, relatives and friends in Pakistan who took care of my dealings, needs and transactions, and prayed for my family's safety, they were part of this endeavour.

ABSTRACT.

This part summarises the thesis in order to make the job of the readers easier. This is essentially the thesis at a glance. There is a clear statement of the problem under exploration. Once they know what to expect, readers have a frame of reference for reading the thesis.

Although most developing countries are agrarian in nature and despite the dominant position occupied by the agriculture sector in their traditional economies, many have consistently failed to pay adequate attention to agriculture and rural development. It is widely believed that the governments in these countries intervene in the agriculture sector in many ways, to serve political interests and other non-publicly beneficial ends. This can take the form of: buying crops from farmers at less than the world prices and then selling it to relatively better-off urban dwellers. In this way, resources are transferred out of agriculture which is the main source of livelihood for vast rural and urban populations. To compensate farmers, some governments provide subsidies -- such as credit, fertilisers, seeds, etc -- which are mostly misused and misdirected and benefit mostly landlords. These government intervention policies result in a large waste of resources. This has often led to a stagnant agriculture sector; that, in turn, has resulted in a large shortfall of domestic food production, balance of payment crises and political instability. Pressured by both the World Bank and IMF, there are moves towards liberalisation of agricultural markets in order to gain maximum efficiency.

This thesis examines Paddy and Rice Marketing in Pakistan as an example of agricultural marketing with specific emphasis on whether or not it should be liberalised.

Going beyond but including the limited published evidence on the subject, empirical data were collected in Pakistan to address the issue. Four and half months of field work in Pakistan was carried

out on various organisations involved in rice marketing, using semi-structured interviews.

It was found that in Pakistan, the government uses a mixture of subsidies and taxes in the agriculture sector.

These subsidies are misused and misdirected and overall the agriculture sector is taxed to serve urban interests.

Rice production in Pakistan consists of two main varieties -- Basmati and Irri rice. Producers of both varieties are officially paid on the basis of the cost of production. However this results in Basmati producers being paid very low prices compared to the export price, whereas Irri producers are paid close to the export price. The Rice Export Corporation of Pakistan -- the state owned enterprise which handles rice -- was found to be inefficient, corrupt, and a politically influenced organisation, characteristics common in state-owned agricultural marketing organisations throughout the developing world.

It was found that the Pakistan Government's intervention in paddy/rice marketing has been a hindrance to the efficient operation of the sector.

The author concludes that with regard to the rice marketing problems of Pakistan, only partial support can be given to the need for liberalisation. Because of the vital role of Irri rice as a staple food for the poor, production requires some government intervention. By contrast, Basmati rice is a valuable export crop whose full potential is not being exploited efficiently. Indeed it is facing increased competition from better organised Indian and other exporters. Full liberalisation appears to offer the best solution to the problems of developing this valuable national resource.

TABLE OF CONTENTS

<u>DESCRIPTION</u>	<u>PAGE.</u>
ACKNOWLEDGEMENTS	<i>i</i>
ABSTRACT	<i>iii</i>
TABLE OF CONTENTS	<i>v</i>
LIST OF TABLES	<i>x</i>
LIST OF FIGURES	<i>xiv</i>
APPENDICES	<i>xvi</i>
ABBREVIATIONS AND ACRONYMS	<i>xviii</i>

PART - I.

CHAPTER.

1	<u>INTRODUCTION.</u>	
1.1	Introduction to Rice Marketing in Pakistan.	1
1.2	Statement of the problem and Research Objectives.	7
1.3	Scope of the Study.	11
1.4	Research Methodology.	12
1.5	Problems associated with data collection.	14
1.6	Organisation of the study.	14
	Footnotes.	17
2	<u>AGRICULTURAL POLICIES: AN INTERNATIONAL PERSPECTIVE.</u>	
2.1	The Importance of Agriculture in General.	18
2.2	Agricultural Policies in the Developing Countries.	20
2.2.1	Input Policies:	25
2.2.1.1	Fertilisers.	26
2.2.1.2	Irrigation.	27
2.2.1.3	Credit.	28
2.2.2	Pricing Policies.	29
2.2.3	Trading Policies.	35
2.2.4	State Marketing Organisations.	37
	Conclusion.	39
	Footnotes.	41
3	<u>AGRICULTURAL POLICIES IN DEVELOPING COUNTRIES AND THE RELEVANT ARGUMENTS.</u>	
3.1	Bates' Arguments.	42
3.2	Smith's Arguments.	51

3.3	Main points of Bates' and Smith's Arguments.	58
	Conclusion.	59
4	<u>AGRICULTURAL MARKETING: A CASE FOR LIBERALISATION.</u>	
4.1	Privatisation and Liberalisation in general.	60
4.2	The Agriculture sector: A case for Privatisation and Liberalisation.	62
4.3	Activities amenable to market and government solution.	65
	Conclusion.	69
	Footnotes.	70

PART - II

5	<u>PAKISTAN'S ECONOMY IN GENERAL AND AGRICULTURE IN PARTICULAR.</u>	
5.1	Geographical Background of Pakistan.	71
5.2	A Brief Political History of Pakistan.	75
5.3	The Economy of Pakistan in General.	77
5.3.1	Economic Decision Making in Pakistan.	77
5.3.1.1	The Structure of Economic Decision Making in Pakistan.	79
5.3.1.2	Planning Machinery in Pakistan: A Critical Appraisal.	79
5.3.2	Forces which influence Economic Decision Making.	81
5.3.3	An Overview of the Economic Policies in Pakistan.	83
5.3.4	Economic Outturn in Pakistan.	85
5.3.5	Pakistan's Balance of Trade and Balance of Payment.	92
5.3.5.1	Balance of Trade.	92
5.3.5.1.1	Direction of Pakistan's Trade.	94
5.3.5.2	Pakistan's Balance of Payment.	95
5.3.6	Economic Structure of Pakistan.	97
5.3.6.1	The Primary Sector.	97
5.3.6.2	The Secondary Sector.	103
5.3.6.3	The Tertiary Sector.	104
5.4	The Public and the Private sector in the Economy.	106
5.4.1	Ownership Pattern in the Agriculture sector	107
5.4.2	Ownership Pattern in the Industrial sector.	107
5.4.3	Ownership Pattern in other Sectors.	108
5.4.4	The Current Situation of the Private Sector.	109
5.5	Importance of agriculture in Pakistan Economy.	110
	Conclusion	112

6	<u>AGRICULTURAL POLICIES IN PAKISTAN.</u>	
6.1	Agricultural Policies in Pakistan and Government Intervention.	113
6.2.1	Input Policy and Subsidies:	115
6.2.1.1	Fertilisers.	116
6.2.1.2	Seeds.	118
6.2.1.3	Tube wells.	119
6.2.1.4	Irrigation.	120
6.2.1.5	Credit.	123
6.2.2	Agriculture Output and Pricing Policy:	125
6.2.2.1	Wheat.	129
6.2.2.2	Sugar-cane.	132
6.2.2.3	Cotton.	134
6.2.3	Taxes and Subsidies in the Agricultural Sector.	138
6.2.4	Effects of Government Intervention in Agriculture.	148
	Conclusion.	150
	Footnotes.	151
7	<u>PADDY/RICE PRICES, MILLING, AND THE FUNCTIONS AND ORGANISATIONAL STRUCTURE OF RECP.</u>	
7.1	Importance of Rice in Pakistan.	152
7.2	Paddy/rice varieties in general.	153
7.2.1	Rice varieties in Pakistan.	156
7.2.2	Rice Varieties and the consumer's taste.	158
7.3	Breakdown of Rice by area, production, and yield.	159
7.4	Background of paddy/rice policies in Pakistan.	166
7.5	Current Paddy policies in Pakistan.	168
7.5.1	Criteria for determining the paddy prices.	168
7.5.2	Paddy Procurement and the Cost of Production.	171
7.5.3	Paddy Procurement Operation.	174
7.5.4	Paddy Inspection.	175
7.6.1	Rice Milling.	175
7.6.2	Rice Milling by-product	178
7.7	Functions and Organisational structure of RECP.	179
7.7.1	Functions of the RECP.	180
7.7.2	Organisational structure of RECP.	181
7.7.3	Appointment system of the top executives.	182
7.7.4	Responsibilities of the Chairman.	183
7.7.5	Operational shortcomings in the RECP.	185
7.7.5.1	Lack of Communication and Coordination.	185

7.7.5.2	Performance Appraisal System.	186
7.7.5.3	Structural Duplications and Distortions.	186
7.7.5.4	Internal Environment.	187
7.7.5.5	Inadequate and Political appointments.	187
7.7.5.6	Neglect of Market Intelligence function.	189
7.7.5.7	Promotion system for the employees.	190
7.7.5.8	Control Functions Exercised by Ministry of Commerce.	191
	Conclusion	192
	Footnotes	195

8 RICE PROCUREMENT POLICIES & THE ROLE OF RECP IN HANDLING

RICE.

8.1	Rice Procurement Policy.	196
8.1.1	Rice Procurement Procedure.	198
8.2	Rice Transportation (procurement centre to Karachi).	203
8.2.2	Transport Operation and Cost.	207
8.3	Paddy/Rice grading and Inspection.	209
8.4	Paddy/Rice Marketing Channels.	210
8.5	Role of RECP in Handling Rice.	216
8.5.1	Rice Handling by the RECP at Godowns.	216
8.5.2	Rice Handling cost.	218
8.5.3	Rice Storage at RECP Godowns.	219
8.5.4	Inventory Management and Control.	225
8.5.5	RECP'S Godown/Storage Security.	225
8.5.6	Issuance of Rice from Godowns to Mills.	226
8.5.7	Re-milling of Rice by RECP.	226
8.5.8	Packing Plant for one kg Packets.	228
	Conclusion	228

9 PAKISTAN RICE EXPORT POLICIES AND ITS EXPORT

9.1	Rice Export Policies in Pakistan.	230
9.1.1	Pakistan Rice Export Policies prior to 1987-88.	231
9.1.2	Pakistan Rice Export Policies since 1987-88.	232
9.1.3	Rice Export Policy for private sector in 1990-91.	235
9.2	Pakistan's Rice Export.	237
9.2.1	Share of Rice Export in Total Rice Output.	240
9.2.2	Market Channels of Rice Export.	244
9.2.2.1	Basmati Rice.	244
9.2.2.2	Irri Rice.	245
9.2.3.	Directions of Rice Trade.	247

9.2.3.1	Basmati Rice.	247
9.2.3.2	Irri Rice.	251
9.3.	Export Price Determination for Pakistani Rice.	255
9.3.1	Irri varieties.	255
9.3.2	Basmati Rice.	256
9.3.3	Unit price of Rice Exports.	258
9.4	Conclusion	260

PART - III.

10	<u>WORLD RICE TRADE AND AGRICULTURAL POLICIES IN GENERAL.</u>	
10.1	World Rice Varieties and their price differences.	262
10.1.2	World Rice Production.	264
10.1.3	World Rice Trade.	265
10.1.3.1	Trends of World Rice Trade.	268
10.4.	Agriculture & Trade Distortion Policies by the Developed Countries in General.	272
10.4.1	World Rice Trade Distortions.	276
10.5	Prospects for Agricultural Trade liberalisation.	280
10.5.1	Recent Development & Prospects for liberalisation.	280
10.5.2	Pakistan's Position Towards the Uruguay Round.	282
	Conclusion	283
	Footnotes	284
11	<u>CONCLUSION AND RECOMMENDATIONS.</u>	
	Introduction.	285
11.1	Summary of the Main Findings.	286
11.2	Conclusions and Recommendation.	302
11.3	Lessons for less developed countries (LDCs) From Pakistan's Rice Marketing.	316
11.4	Main Suggestions and Recommendations.	318
11.5	Areas for further Research.	320
	BIBLIOGRAPHY.	356

LIST OF TABLES.

Table no.	Description.	Page.
1.1	Flow Chart of Rice Product, Procurement & Consumption.	4
1.2	Support and Export Prices of Basmati & Irri Rice in Pak:	6
1.3	Cost of Production & Support price of Paddy in Pakistan.	6
2.01	Agriculture's share in GDP, Employment and Export.	19
2.02	Nominal Protection Co-efficient (NPC) of selected export crops for some African countries.	31
2.03	Direct and Indirect Protection of Agriculture - (1980-84).	33
4.01	Activities Amenable to Market & Government solution.	65
5.01	Breakdown of Pakistan's area (sq km) and population.	72
5.02	Maximum and minimum mean temperature in main cities of Pakistan.	75
5.03	Economic Decision making by the State Authorities (an illustration of key decisions).	78
5.04	Forces which influence the Economic Decision-making in Pakistan.	82
5.06	Real GDP growth rate as an annual average in percent.	89
5.07	Social sector of Pakistan with cross country comparison.	90
5.08	Pakistan: Summary of balance of Trade & Balance of Payment & workers remittances from abroad (US Mln; \$ at constant prices).	92
5.12	Land in Pakistan, and area under cultivation.	100
5.13	Summary of Public finance in Pakistan showing the expenditures in Million Rupees.	105

5.14	Structure of Development and Current Expenditures in Pakistan (in percentage).	106
5.15	Gross fixed investment by Public and Private sector (at current price).	108
5.16	Share of Agriculture in Pakistan GNP, Import and Exports (1960-87).	111
6.01	Fertiliser consumption and source of supply.	117
6.02	Direct subsidies to agriculture producers, (Rs Mln).	119
6.03	Operation and Maintenance (O & M) cost (excluding the SCARP operation) and recoveries from irrigation charges, (per acre of cropped area).	121
6.04	Operation and Maintenance (O & M) cost (including the SCARP operation and recoveries from irrigation charges, per acre of cropped area).	122
6.05	Credit (subsidies) to agricultural producers, (in Mln Rupees).	124
6.06	Transfer from crops sub-sector through price mechanism.	127
6.07	Harvest wheat prices in Pakistan and Indian Punjab.	132
6.08	Nominal Protection Rate (NPR) of major crops.	137
6.09	Taxes and subsidies on agriculture in Pakistan.	138
6.10	Direct Taxes on Agriculture Producers.	139
6.11	Indirect Taxes on agriculture producers.	140
6.12	Concealed taxes on agriculture producers.	142
6.13	Net tax burden on agriculture producers.	144
6.14	Indirect subsidies to agriculture producers.	145
6.15	Producer's Subsidy Equivalences (PSEs) in Pakistan.	148

7.01	Breakdown of rice production in different provinces of Pakistan.	160
7.02	Area under Rice crop in Pakistan.	161
7.05	Prices for different varieties of rice.	171
7.06	Comparison of production cost and support prices for paddy (Rs. per 40 kg).	173
7.07	Relative shares of milling in different type of Rice Mills.	177
8.01	Variety-wise Rice Procurement by RECP.	199
8.02	Production and Procurement of Rice classified by varieties.	201
8.03	Target Versus Actual Procurement of Rice classified by varieties.	202
8.04	Transportation of Rice classified by Mode of Transport to Karachi from Punjab.	206
8.05	Transportation of Rice classified by Mode of Transport from Sindh.	206
8.06	Comparative Statement of per unit Transport costs by different Modes from major procurement centres to Karachi godowns.	209
8.07	Gross Margin/Profit in Basmati and Irri rice (from Producers to Millers).	214
8.08	Average Percentage shares of Marketing services in Gross Margins.	215
8.09	Net Margins/Profits for various Rice dealers of Irri & Basmati in Sindh and Punjab.	216
8.10	Annual Handling cost of Rice & their share in total rice sales.	218
8.11	Average handling costs per tonne of Rice sold.	218

8.12	The arrival position of procured rice at RECP godowns in Karachi.	220
8.13	Capacity of the Hired godowns and the rent paid.	220
8.14	Rice stored in the open space.	220
8.15	Average Rice Stocks held by RECP over last ten years.	221
8.16	Relationship of closing stocks to Rice Procurement.	222
8.17	Rice Milling capacity and their utilisation.	227
9.01	Basmati and Irri Rice export by the Private sector.	237
9.02	Pakistan Rice export by value and indices by value and quantity.	238
9.03	Average Return on Rice Export.	239
9.04	Profit and Loss from Public (RECP) Export of Rice.	240
9.05	Share of Rice Export in total Rice Prod: by varieties.	243
9.07	Basmati Rice Export to Middle-East.	248
9.08	Regular Buyers of Basmati Rice for last five Years.	249
9.09	Export to regular buyers during last five years of Irri Rice varieties.	252
9.10	Statement showing Region-wise export of Pakistan's Rice Irri varieties.	253
10.1	Average Export Prices of selected types of Rice in the world.	263
10.4	Rice Trade of Main Rice Exporting Countries and their share of World Rice Market.	270
10.5	Rice export from selected countries.	271

LIST OF FIGURES

Figure No.	Description	Page.
5.A	Map of Pakistan showing the boundaries.	73
5.5.A	GDP and GNP of Pakistan (at constant factor cost of 1959-60).	87
5.8.A	Summary of Balance of trade and Balance of payment.	96
5.9.A	Structure of Pakistan's Economy (Breakdown of GNP at constant factor cost of 1959-60 in percentage).	98
5.10.A	Structure of Pakistan's Economy (Breakdown of GNP at constant factor cost of 1959-60 in percentage).	99
5.11.A	Production of important crops in Pakistan.	101
7.A	Main Rice varieties in General.	155
7.3.A	Breakdown of Area under Different varieties of rice in Pakistan.	163
7.3.B	Breakdown of average area in percentage under different rice varieties (1977-1987).	164
7.4.A	Breakdown of Rice Production by varieties (000 tons).	165
8.A	Map of Pakistan showing the railway track in Pakistan.	208
8.B	Schematic Diagram showing Marketing Channels of Basmati Paddy/Rice in Punjab province.	211

8.C	Schematic Diagram showing Marketing Channels of Irri Paddy/Rice in Punjab province.	212
8.D	Schematic Diagram showing Marketing Channels of Irri Paddy/Rice in Sindh province.	213
8.16.A	Relationship of Basmati Rice closing stock to Procurement.	223
8.16.B	Relationship of closing stock to procurement of Irri rice varieties.	224
9.5.A	Basmati Rice Production and Export (000 tonnes).	241
9.5.B	Irri/Other Rice Production and Export (000 tonnes).	242
9.6.A	Average Share of Different Channels in the Export of Irri Rice Varieties (1984-88).	246
9.10.A	Irri rice Export from Pakistan to main Regions.	254
9.11.A	Average Oil and Rice Prices (FOB).	259
10.2.A	Paddy Production in Principal Countries/Regions.	266
10.3.A	Average World Rice Production and Export.	267
10.6.A	Average Rice Import by major Regions as a percentage world Import.	273

APPENDICES.

1.A	Data Collection Instrument.	324
6.A	Exchange Rate Mechanism in Pakistan.	329
6.B	Main Features of the Government's Agricultural Policy in Pakistan.	331
9.A	A Survey in Connection with the distribution/milling system of Rice in U.K, especially importation and trading from Pakistan.	333
9.B	A Survey in Connection with the distribution/milling system of Rice in U.K, especially importation and trading from Pakistan.	337

TABLES.

5.05	GDP and GNP of Pakistan (at constant factor cost of 1959-60) in Mln; Rupees.	341
5.09	Structure of Pakistan Economy (breakdown of GNP at constant factor of 1950-60).	341
5.10	Breakdown of GDP (at constant factor cost of 1959-60) in percentage.	342
5.11	Production of Important/major crops in Pakistan.	342
5.17	Value Added share in percentage of major agricultural crops (at constant factor-cost base 1980-81).	343
5.18	Economic classification of Pakistan's total export by major export crops.	343
7.03	Breakdown of area under different rice varieties.	344
7.04	Breakdown of rice production by varieties in Pakistan.	344
7.09	Average per Hectare Yield of Rice for Different Varieties in Pakistan.	345
9.06	Relative shares of Different Marketing Channels in total exports of Irri Rice varieties.	245

9.11	Trend analysis of average unit prices received for Basmati and Irri rice varieties.	346
9.12	Output, Procurement, Export and Consumption of Basmati Rice in Pakistan.	346
9.13	Average Export price of Basmati Rice from Pakistan for different regions.	347
9.14	Rice Export by value (million Rupees) in Pakistan.	347
9.15	Rice Export as % of total exports in Pakistan by value in Pakistani Rupees.	347
10.2	Paddy Production in Principal Countries.	348
10.3	Average World Rice Production and World Rice Trade for selected period.	349
10.6	Rice Trade of Rice Importing countries and their share of the world Market.	350
10.7	Structural shifts in Rice Trade.	351
10.8	Rice area, yield and production of world and selected countries and regions.	352
10.9	Per Hectare Yield of Rice in Main Rice Producing Countries.	352
10.10	Levy on import from third countries in EEC.	353
10.11	EC import levies on rice as percent of import rice (CIF) and export refunds as percent of consumer price.	353
10.12	Position of EC in Rice Production, Import & Export.	353
10.13	Trends in food aid of Rice by donor and recipient.	354
11.1	Basmati rice profit as percentage of total national budget and total national revenues.	355

ABBREVIATIONS AND ACRONYMS.

Acre.	It is an area of land measuring 4840 square yards or 4047 square metres.
ACR.	Annual Confidence Report, made annually by the Head for his/her subordinate to show the progress of work etc in Pakistan Civil Service.
AM&SL.	Agricultural Marketing & Storage Limited.
APCOM.	Agriculture Price Commission.
Basmati rice.	It is a traditional, long grain, aromatic, high quality variety, produced mainly in Pakistan & exported at premium price.
Beopari.	Small scale trader or agent.
Brokens.	These are small pieces of rice. If the processing is not good or if the mills are outdated, there is a greater chance of brokens. If the broken percentage/ratio in the rice is higher, prices offered in that case will be less.
CAP.	Common Agriculture Policy (applied in Europe).
CEC.	Cotton Export Corporation of Pakistan.
Chakkies.	This is a machine which processes rice into flour.
DGM.	Deputy General Manager.
EC.	European Community.
ECU.	European Currency Unit.
EEC.	European Economic Community.

F.A.O.	Food and Agriculture Organisation.
F.Y.	Financial Year, which starts from first July and ends at 30th June each year in Pakistan.
GATT.	General Agreement on Tariffs and Trade.
GCC.	Gulf Co-operation Council.
GCP.	Ghee (oil) Corporation of Pakistan.
GDP.	Gross Domestic Product.
GNP.	Gross National Product.
Godowns.	Covered place used for the storage purpose.
Hectares.	It is a measurement of an area of land, which equals 10,000 square meters, or 2.471 acres.
HYV.	High Yielding Varieties (of rice and wheat) introduced in late 1960s and early 1970s.
Iqra	It is a tax imposed on import of goods, introduced by the Zia-ul-Haque government.
Irri rice.	It refers to high yielding and low quality rice varieties, introduced/developed at the International Rice Research Institute, Manila, (Philippine).
Katcha Arhati.	Commission Agents (operating without licence from the Market Committee).
LDCs.	Less Developed Countries.
MFN.	Most Favoured Nations.
Mln.	Million.

Mohen-Jo-Daro.	It is a historical as well as archeological place in Sindh, at Larkana District, which signifies the 5000 years old civilisation of Sindh.
MTNs.	Multilateral Trade Negotiations.
NEC.	National Economic Council.
NTBs.	Non Tariff Barriers.
NLC.	National Logistic Cell (NLC) is a government owned transport. It is main source of road transport engaged in nation wide transportation of commodities. The NLC trucks are assigned by its headquarters at Gujranwala in the Punjab and Khairpur in Sindh.
ODI.	Overseas Development Institute.
ONCAD.	A State owned Agricultural Marketing Board in Senegal.
Other varieties.	These are traditional and low quality rice varieties produced in Pakistan. These varieties have been replaced by Irri Rice. Nowadays the production of the traditional varieties is negligible. However, in this thesis, other varieties means Irri plus others traditional rice varieties, unless not clearly specified.
Pacca Arhati	Commission Agents (operating under licence from the Market Committee).
Paddy.	It is unmilled rice, covered with husk.
PASSCO.	Pakistan Agricultural Storage and Services Corporation.
PPP.	Pakistan People's Party.

- PSEs/CSEs.** Producer/consumer subsidy-equivalents measure the extent of Government support to agriculture. A producer subsidy-equivalent measures the effects on producer revenue of all agriculture-specific government policies or, in other words, the value to the producer of all the government's policies. A consumer subsidy equivalent measures changes in consumption costs to the consumer.
- RECP.** Rice Export Corporation of Pakistan, which is the Government's Agent for procurement and export of rice.
- Rs.** Pakistani Currency 'Rupees' (Approximately, Rupees 45.00 are equivalent to £1.00 in 1992).
- Secondment.** In Pakistan, persons from Civil Services are frequently appointed on the deputation or secondment basis in many relevant or irrelevant departments or organisations.
- SOEs.** State Owned Enterprises are controlled and owned by the Government/public sector.
- Sq k.m.** Square Kilometre.
- UNCTAD.** United Nations Conference on Trade and Development.
- Usher.** It is an Islamic levy imposed only on the Suni Sect of Muslim land owners.
- Zakat.** An Islamic Tax, introduced by Zia-ul-Haque. It is deducted from the personal savings in Banks, at the rate of 2 and 1/2% per annum.

PART - I

CHAPTER - 1

INTRODUCTION.

1.1 Introduction to Pakistan's Rice Marketing.

The Pakistan economy like many other developing countries is agrarian in nature and agriculture is very important for the country's economy in general. It provides the means of livelihood for about 80% of the population. It is the way of life of the rural people who make up more than 70% of the total population. It also provides the basis for the country's industrial output. It is the main source of the national income and foreign exchange earnings. Being a major component of the country's economy, the agricultural sector is in a position to affect the country's economy and economic development.

Agriculture is a major contributor to the national income of Pakistan. It is the second biggest contributor, after the services sector. Agriculture in Pakistan at the time of independence accounted for 53% of the GNP, since then its share has declined steadily because of the increase in other sectors, and in recent years it has contributed about 25% to the GNP. The contribution of agriculture to other spheres of Pakistan's economy is even greater than its share of the GNP. For example, it provides employment to more than 50% of the labour force, and directly accounts for about 30% of total exports. If one takes into account the raw material content of cotton textiles and other agro-based manufactured

exports, its share would be over 60% of total exports, [Hamid, et, al., (1990); Vigar Ahmed and Rashid Ahmed, (1984)]. Even though the contribution of agriculture has been recognised, it has never been given its due attention. Policies related to agriculture in general have reflected this fact [Government of Pakistan, Ministry of Food and Agriculture, 'Commission Report', 1988].

Before 1972, when Bangladesh was a part of Pakistan, jute and cotton were major export crops. A large quantity of rice was produced but not exported on large scale because of the need to feed the 120 million population of both East Pakistan (Bangladesh) and West Pakistan. In 1972, when East Pakistan became independent, rice became the major export crop of Pakistan, as supplies previously marketed to East Pakistan became surplus, and also following the introduction of high yielding varieties like IRRI. Since then Pakistan has been among the five major rice exporting countries in the world.

Rice is the staple food crop in Pakistan next to wheat, especially in the areas where it is grown. On the whole it accounts for about 40% of the Pakistani population's consumption. It is the most important cash crop next to cotton. It not only feeds the fast growing population of Pakistan, but has also contributed about 15% of total export earnings on average between 1977 to 1987 [Government of Pakistan, 'Economic Survey of Pakistan', 1989-90].

The varieties of rice produced in Pakistan are - Basmati, Irri and other traditional varieties¹. Basmati is a high quality rice

because of its cooking characteristics². There is a great demand for it and it is offered at premium prices. It is consumed by rich people domestically and the surplus is exported mainly to the Middle-East and industrial countries.

Irri rice is a low quality rice in terms of its cooking characteristics³. It is a basic staple food for the urban and rural masses. It is consumed by the low income group domestically and the surplus is exported mainly to Asian and African countries. One study [UCG, 1989, P.78], found that African countries accounted for 52% of the exports and the Asian countries have been absorbing about one-quarter on average between 1975-76 to 1987-88.

Total rice production in Pakistan was 3,278,000 tonnes a year on average from 1980-81 to 1988-89, out of which 61.16% (2,005,000 tonnes) was Irri Rice, 29.77% (976,000 tonnes) Basmati Rice and the remainder (8.6% (282,000 tonnes) other traditional varieties [Agriculture Statistics of Pakistan, 1988-89].

Because of the suitability of the soil and climate, Basmati Rice is produced in parts of Punjab province and Irri Rice is produced mainly in Sindh. Out of the total Irri rice production of 2,005,000 tonnes, 65% was produced in Sindh, 22% in Punjab, 11% in Baluchistan and only 2% in NWFP province of Pakistan on average between 1980-81 to 1988-89 [Ibid], [see table 1.1].

The Rice Export Corporation of Pakistan (RECP), a public sector organisation, retains the monopoly on the export of rice but

TABLE - 1.1.

FLOW CHART OF RICE PROD; PROCUREMENT AND CONSUMPTION A YEAR ON AVERAGE (1988-81 to 1988-89) IN PAKISTAN.
(Rice Quantity in 000 tonnes)

		IRRI RICE PRODUCTION IN PAKISTAN 2005 Tonnes			
		Sindh.	Punjab.	Baluchistan	NWFP.
PRODUCTION.	Z OF TOTAL IRRI RICE PRODUCTION.	Quantity	Quantity	Quantity	Qty
		1314 tonnes.	443 tonnes.	231 tonnes.	32 tonnes
		65%	22%	11%	2%
PROCUREMENT OF RICE BY RECIP FOR EXPORT.					
PROCUREMENT BY RECIP FOR EXPORT.	Z of provincial product.	755	66	NIL	NIL
		57.4%	15%	NIL	NIL
	Z of Pakistan's total Irri rice production.	38%	3.3%		
DOMESTIC CONSUMPTION.					
Domestic Consumption †.	Z of provincial product.	560	377	231	32
		42.6%	85%	100	100
	Z of Pakistan's total Irri rice production.	27.9%	18.7%	11%	2%

† Note: The difference in between procurement by RECIP and the production of rice are also used for domestic consumption mainly at farm land by farmers.

Sources: Agriculture Statistics of Pakistan, 1988-89; UCC, 1989 'Rice Export Operations Study', Lahore, Pakistan.

declares a loss annually on Irri rice export. It procures rice from millers for export on a voluntary basis. Internal distribution of rice -- which in the past had restricted -- is now free of government intervention. Domestic prices, however, are influenced by government floor prices, which we will discuss later in chapters vii and viii.

RECP procured 27.6% (269,376 tonnes) of Basmati Rice, out of the total Basmati Rice production of 976,000 tonnes in Pakistan, on average between 1980-81 to 1988-89. It procured 40.89% (820,000 tonnes) of Irri Rice, out of a total Irri rice production of 2,005,000 tonnes. Out of RECP's total Irri Rice procurement (820,000 tonnes), 91.98% (754,236 tonnes) was procured from Sindh province and only 8.1% (66,450 tonnes) from Punjab, [Rice Export Corporation of Pakistan, 1990]⁴.

Domestic consumption of rice in Pakistan was as follows: 59% (1,184,314 tonnes) of the total Irri Rice production and 72.5% (707,600 tonnes) out of total Basmati Rice production were consumed a year on average from 1980-81 to 1988-89.

Pakistan produces about one percent of total world rice production and exports about 10% of world rice export by volume, [UCG, volume-1, 1989]. But because of three main factors: world competition mainly from India, Thailand, China, and U.S.A; the farm and export subsidies of the developed countries; and the neglect of agriculture in Pakistan [Commission Report, 1988], the country has not yet succeeded in finding a stable and sound world market share.

The export price for Irri rice is much lower in comparison to Basmati rice. As shown in table-1.2, the world price for Basmati rice is about four times higher than Irri. The price paid to the Basmati producers is less than half the export prices, whereas the Irri rice producers are paid very close to the export prices which is near the production cost. Table - 1.2 and 1.3 provide details of the specifics.

TABLE - 1.2.

SUPPORT AND EXPORT PRICES OF BASMATI AND IRRI RICE IN PAKISTAN.
(Rs: 40/kgs)

YEARS.	BASMATI RICE.			IRRI RICE.		
	PROCUREMENT PRICE.	EXPORT PRICE*	GROSS MARGIN FOR RECP.	PROCUREMENT PRICE.	EXPORT PRICE*	GROSS MARGIN FOR RECP.
1984-85	161	385	225	87	121	34
1985-86	166	445	229	90	103	13
1986-87	204	497	279	90	109	19

Adopted from: Richard Schermerhorn [1990] 'Rice Export Operation Study', Islamabad, Pakistan.

*Yearly average export price.

Note: For more years information, see table 7.6.

TABLE - 1.3.

COST OF PRODUCTION AND SUPPORT PRICE OF PADDY IN PAKISTAN.
(Rs: 40/kgs).

YEARS.	BASMATI RICE.				IRRI RICE.			
	Support Price.	Cost of Production*	Gross Margin for Producer.	% of Prod; cost.	Support Price.	Cost of Production*	Gross Margin for Producer.	% of Prod; cost.
1987-88	130	109	21.0	19.2	55	53	2.0	3.8
1988-89	135	114	21.0	18.4	60	56	4.0	7.1

Source: Richard Schermerhorn, [1990] 'Rice Export Marketing Study', Islamabad, Pakistan.

*Yearly average cost of production.

1.2 Statement of the Problem and Research Objectives.

As elaborated in chapter II, the economies of many developing countries are dependent on the agricultural sector, but there has been government intervention in the sector leading quite often to distorted agricultural prices through state owned agencies.

Knudsen and Nash [1990, p.51] assert that state enterprises -- usually organised as government-owned agencies -- distort the agricultural sector throughout the developing world. They operate in -- and often monopolise -- markets for agricultural inputs, outputs, services and trade. These agencies, not only procure the agricultural products at controlled and depressed prices but they are also inefficient and ineffective in achieving their objectives.

The World Bank Report [1986] quotes numerous studies that have also found that public sector marketing agencies can be relatively inefficient. Staffing is one problem. Key managers are often chosen for political reasons. Even if the top management is competent, it is often pressured into expanding staff for political reasons. Financial problems are common. Funds may be inadequate or released at the wrong times. Public agencies also often have an unrealistic and inconsistent mandate to generate government revenue, provide cheap food and create employment.

Knudsen and Nash [Ibid, p.1] point out that in many countries, farmers have no right to market their crops on their own or to bargain with buyers for a fair price. The governments through state

agencies, buy their crops at less than world prices and then sell the crops for even less to the relatively better-off urban dwellers. Farmers have been arrested and punished simply for seeking to sell their own grain. They usually react to suppressed prices by reducing their production - which results in perennial shortages, and repeated famines in some nations.

The two authors further argue that in most developing countries, government intervention has profoundly disrupted the agriculture sector by directly and indirectly taxing farmers and subsidising consumers. By lowering the farmer's price while subsidising and controlling consumer prices, many governments of developing countries have had to rely on imported food, dumped by the industrial countries as a result of their own farm policies. In severe cases when foreign exchange has been scarce or when domestic production has been low, this policy has resulted in severe food shortages. As a consequence, many farmers have abandoned their farms to migrate to cities, many finding worse poverty there.

The World Bank study [1986] found that the effect of low prices for farm output has not generally been offset by the subsidies that many governments provide through credit provision and farm inputs. Subsidised credit and fertilisers typically lead to rationing and shortages because of limited resources and benefit the larger and better-off farmers more than the smaller and poorer ones. The net effect of this combination of suppressed crop prices and subsidised farm inputs on production, has been to depress farmers' profits. And the conflict of policies results in a large waste of the

nation's economic resources, resulting in impoverished farmers.

The bank study [Ibid, p.61] argues that the general economic policies that developing countries have followed, limit the growth of agricultural production and hamper efforts to reduce rural poverty.

To reduce deficits on the balance of payments, structural adjustment policies have been introduced in developing countries as a result of pressure applied by the World Bank and the IMF. An important conditionality of their policy measures is liberalisation of agricultural markets.

This study examines rice marketing in Pakistan in order to consider whether liberalisation leads to greater efficiency. The study focuses on rice marketing in light of the two major schools of thought on agricultural policy as described by Timmer. C Peter [1989]: the 'Neo-classical school of thought' - which favours free trade to maximise efficiency of resource allocation and the 'Structuralist school of thought' - which favours intervention to achieve the goals of: market access, income distribution, and using the marketing system as a channel for raising fiscal revenues.

The study examines two contrasting schools of thought in particular: the structuralist approach, argued by Smith [1990, 1991] and the liberal approach, argued by Bates [1981, 1983, 1988], which are reviewed in chapter - III.

Since 1972, there has been an increase in the exportable surplus of Pakistani rice. Two major causal factors can be identified. First, as a result of the loss of a significant portion of the Bangladesh market when it was separated from Pakistan to become an independent state. Second, the increase in production because of the introduction of high yielding Irri rice varieties. Even so, there have been many constraints on rice exporting in procurement, processing and storage, which we will describe in chapters VII, VIII and IX.

How does the rice market in Pakistan operate? What are the difficulties facing the marketing process? And what is the structure and rationale of the process of state intervention in the rice marketing? This study addresses these and related problems.

The motivation to undertake this research stems from the need for such work. Comparatively little information is available either inside or outside Pakistan concerning agricultural policies relating to rice marketing in Pakistan. This study will explore a number of problem areas associated with Government intervention in rice marketing. The following are the specific objectives of the study:

- i. to identify the weaknesses of Pakistan's rice export marketing efforts arising from production, procurement, transport, milling and storage,
- ii. to identify the specific rice export impediments,

- iii. to explore ways of improving the existing rice marketing practices,
- iv. to generate lessons for less developed countries' (LDCs) agricultural marketing efforts.

1.3: Scope of the study.

There have been quite negative press coverage and criticisms about rice marketing in Pakistan since last 15 years, especially towards government intervention, so the major motivation for this author was to try and see to what extent there were justifications on both sides. Since the author came from the rice growing areas, these concerns assumed greater prominence.

The scope of the study is limited to the rice marketing of Pakistan, including the institutions involved in procurement, pricing, processing, transporting and exporting rice from Pakistan. The study is also limited primarily to events up to the year 1990/91.

The starting position of this study is that the Pakistan Government's intervention in paddy/rice marketing has been a major factor in the inefficient operation of the sector. Liberalisation is therefore necessary. However, it is not possible for us to test the counterfactual of what would have happened in the total absence of the Government.

1.4:

Research Methodology.

This research is descriptive and qualitative. A most useful attribute of the qualitative method is that it allowed the use of in-depth interviewing and acquisition of information through probes and counter probes on the basis of the semi-structured questionnaire.

The major purpose of descriptive research, as the name implies is that of describing characteristics of the population. Descriptive research seeks to determine the answers to 'who', 'what', 'when', 'where', and 'how' questions [Zikmund William G 1986, p.36].

Here we attempt to address such issues as the weaknesses of Pakistan's rice marketing - mainly in production, procurement, milling, storage and exports.

The research process involved securing the data in order to analyse the way in which the paddy/rice marketing operates in Pakistan and identifying the difficulties which lie in the paddy/rice marketing process. Data for this study involved a research visit to Pakistan for four and half months, from May 1991 to October 1991, which included acquisition of both secondary and primary data.

As far as secondary sources are concerned, these included library search and consequent analysis of books, theses, Journals, published reports and newspapers, and the use of on-line databases, information services, and several libraries in the U.K. The author also assembled data from Pakistan relating to Government's

agricultural policies, rice production, pricing, milling, transportation, storage, export and export policies from Government departments and private organisations. Among these were Monographs, unpublished research reports, relevant Departmental and Parastatal Annual Reports, in-house magazines and newspapers.

Examination of the literature on Pakistan rice marketing -- both in Pakistan and the U.K -- highlighted the dearth of written material on the subject. Fieldwork by this author therefore became inevitable. This included interviews in Pakistan. Personal interviews in English and Urdu were conducted with top, middle and lower managements in different organisations involved directly or indirectly with Pakistan's agriculture and particularly rice marketing. These included rice producers, millers, RECP officials, private exporters, Government audit department, policy makers and researchers.

Interviews were conducted on the basis of a semi-structured questionnaire [see appendix-1.A]. The personnel interviewed varied greatly in their character, knowledge of the subject, age experience, style and sensitivity to data. Because of this, and the need to explore and probe into the rice marketing process, it was decided to use the semi-structured questionnaire as the technique for this particular study. The sequence of questions asked had to follow the trend of discussion, the mood of the interviewee, their field of competence and knowledge of the subject. The main aim was to have a smooth and free flow of ideas and discussion on the basis of relevant questions.

1.5 Problems associated with data collection.

The major problems encountered involved time and money. There was a critical shortage of both. Secondly, the overall attitude towards the research in the public sector in Pakistan, was negative. People were not willing to provide information because of their concern about 'secrecy'. However, the author succeeded in obtaining valuable information from international organisations such as USAID, World Bank, FAO and local sources through personal networks of friends and relatives.

1.6: Organisation of the Study.

This thesis is divided into three parts. Part I of the study consists of the literature review, covered by chapters 2, 3, and 4. Part II has five chapters - 5, 6, 7, 8, and 9. These are concerned with an examination of the agricultural problems and rice marketing situation in Pakistan, in light of the information presented in part I of the study. Finally, part III of this thesis consists of two chapters - 10 and 11. Chapter 10 discusses the rice trade policies of the developed countries and the prospects for agricultural trade liberalisation in the world in general. Chapter 11, the last chapter, summarises the conclusion of the whole study and seeks to draw general lessons learnt for LDCs.

Chapter 2 of the thesis deals with the background of the study in which agricultural policies in the developing countries are examined. This chapter begins with a brief discussion of the

importance of agriculture in general. After that, the agricultural input and output policies are described along with the role of state owned organisations.

In chapter 3, the theoretical framework of the study is discussed. Agricultural policies in developing countries are summarised in the light of the relevant arguments of two schools of thought - 'neo-classical' and 'structuralist' views. The neo-classical school of thought, which favours liberalisation, is argued by Bates [1981, 1983, 1988]. The structuralist school of thought which favours government intervention, is argued by Smith [1990, 1991].

Chapter 4 develops the analytical framework of the study. This chapter starts with a discussion of privatisation and liberalisation in general. It then reviews the arguments for and against the policies of agricultural liberalisation, and Government intervention.

The fifth chapter gives an account of the economy of Pakistan. Initially, the chapter discusses the geographical background, and political history of the country. The chapter then follows a discussion about the economy of Pakistan in general. Finally, the chapter ends with a brief look at the importance of agriculture in the Pakistan economy.

Chapter 6 is concerned with the agricultural policies of Pakistan, in which the input and output pricing policies are discussed, along with subsidies and taxes. It concludes with an examination of the

effects of government intervention in the agricultural sector in terms of net taxes or net subsidies.

Chapter 7 covers various aspects of paddy/rice marketing in Pakistan. The chapter starts with a discussion of rice varieties and consumers' tastes. This is followed by a brief description of rice producing areas, production levels, yield levels, as well as paddy/rice procurement, and pricing policies. Finally, it reviews the functions and organisational structure of RECP.

Chapter 8 analyses the role of RECP in the procurement and handling of rice marketing.

Chapter 9 discusses the nature and characteristics of Pakistan's rice exports and export policies.

Chapter 10 summarises briefly the agricultural policies of the developed countries and the world rice trade. It also discusses the prospects for agricultural trade liberalisation in the world in general.

Finally, chapter 11 concludes the study by giving a summary of the main findings; provides recommendations towards correcting some of the major impediments to rice marketing identified in the preceding chapters and seeks to draw general lessons learnt for LDCs. Finally, recommendations for further research are outlined.

Footnotes.

- ¹As far the other traditional rice varieties are concerned, they are many and mostly consumed at farm-land and produced in a very small quantities.
- ²Basmati rice is long grain, scented or aromatic variety. While cooking, the size of rice becomes large and flaky and gives a natural aroma which is popularly liked in Indian dishes such as 'Pulao' and 'Biryani'.
- ³Irri rice while cooking, does not give any natural aroma. This rice is sticky when cooked and is not liked in Indian dishes.
- ⁴This information was given by the Rice Export Corporation of Pakistan, during the field work in 1990.

AGRICULTURAL POLICIES: AN INTERNATIONAL PERSPECTIVE.

The objective of this chapter is to review the previous work that has been carried out regarding the various issues of agricultural policies in the developing countries and to examine the level of government involvement. The chapter begins with a discussion of the importance of agriculture in general before reviewing the agricultural policies in developing countries.

2.1: The Importance of Agriculture in General.

In most developing countries of the world, the agriculture sector occupies the dominant role. Whatever yardstick we may apply, whether it be the number of people the sector employs, the amount of income originating in it, the amount of basic food it supplies, the size of its dependent population, or its export earnings, agriculture clearly occupies a position of prime importance and will continue to do so for a considerable time to come.

According to the World Development Report [1986, p.3] figures, agriculture is the basic industry of the world's poorest countries. It employs roughly 80% of the labour force in low-income¹ developing countries and about 35 to 55% in middle-income² developing ones. It is also a main source of GDP, accounting for 35 to 45% of GDP in low -income developing countries (table-2.1). The predominance of the agricultural sector is usually one of the main

characteristics of developing countries in the sense that agriculture is not only the largest contributor to the national income but also the major source of employment and foreign exchange earnings. It is also the provider of food grain especially for the growing urban population and for the generation of a surplus for investment to finance development efforts.

The Bank report [Ibid] further confirmed that despite the dominant position occupied by the agricultural sector in a traditional economy, many parts of the developing world have consistently failed to pay adequate attention to agricultural and rural development. This has often led to a stagnant agriculture sector that, in turn, has resulted in large shortfall of domestic food production, balance of payment crises, and political instability.

TABLE - 2-1.

Agriculture's share in GDP, Employment & Export in selected years, 1964-84.

(percent)

Country Group.	Share of Agriculture in:					
	GDP		Employment		Export	
	1964-66	82-84	1965	1980	1964-66	82-84
Low-income countries	42.8	36.3	76.0	72.0	58.6	32.8
Africa	46.9	41.3	84.0	78.0	70.7	64.4
Asia	42.5	35.7	74.0	71.0	54.0	25.9
Middle-income oil exporters	21.0	14.8	62.0	50.0	40.8	13.6
Middle-income oil importers including major exporters of manufacturers.	25.2	18.0	63.0	53.0	54.2	44.8
Major exporters of manuf- actures.	19.3	12.1	50.0	36.0	56.9	20.2
Developing countries	30.2	19.9	66.9	63.2	52.3	22.0
Industrial countries	5.1	3.1	13.7	7.1	21.4	14.1

Note: - Countries with less than \$400 GNP per head are low income countries.

- = = more = = = = = middle income countries.

- = = = = = = = = developing countries.

Source: *World Development Report* [1986, p.3], The World Bank, Washington.

2.2 Agricultural Policies in the Developing Countries.

Agricultural policy in developed and in developing nations is a tangle of contradictions. Throughout the world, governments have 'one foot on the accelerator and one foot on the brake'-- simultaneously encouraging and discouraging increased farm production. In the United States, the government is putting pressure on many farmers to leave good farmland unplanted -- while paying other farmers bonuses of 50% over market prices to boost their production. In Europe, if farmers produce more than a government-set limit, they are penalised by reductions in their government set prices. While in many developing nations, governments refuse to pay farmers the market value of their crops, yet sell farmers fertilisers and seeds for far less than they are worth.

Knudsen and Nash [1990, p.49] argue that in many developing countries there is little recognition of the notion that a farmer's right to the fruits of his labour is no less important than those of the consumer. In the absence of such notions of inherent economic rights, the deck is stacked against agriculture, especially with respect to food pricing policies and exchange rate policies. Since producers - even numerically superior to urban interests - are poorly organised and usually lose battles with politically volatile consumers in the cities. Policies are analysed in terms of whether they meet certain objectives, such as income distribution, self sufficiency and export, rather than in terms of whether they erode or pressure the individuals' ability to make

economic choices. Further, they say that in much of Africa, farmers have no right to market their crops on their own or to bargain with buyers for a fair price.

They [Ibid] further argue that the government buys their crops at less than world prices and then sells it for even less to relatively better-off urban dwellers. Farmers have been arrested and punished simply for seeking to sell their own grain. Agricultural restrictions and controls frequently drive down the market price of food. Farmers usually react to suppressed prices by reducing their production - which results in perennial shortages, repeated famines in some nations, and the need to seek imports or food aid. Regrettably, many politicians have reacted to food shortages by imposing new government controls on farmers and markets and creating more inefficient government enterprises, rather than abolishing the controls that caused the original problem.

Government intervention in agriculture has profoundly disrupted the agricultural sector by directly and indirectly taxing farmers while subsidising consumers. Prices received by producers and paid by consumers are usually set by administrative decree to meet political objectives. Low politically-decreed prices to producers and consumers have tended to sharply reduce the farmer's incentive for production while increasing consumption by urban dwellers. By lowering the farmer's price while subsidising and controlling consumer prices, many governments of developing countries have had to rely on imported food, dumped by industrial countries as a

result of their own farm policies. In severe cases when foreign exchange is scarce or domestic production is unusually low, this policy has resulted in severe food shortages. As a consequence, many farmers have abandoned their farms to migrate to cities, many finding greater poverty there [Knudsen and Nash, 1990].

The study by World Bank [1986, p.61] largely confirmed that the general economic policies that developing countries have pursued limited the growth of agricultural production and hampered efforts to reduce the rural poverty. This decreased the foreign exchange earnings through the low level of agricultural exports. In many cases, sector-specific pricing and tax policies have also resulted in substantial discrimination against agriculture.

The sectoral policies keep the domestic farm prices of agricultural products below their world prices at country borders and also contribute significantly to the bias against agriculture. It makes little difference from this point of view whether farmers receive low prices because of taxes on their outputs or because of excessive margins charged by state marketing agencies. The effects of low prices for farm output are not generally offset by the subsidies that many governments provide on credit and modern farm inputs. Typically, subsidies lead to rationing and shortages, and benefit larger and better-off farmers more than smaller and poorer farmers [World Bank Report, 1986].

Further, in the same study [Ibid] it was argued that many developing countries pronounce self sufficiency as an important

objective, but follow policies that tax farmers. Many have raised producer prices at various stages, but have followed macroeconomic and exchange rate policies that have left real produce prices unchanged or lower than before. Many have set up a complex system of producer taxation, and then have set up an equally complex and frequently ineffective systems of subsidies for inputs to offset that taxation. Many subsidise consumers, but end up reducing the incomes of farmers who are much poorer than many who actually benefit from the subsidies.

The net effect on production, of the combination of suppressing crop prices and subsidising farm inputs, is generally to depress farmers' profits. And the conflict of policies results in a large waste of resources and nations with impoverished farmers and happy consumers, as argued by Bates [1981].

Policies on money supply and credit, public revenues and expenditure, foreign borrowing and investment, and exchange rate regimes have all been of critical importance during the 1970s and 1980s. When expansionary monetary and fiscal policies have led to higher inflation at home than abroad, governments have often failed to adjust exchange rates and have relied instead on increasing import protection by implementing devices as quotas, exchange controls, and licensing. In such circumstances the currency may become overvalued and bias against agriculture becomes stronger because the increased protection usually accrues to industry by providing them cheap raw-material and low food prices for their workers.

Typically, food imports are excluded from restrictive measures in order to keep urban food prices low: consequently, food imports are implicitly subsidised. Furthermore, in trying to reduce fiscal deficits, countries usually increase sectoral taxes on agricultural exports and curtail subsidy programmes for agricultural inputs. As a result of both implicit and explicit taxation, agriculture -- and the low income groups that depend on it -- tends to bear the brunt of the adjustment programmes that ensue from destabilising macro economic policies.

The discrimination against agriculture derives from several factors. Mainly, it is very much an integral part of development strategies that promote and protect domestic industries behind high trade barriers. Such strategies are intended to accelerate the shift of resources out of agriculture by lowering its profitability compared with that of industry: in other words, by turning the internal terms of trade between agriculture and industry so that agriculture is worse off than it would be if domestic prices were aligned with relative world prices. Agricultural exports suffer as a result; so do agricultural products that compete with imports. This is not just because their domestic prices become lower related to the prices of protected industrial products, but also because the cost of the industrial inputs the farmers use, increases [World Bank Report, 1986].

Moreover, the protectionist policies result in an appreciation of the real exchange rate. This means that traded agricultural goods become less profitable than non traded goods, with further adverse

consequences on the developing country's agricultural exports [World Bank Report, 1986]. The developing countries' agricultural policies are described below:

2.2.1 Input Policies.

Governments have often tried to compensate for explicit or implicit taxes on agriculture by providing input-fertiliser, credit, irrigation services, improved seeds and electricity -- at subsidised prices. These subsidies have done little or nothing to compensate the poorest farmers, who use few purchased inputs, produce relatively small saleable surpluses, and are not well enough connected to be allocated a fair share of inputs whose shortages are created by the system. In many cases all of the farmers' demand cannot be met at subsidised prices. This leads to rationing. Who gets how much fertiliser for example, depends on the rationing process. Typically, the allocation process favours the bigger farmers and thus negates whatever equity benefits might otherwise have accrued.

A study by Seddon [1989], as quoted in Knudsen and Nash [1990, p.70] found that, in Morocco, 70% of the subsidies benefited the richest farmers. Instead of helping the poor, subsidies have misallocated resources, skewed rural income distribution, imposed a burden on the budget, and sometimes encouraged environmental degradation.

2.2.1.1

Fertilisers.

Most developing countries compensate producers for the policies that depress their output prices by offering fertiliser subsidies. This is done by setting the selling price of fertilisers lower than the costs of production or importation.

On a micro economic level, the under-pricing of fertiliser, as with any product, results in its inefficiently intensive use. While aggregate quantitative estimates of this kind of loss are difficult to make, it is clear that subsidies that in most cases exceed 50 %, and in some cases approach 95%, produce large distortions and therefore large costs [Knudsen and Nash, 1990]. Further more, overuse of fertiliser has environmental effects.

The costs of subsidies are further magnified by the way in which they are administered. Production, distribution, and importation are frequently handled by inefficient state organisations that have limited incentives to achieve cost savings, since losses are covered by the government. One study estimated that the public sector fertiliser plants in India are only 40% as productive as private sector plants [Srinivasan, 1986].

On the other hand, imports are controlled by the government in ways that limit the competition and pressure for efficiency that free imports would provide. It has also been observed that, often only one or two types of fertilisers are available, forcing farmers to use the same kind on crops with different needs.

A study in Senegal, as quoted in Knudsen and Nash [1990, p.72] compared the standard fertiliser sold by the state owned organisations with more appropriate mixes, and found that equal yields could have been achieved at 20% lower cost if better blends had been available.

2.2.1.2 Irrigation.

In developing countries, irrigation has been the single largest investment expenditure in agriculture. The International Food Policy Research Institute (IFPRI) as quoted in Knudsen and Nash [1990, p.73], estimated that, it would account for over half of all agricultural investment in the 1980s in 36 important developing countries. Despite this emphasis, results have been disappointing, whether compared to what was projected, what is technically achievable or what is produced under private irrigation schemes. Many of the problems are traceable to the policy environments in which the investments were made, particularly the pricing of water at rates far too low to recover costs. In most countries water charges do not come close to covering even the costs of operating and maintaining the irrigation system, much less servicing the capital costs to build it. In a group of seven Asian countries - Bangladesh, Indonesia, Korea, Nepal, Pakistan, the Philippines and Thailand - for which such estimates are available, operation and maintenance costs exceed user charges in every country except the Philippines. As a result, there is an excess use of water.

This overuse of water in the fields, as well as large quantities

that leak from damaged or obstructed canals in transit, causes environmental havoc. For example, in India 10 million acres of cultivable land have been lost through waterlogging, with another 25 million threatened by salinity, another consequence of overuse [Jayal, 1985]. In Pakistan, 12 million acres are waterlogged and 10 million saline [World Bank, 1982]. Though Pakistan devotes half of its irrigation budget to mitigating the salinization [Postal, 1989].

Comparative studies in the Philippines, Korea, and China have found not surprisingly, that irrigation agency staff are more responsive to farmer needs when their funding comes from the farmers [Small, 1986; Nickun, 1982; World Bank, 1982; Wade, 1982].

In irrigation, other than subsidies and misuse of water, there is also a misuse of funds. In Pakistan, it is widely believed that there is widespread corruption in irrigation and it has been observed that, the department invests large amounts but there is press criticism about the expenditures on maintenance of canals.

2.2.1.3 Credit.

According to Feder, et, al., [1989], providing cheap credit to farmers has been a major way of subsidising production and shoring up political support in rural areas. But the strategy is costly and ineffective. Typically, credit is provided to a large extent by donors and channelled through special government lending institutions. The rates charged are below commercial rates and in

inflationary environments are often lower than the rate of inflation, making returns negative in real terms. Political and other considerations make it difficult to take action to collect delinquent loans, resulting in high default rates, typically between 20 and 50%, but sometimes rising as high as 80%.

One study [Knudsen and Nash, 1990] confirms that credit has proven to be an ineffective vehicle for achieving the intended objectives of increasing production and helping small farmers. A major problem is that money is fungible; once lent it can be (and often is) spent for nonagricultural investment or consumption, that is, on luxurious things. Studies in Mexico, Pakistan, and the Philippines showed that only 25 to 50% of loan funds went to increase agricultural investment, and most of the subsidies are windfalls to large farmers, not small holders. Another study [Nash, 1983] concluded that in Peru 36% of the subsidy benefited the middle and upper classes.

2.2.2.1 Pricing Policies.

The objectives of agricultural commodities' pricing policy varies greatly among countries. One often stated purpose is to help and bring about a certain income distribution as described by policy makers [Tolley, 1982].

Prices of important agricultural products in developing countries are almost always set in the political arena, either by the state organisations or by legislation. The usual policy is to set

producers and consumers prices low relative to their international levels³, and at the uniform levels throughout the country and throughout the year. Producer and consumer prices are legally controlled. Governments have dual policy objectives in setting and regulating the prices. They want to provide adequate incentives for increasing food production and they seek to protect the interests of consumers at the same time. In practice, the objective of ensuring a regular supply of staples at low prices for consumers has been the dominant criteria in most developing countries, [World Bank Report, 1981, p.56]. The way they are funded varies too, but in most countries the cost has been shifted back to farmers in the form of low farm prices. This has been accomplished through taxes in food exporting countries, through legal marketing monopolies which pay low prices of domestically produced food crops, and through sales at low prices of imported foods. This, however, is an inefficient way of helping the poor, since most of the subsidy goes to the middle and upper classes.

One study [World Bank Report 1981, p.56], in the context of African countries, studied the extent to which export crops were being taxed or subsidised by their governments during 1976-1989 (table-2.2). All but four of 29 separate estimates were negative, and showed net taxation, and the estimate of an overall average tax rate of 35% as an underestimate because it takes no account of either the inflated costs of inefficient state marketing boards or widespread existence at that time of overvalued currencies.

TABLE-2.2

Nominal Protection Co-efficient (NPC)* of Selected Exports Crops for Some African Countries.

Countries	Crops	1971-75	1976-89
Cameroon	Cocoa	0.37 (2) ^a	0.45 (2)
Ghana	-	0.47 (5)	0.40 (4)
Ivory Coast	-	0.56 (2)	0.38 (1)
Togo	-	0.50 (5)	0.25 (4)
Cameroon (Arabica)	Coffee	0.72 (2)	0.60 (2)
Cameroon (Robusta)	-	....	0.36 (1)
Ivory Coast	-	0.68 (1)	0.36 (1)
Kenya	-	0.94 (1)	....
Tanzania	-	0.80 (5)	0.59 (4)
Togo	-	0.42 (5)	0.23 (4)
Cameroon	Cotton	....	0.79 (1)
Ivory Coast	-	0.79 (1)	1.05 (1)
Kenya	-	1.07 (1)	...
Malawi	-	0.68 (5)	0.75 (2)
Mali	-	0.55 (2)	0.44 (4)
Senegal	-	0.65 (2)	....
Sudan	-	0.78 (2)	0.60 (1)
Togo	-	0.62 (5)	0.79 (4)
Upper Volta	-	....	0.79 (1)
Malawi	Groundnuts	0.70 (5)	0.59 (2)
Mali	-	0.57 (2)	0.43 (4)
Senegal	-	0.48 (4)	0.66 (4)
Sudan	-	0.85 (3)	0.67 (1)
Zambia	-	0.70 (5)	0.71 (4)
Kenya	Maize ^b	0.96 (1)	1.33 (1)
Malawi	-	1.68 (5)	1.34 (2)
Zambia	-	0.72 (5)	0.78 (4)
Sudan	Sesame	0.83 (1)	0.59 (1)
Upper Volta	-	....	0.88 (1)
Kenya	Tea	0.89 (1)	.....
Malawi	Tobacco	0.42 (5)	0.28 (2)
Zambia	-	1.09 (5)	0.88 (4)
Kenya	Wheat ^b	....	1.43 (1)

Source: 'Accelerated Development in Sub-Saharan Africa: An Agenda For Action', World Bank, 1981.

Note:

*It is a measure of the degree to which crops are taxed or subsidised. NPC is calculated as: Producer Prices/World Price-Transport, Marketing and Processing costs. If the NPC value is more than one it means that crop is being subsidised.

- figures not available.

a. Figures in brackets indicates number of observations (years).

b. Maize and Wheat have been alternatively exported and imported in these countries.

In another and very recent study [Krueger, et, al., 1988] as quoted in ODI Working Paper 34 by Tony Killick [1990, p.13] it was found that out of 18 representative countries, the domestic prices of export crops were in almost all cases kept below international prices (converted at the official exchange rate), by an average of 11% .

Imported food crops were a different matter; most countries kept domestic producer prices higher than world prices, by an average of 20-21%. However, an additional "hidden" tax was also imposed on all tradable crops by over-valuation of the exchange rate and protection of the industrial sector. The same study found this indirect mechanism to be by far the most significant way of taxing agriculture, overwhelming even the apparent protection provided by pricing policy for imported food crops. On average, the total effect from pricing and the hidden tax was equivalent to a tax of 36-40% on export crops, and a tax of 5-6% on imports (table-2.3).

In other countries - not included in the above study - the effect of the pricing and exchange rate policy has been even worse for agriculture. In Tanzania by 1984, official prices for export crops had fallen in real terms to about half their levels of 1970, in spite of higher border prices. In the late 1970s and 1980s in Togo, the farm price for coffee was a third of border price in Cameroon and Ghana cocoa producers received less than half the world price, and in Senegal, groundnut producers only received about half the export value [World Bank, 1986, and Caswell, 1985].

TABLE - 2.3

Direct and Indirect Protection of Agriculture (1980-84)

(Percentages)^a

Countries.	EXPORT PRODUCTS			FOOD PRODUCTS (CEREALS)		
	Product (1)	Direct ^b (2)	Indirect ^c (3)	Product (4)	Direct ^b (5)	Indirect ^c (6)
Argentina	Wheat	-13	-37	-	-	-
Brazil	Soybean	-19	-14	Wheat	-7	-14
Chile	Grapes	0	-7	Wheat	+9	-7
Columbia	Coffee	-5	-34	Wheat	+9	-34
Cote d'Ivoire	Cocoa	-21	-26	Rice	+16	-26
Dominican Republic	Coffee	-32	-19	Rice	+26	-19
Egypt	Cotton	-22	-14	Wheat	-21	-14
Ghana	Cocoa	+34	-89	Rice	+118	-89
Malaysia	Rubber	-18	-10	Rice	+68	-10
Pakistan	Cotton	-7	-35	Wheat	-21	-35
Philippines	Copra	-26	-28	Corn	+26	-28
Sri-Lanka	Rubber	-31	-31	Rice	+11	-31
Thailand	Rice	-15	-19	-	-	-
Turkey	Tobacco	-28	-35	Wheat	-3	-35
Zambia	Tobacco	+7	-57	Corn	-9	-57
Korea (South)	-	-	-	Rice	+86	-12
Morocco	-	-	-	Wheat	0	-8
Portugal	Tomatoes	+17	-13	Wheat	+26	-13
AVERAGE		-11	-29	AVERAGE	+21	-27

Source: Anne O.Krueger, et, al., [1988] 'Agricultural Incentives in Developing Countries: Measuring the Effect of sectoral and Economy wide Policies', The World Bank Economic Review, vol.2, no.3, September.

Note:

^a percentage deviation from the prices that would have prevailed in a well functioning free trade market.

^b It is the direct intervention by the government through subsidies and/or taxes. If the figure is in plus, it means that the producers are subsidised, and if in minus, they are taxed.

^c It is an indirect government intervention through the exchange rate mechanism.

Through depressed pricing policies in developing countries, the exports are reduced and imports are increased. As quoted in the World Bank Report [1986, p.69], the International Food Research Institute (IFPRI) studied the evolution of the Argentine and Chilean economies and the effects of pricing and exchange rate policies on agriculture. The study showed that, if agricultural prices between 1952 and 1972 had been 10% higher than they in fact were -- when the government was taxing farmers heavily, total agricultural output would have gradually increased to a level approximately 9% higher, on an annual basis, than it actually was over the period. These measures depress food production and can be very costly if maintained over long periods.

2.2.2.2 Such low-price policies have an important unintended effect over a period of time. Countries in which producer prices have been severely depressed have consistently found production declining.

A study by Sturzenegger (forthcoming) as quoted by Knudsen and Nash [1990, p.55] confirmed that, in the early 1960s, Sri Lanka accounted for a third of world tea exports, while Kenya's market share was less than 3%. Over the ensuing decades, however, Sri Lanka taxed the sector quite severely; average tax rates were over 50% in the 1970s and over 35% in the late 1970s to mid 1980's. Kenya's taxation was much more reasonable; in 1985, rates were on a sliding scale based on the world price, with the top average rate about 15%. By the early 1980s Sri Lanka's share of the market had declined to 19%, while Kenya's had risen to more than (triple) 9%.

In Argentina, another country with a strong policy bias against exports, it has been estimated that a more neutral policy environment could have doubled agricultural exports.

Another effect of such pricing policies is to encourage -- in some cases, virtually force -- producers to smuggle their crops out of the country. Ghana's cocoa Marketing Board's pricing policies, combined with over-valuation of the exchange rate, raised the effective taxation of cocoa from an already-high 54% in the late 1960s to 89% in the late 70s. Ghana's resultant market share dropped from 40% to 18%. Neighbouring Cote d'Ivoire's rose from 9 to 29%. A significant part of the increase in exports from Cote d'Ivoire came from Cocoa smuggled out of Ghana. Ghana's pricing policies not only impoverished the Ghananian producers, but also deprived the treasury of revenue [Knudson and Nash, 1990].

2.2.3 Trading policies.

The necessary corollary to pricing policies that cause domestic prices to deviate from their international levels is restricting trade with the outside world. This is often done by giving a state organisation marketer exclusive authority to export or import the crop. But even where this is not done, governments impose a variety of other controls on international trade in agriculture products. In a large sample of developing countries, about 48% of food items and 37% of agricultural raw materials are affected by non-tariff measures, (Tariffs are not counted here as restrictions), [Erzan, et, al., 1988]. The effect of such restrictions is often to

partially compensate for the anti-agricultural bias implicit in policies of exchange over-valuation and industrial protection, though the public justification is usually to promote self sufficiency in food. Such restrictive tendencies of policy-makers have been reinforced by the industrial countries' agricultural policies that have depressed and destabilised prices of major food crops.

Governments in developing countries restrict imports because they believe, with some justification, that if cheap imports were freely available, the effects would be devastating. But the government's exchange-rate and industrial policies create much more serious problems for agriculture than would external competition, even from subsidised products. Restriction and taxes when applied to exports have the effect of keeping domestic prices low. In many countries, the major purpose is to raise revenue for the government by taxing export producers.

In other words, the policies are aimed at keeping domestic prices low for consumers -- as with beef in Mexico -- or for agro-industrial processors -- as with cotton in Venezuela and Pakistan and logs in Belize. When the price difference is large, the restrictions are widely evaded. The negative effects of depressing prices are large as already discussed. But trade restrictions have negative effects that go beyond their impact on prices. The licensing procedure itself is typically onerous. In Madagascar, despite recent trade policy reforms, exporters still are required to have 51 documents stamped and verified on average, three times.

An average shipment requires three working days just for the paper work. Giving bureaucrats such extensive powers also fuels rent-seeking and corruption, further discouraging exporters.

2.2.4. State Marketing Organisations.

One Study [Knudsen and Nash, 1990. p.51] concludes that state enterprises, usually organised as government-owned corporations⁴, distort agricultural sectors throughout the developing world. They operate in (and often monopolise) markets for agricultural inputs, outputs, services and trade. These state organisations, not only procure the agricultural products at very low prices but they are inefficient and ineffective. It is also widely alleged that they are corrupt in the sense that there is misuse of resources, widespread disregard for legal rules and regulations.

Governments often justify their involvement in marketing with the argument that the private sector is inefficient and can be monopolised by a small number of traders. There is little evidence that this is generally true. New boards proliferated, in Tanzania in the mid 1970s, for example, there were ten state agencies handling production, processing, transport and marketing of 42 crops. These boards often displaced private traders that were more efficient. This has been documented, for example in Kenya, Indonesia, Senegal, Sri Lanka, and Tanzania [Lele and Christianson, 1988; World Bank, 1986; Bryceson, 1985].

Numerous studies, as quoted in the World Bank Report [1986, p.86]

have indicated that public sector marketing agencies can be relatively inefficient. Staffing is one problem. Key managers are often chosen for political reasons. Even if the top management is competent, it is often pressured into expanding staff for political reasons. Flexibility in staffing is often lacking. Competence and morale often deteriorates. Financial problems are common. Funds may be inadequate or released at wrong time. Public agencies also often have unrealistic and inconsistent mandates to generate government revenue, provide cheap food and create employment.

A study by World Bank [1985] as quoted in Maddock [1987, p.296] confirmed that state owned enterprises have typically been net consumers of resources rather than income generators and it has been estimated that in the period 1976-79, net budgetary payments to nonfinancial state owned enterprises in developing countries averaged more than 3% of the GDP.

Perhaps more important, the state agencies find it hard to handle the sheer complexity of the markets, because they operate inflexibly. They can not adopt readily to changing the market conditions. State organisations simply do not respond flexibly like this, because it is politically difficult for them to quickly shed labour and take other cost-cutting measures in a timely manner. Bureaucratic inertia delays decisions, so that a response to a given market condition may be completely inappropriate to the conditions at the time the response is finally made [Maddock, 1987].

As complex centrally controlled systems are open to corruption, it is difficult for public agencies to adopt the differentiated pricing policies which are needed to promote efficient trade. But the costs of not doing so can be great. For example, when an agency offers a single price for grades of crop, farmers want to sell it only their lowest quality grade. When the agency is in charge of exporting the crop, as in the case of the Rice Marketing Board in Guyana, the low quality of its supplies discourages foreign buyers.

Estimates of the magnitude of the corruption are hard to come by, but to give some idea of its seriousness, reports from Senegal indicate that the government admitted fraudulent losses of the major state marketing agency ONCAD of an amount equal to 44% of the public sector investment budget [Knudsen and Nash, 1990, p.58]. In addition to the direct siphoning-off of funds [Bryceson, 1985; Nim Caswell, 1985]; leakage of supplies purchased by the state marketing agencies into the higher priced parallel market are common [Hopecraft, 1987].

Conclusion.

This chapter started by looking at the agricultural policies adopted by the developing countries. It was found that mostly in agriculture, prices are set to meet the political objectives, where producers are heavily taxed and the consumers are subsidised. On the other hand, protecting industries from the true cost of agriculture has resulted in substantial discrimination against

agriculture.

The conflict of policies, such as suppressing crop prices and subsidising farm inputs, have resulted in a large scale waste of resources, away from helping the poor because, subsidies are mainly used for political purposes.

State marketing agencies are mostly found to be inefficient and political affected organisations. They cannot handle the complexity of markets because they operate inflexibly.

These are the problems of agricultural policies in developing countries, the problems governments are supposed to try and solve. This costly intervention, in private production and marketing is unjustified. In developing countries, it benefits primarily the relatively well-off.

In this case there can be two positions: First, the extreme position in which there should be a completely free market (liberalisation), where governments should not intervene as exemplified by Bates [1981, 1983, 1988] in his work. Second, there should be the significant state involvement as exemplified by Smith [1990, 1991] in his work.

The next chapter will review the two different arguments [by Bates and Smith] relating to the agricultural policies in developing countries.

Footnotes.

¹Low income countries/economies, with 1984 gross national product (GNP) per person of less than \$400.

²Middle income countries/economies, with 1984 GNP per person of \$400 or more.

³In many cases, stabilisation policies have caused domestic prices in some years to exceed world prices, but the average effect over the price cycle is to depress them.

⁴In a few countries of Africa, for example, Tanzania, Cameroon, Senegal, producer cooperatives have also operated as state agencies when the governments begin to appoint managers and approve budgets.

3 AGRICULTURAL POLICIES IN DEVELOPING COUNTRIES AND THE RELEVANT ARGUMENTS.

The objective of this chapter is to review the two very different arguments with regard to the agricultural policies in developing countries. One argument is about the free market as exemplified by Bates; and the other is about a significant state involvement as exemplified by Smith.

3.1 Bates' Arguments.

"For decades, researchers have examined difficulties bedeviling the growth of farming in Third World nations. They have pointed to factors originating in the physical and biological environments of farmers, and they have isolated social and economic impediments as well. A consensus has emerged that the most important factors are the nature of the incentives offered to producers. Physical and biological factors, it is held, are constraints that farmers can transcend, provided they are given sufficient incentives to do so" [Bates, 1981, p.2].

In the words of Theodore Schultz [1976], as quoted in Bates [Ibid], *"Incentives to guide and reward farmers are a critical component. Once there are investment opportunities and efficient incentives, farmers will turn sand into gold"*. Further, Schultz [Bates, Ibid], argues that *"the Third World governments undermine the productive*

potential of their farm population. A major source of the problem of Third World agriculture is bad policy".

According to Bates [1981], agricultural policy consists of governmental actions that affect the incomes of rural producers by influencing the prices these producers face in the major markets which determine their incomes.

In describing the agricultural policies of African states; government intervention is found in three markets: the markets for agricultural commodities, the markets for inputs into farming, and the markets for the goods that farmers buy from the urban-industrial sector. When governments intervene in markets, they often do so in ways that harm the short-run interests of most farmers. On one hand, by sheltering domestic industries from competition, they increase the prices that farmers must pay for goods from the urban areas. On the other hand, through the use of state power, they lower the prices that farmers receive for their products; alternatively they compete with them in supplying food to the urban markets. And the benefits of the subsidies they confer on farm inputs are reaped by the rich few. In addition, the farm policies of governments are characterised by stress on projects rather than prices. This is done in preference for lower farm costs rather than increased farm revenues, and for widespread economic inefficiency [Bates, 1981].

Bates [Ibid, p.43] further argues, that there are other aspects of the situation which are important to consider. Among the most

important are elite interests. Where the elite engages in the production of a food item, policies are not employed to depress its prices. For example, in the case of rice in Ghana, major rice farms are owned by high-level public servants, with the result that rice is sold at domestic prices that lie well above the world market prices, and urban consumers suffer accordingly. Moreover, while the general pattern of protection may be designed to favour the consumer, the actual implementation of protective measures may redistribute income from consumers to elite level officials. In Kenya for example, the government banned the export of certain food items in order to maintain low domestic prices. Nonetheless, in practice, the world price often prevailed, because of smuggling.

Among the major purposes of government intervention is the pursuit of certain social objectives: in developing areas to shift the basis of their economies away from the production of agricultural commodities and towards the production of manufactured goods, in other words they want to move resources from agriculture to industry; and therefore they set prices in markets in order to capture resources from agriculture. Moreover, governments need resources with which to implement these development programmes, and to achieve their objectives, they need foreign exchange. In countries where agriculture is the greatest source of income and the principal source of export, it is natural that they should seek to levy revenues from the rural sector. Out of commitment to development, governments in Africa, like other developing countries, therefore intervene in agricultural markets and extract the resources they need to build a modern economy.

While acknowledging the importance of government objectives and reasons for state involvement in agricultural policy, we also recognise that more personal motives colour political choices. Governments want to stay in power. They must appease powerful interests. And people turn to political action to secure special advantages - rewards they are unable to secure by competing in the marketing place. It is critical that analysts recognise the importance of these forces. One obvious conclusion sometimes drawn from economists' critiques of Third World agricultural programmes, for example, is that governments should withdraw from agricultural markets and let economic forces prevail. Such counsel is naturally ignored by the policy makers as hopelessly naive. Similarly, although governments intervene in markets to secure social objectives, it is unrealistic to believe that these public objectives are the sole force behind their choices.

In order to secure any objective, governments can choose from a variety of techniques, for example, to strengthen the incentives for food production, governments can increase the prices of farm products, or they can subsidise the costs of farm implements. Either action would result in better results for producers, but government prefers the latter policy. They do so in part because of its superior political attractions. And to increase output, governments finance production programmes. But in doing so, they introduce characteristic distortions. Given the level of resources devoted to the programmes for example, they often create too many projects; the programmes then fail because the resources have been spread too thin. Such behaviour is nonsensical when analysed solely

in terms of stated objectives, but it becomes understandable once we consider the political calculations underlying the choices of governments [Bates, 1981].

With regard to the price policies, Bates [1988, p.342], further says that, studies in other areas suggest that this configuration of pricing decisions is common in the developing nations.

The other form of government intervention as described by Bates [1988, p.338] is the 'over-valuation of currency', which he calls the 'Non-Bureaucratic form of intervention'. Many developing governments maintain an overvalued currency. Over-valuation in addition to lowering the export earnings of agriculture, lowers the prices paid for foreign imports. It cheapens the cost of importing plant, machinery and other equipment needed to build an industrial sector. But items other than plant and equipment can be imported, and among these other commodities is food. As a consequence of over-valuation, African food producers face higher levels of competition from foreign food stuffs. And in search of low-price food, African governments do little to protect their domestic food markets from foreign products - products whose prices have artificially been lowered as a consequence of public policies.

In the longer run, however, the structure of the payoffs achieved by the coalition changes. Farmers adjust in response to pricing policies, so they produce less. The result in the export market is fewer exports and less foreign exchange. To support low food prices, governments must provide additional supplies, either by

subsidising local production or by financing imports from abroad. But throughout Africa, states are undergoing fiscal crises; they lack both revenues and foreign exchange. Moreover, they find allies among foreign donors and international creditors, who pressure governments to make adjustments that will lessen the burden of their debts, [Bates, 1988]. The question is, why do governments in developing countries select this pattern of agricultural policies? Bates [1988, pp.343-358] gives several explanations for their choices as below:

3.1.1. The overriding public interest of poor societies is in rapid economic growth. And the policy choices represent their commitment to rapid development, a commitment that implies supplanting agriculture by industry. The policy choices that have been made are, in keeping with the prescriptions forwarded in leading development theories (after 1960s). According to these theories, to secure higher levels of per capita income, nations should move from production of primary products to production of manufactured goods. To fulfil their plans, governments need revenues; they also need foreign exchange. In most African nations, agriculture represents the single largest sector in the domestic economy, and in many it represents the principal source of foreign exchange. It is therefore natural that in seeking to fulfil these objectives, the government should intervene in these markets in an effort to set prices in a way that transfers resources from agriculture to the "industrialisation" sector of the economy: the state itself and the urban industrial and manufacturing firms.

3.1.2 Urban consumers constitute a vigilant and potent pressure group demanding low-priced food. Urban consumers are potent because they are geographically concentrated and strategically located. At times of higher prices, influential elites are likely to ally with the urban masses, to shift their political loyalties and replace those in power. Thus it was that protest over food shortages and rising prices that formed a critical prelude to the coups and coup attempts in Ghana, Liberia, Kenya, and Guinea.

Only occasionally, however, are farmers powerful. For example, in West Africa, urban bureaucratic elites have entered rice farming, and where they have done so, they have won protected commodity prices and subsidised prices for farm inputs, [Pearson, R Scot, et, al., 1981]. In East Africa, similar elites maintain large scale wheat farms; they too have employed their political influence to avoid adverse pricing policies. But most farms are owned by members of the peasantry, not the elites, and they are politically weak and most often they are taxed.

3.1.3 When governments want more food, they prefer to secure it by embarking on more projects rather than offering higher prices. Adopting policies in support of higher prices for agricultural commodities would be politically costly to African governments. Because the benefits could not be restricted to the faithful or withheld from the politically disloyal. Project-based policies suffer less from this liability. Officials can exercise discretion in locating projects, they can also exercise discretion in staffing them. For example, in Northern Ghana in the late 1970s, subsidised

credit was given to large scale merchandised producers who were close allies of the military government. In Zambia, access to subsidised inputs could best be obtained by most rural dwellers by membership in Agricultural Cooperative Societies. The societies were formed by local units of the governing party and access to inputs is contingent on political loyalty. In Senegal, the rural base of the governing party is dominated by the 'Mourides', a religious sect, whose major source of income is from groundnut production, and are supported by massive amounts of subsidised credit and other farm inputs.

3.1.4 In the markets for agricultural products, public monopsonies depress the prices of commodities below the market price. At these prices, demand exceeds supply. Those in charge of the market can bestow the right of entry. Those who are permitted to secure the goods at the government price can reap the benefit of selling it at the market price. Persons given access to the market thus come to owe their fortunes to the favour of those in charge. Members of the Cocoa Marketing Board in Ghana, for example, frequently allowed private trading by persons whose political backing they wished to secure. Such persons came from the highest levels of the Ghanaian government. In Kenya maize market, issuance of movement permits by the director of the Maize and produce Marketing Board was used to create an indebted and loyal political following. Granting access to markets where the price of commodities has been artificially lowered as a matter of government policy thus becomes a valuable instrument in the accumulation of political influence. In this way market regulations thus become a source of political control.

Finally, Bates, conclude that governments are driven to spend in ways that maintains them in power. And competition for power appears to have driven political elites to extract resources from agriculture at a rate that has caused private individuals to withdraw resources from that sector or at least to fail to make further investment in it. The pattern of price intervention, represents the form of political pact among organised political interests, the costs of which are transferred to unorganised interests who are excluded from the price setting coalition. Members of the pact are labour, industry, and government; small scale farmers constitute its victims and large scale farmers stand as passive allies, politically neutralised through subsidy programmes.

Further, Bates [Ibid] points out that governments are not just irrelevant in the development process, but they actually impede it. By altering market prices, governments distort markets; they create incentives for resources to flow in to uses other than those in which they would be economically most productive. By regulating entry in to markets, governments generate rents, economic premium which lie above what the market would confer. They thereby create incentives for people to invest, not in activities that are economically productive but in the search for political favour.

In the discussion that follows, we look at the arguments put forward by Lawrence D. Smith on the issue of government intervention.

Ghai and Smith [1987, pp.39-52] assert, with regard to the agricultural policy in African countries that, the entire African region is treated as one unit with similar problems and performance. This is a gross over-simplification of reality and is likely to result in a misleading policy prescription and action programme. There are various manifestations of the crisis, and different people have chosen to highlight its different aspects. At its most fundamental level, the crisis is reflected in the increasing numbers suffering from hunger and malnutrition.

Both authors [Ibid] further point out that one school of thought argues that depressed domestic agriculture prices are at the heart of agrarian difficulties in Africa. Another school of thought highlights the role of surplus extraction from the peasantry. Other such apparent differences may be explained in terms of bloated civil services and the deterioration in international terms of trade or by the exploitation by bureaucratic bourgeoisie and operation of world economics.

Some commentators have stressed the role of two exogenous factors in the agriculture crisis, the 'weather and political disturbances'. Both these factors appear to have some validity for certain countries. Some consider the set of arguments associated with accelerating population growth and deterioration of the environment. No doubt, with limited sources - land and technology-, rapid population growth can intensify agricultural problems through



declining yields and productivity, but the evidence does not bear out the contention that countries with more rapid population growth have experienced lower growth agriculture.

Whatever mode of analysis is adopted, it is clear that at the most general level, the level and growth of agricultural output is likely to be determined largely by incentives and resources made available to the sector by the government. The term incentives and resources covers a wide range of activities such as attractive prices, access to inputs and consumer goods, efficient transport and marketing network, and an adequate investment in research and technology in the broadest sense. The last point is particularly important in the context both of a rapidly changing agricultural system from shifting to settled agriculture and of the need to raise yields and productivity to ensure an attractive income to farmers. By all accounts the absence of suitable innovations in technological packages has been an important element in the failure of agricultural growth.

Smith and Thomson [1990] state that, government intervention in agricultural markets, particularly in Africa, has been heavily criticised in the past decade. Marketing Boards have been stigmatised as inefficient, ineffective and corrupt - government institutions to suppress the rural peasants and a source of rent for privileged individuals. The general policy recommendation has been to reduce government intervention to a minimum. The result in the 1980s has been a general thrust towards liberalisation in economic affairs stimulated in many countries by a feeling that

government provision of goods and services was inefficient or that massive government intervention in the economy was costly and counter-productive. In other countries also, moves towards liberalisation have occurred mainly as a result of pressure from donor agencies for structural adjustments in an attempt to resolve balance of payments and debts problems [Smith and Thomson, 1991].

Further, they [Ibid] argue that, although the details vary in different countries, the focus of liberalisation has generally been on "getting the price right" and reducing the role of government in the economy. More especially, in the agricultural sector there have been calls to make more use of "border" or international prices, as a basis for agricultural pricing; to remove or to reduce agricultural inputs subsidies, for example on fertilisers, and also general food subsidies; and to encourage private sector participation in agricultural and food marketing by delegating most government-run marketing activities to them and removing barriers to private sector participation such as inter-seasonal and pan-territorial price setting.

Given the potential scope for governments in terms of improving and stabilising market functions, and the existence of some state intervention which has a successful operational record, this seems a rather extreme response. A more systematic analysis of the reasons for government failure could identify possibilities of reforms, rather than removal [Smith and Thomson, p.10, 1990].

They [Ibid, 1990, p.12] further say that the inefficiency of state

agencies is not inevitable. Much depends on their objectives, the obligations placed on both the institution, and its employees, and whether these are enforceable. In some countries, farmers' organisations have played an effective role as pressure groups in ensuring state organisation efficiency. In most countries the state marketing agencies operate alongside the private and cooperative sector. In recent years there have been several moves which have allowed the private sector to play a more active and secure role in food grain marketing activities. However, in future years, food security and produce price stability and support are likely to remain important government objectives and governments are likely to retain state control agencies to control international trade, by acting as buyers and sellers of last resort and maintain food reserve stock.

Finally they [Smith and Thomson, p.5, 1990] say that, much of the discussion of liberalisation of agriculture marketing has been in the context of Sub-Saharan Africa, where there has been considerable external pressure to undertake fairly rigorous adjustment programmes.

Asian countries already have an institutional framework wherein the public and private sector co-exist. Which has provided a stable environment conducive to agricultural growth. As a result, in many countries, agricultural markets are reasonably well integrated, with adequate physical infrastructure. This means that the nature of implementation problems associated with liberalisation are significantly less acute than those faced by many African

governments. This provides the opportunities for the public sector now to withdraw at least to some extent from those areas which no longer require the same degree of public sector involvement [Smith and Thomson, p.18, 1991].

Smith and Thomson [1990], justify government intervention on the following main points:

3.2.1. Market Regulation.

In nearly all circumstances, there is a need for the government to provide a framework of regulations covering items such as standardised weights and measures, grading schemes to reduce transactions costs and minimum quality standards relating physical, nutritional and health standards of products.

3.2.2. Risk and incomplete markets in insurance, futures and credit;

- a) production instability,
- b) food security,
- c) price instability,

Agricultural production is notoriously susceptible to a variety of risks which can have a profound effect especially in low income, agriculturally dominated economies. Due to variable weather conditions, pests and diseases, coupled with a price inelastic demand for domestically marketed surpluses leads to income

instability for producers. In theory, risk-averse farmers can protect themselves against the effects of instability through borrowing in credit markets, insurance or the use of futures markets but in practice these options rarely exist for small farmers in low income countries.

Low income domestic consumers can also be profoundly affected by agricultural production instability through its effects on food prices which are a major item of expenditure for the low income groups. In this regard, consumers can reduce the impact of shortages of any particular food item by switching to substitutes but the possibilities for this are sometimes limited. Storage is an alternative method of overcoming the effects of variable food supplies. Though the public sector stock holding is, of course, costly, the government is in a much better position to be risk-neutral and to commit capital to inter-seasonal storage than private traders. On the other hand, the international price instability in an open economy can also destabilise the incomes of domestic producers and consumers by influencing the domestic price level.

3.2.3. Imperfect Information.

Agricultural production is spatially dispersed, it is typically carried out by a large number of small producers, and output and prices are subject to wide fluctuations. These factors collectively explain why information is so important. Information, though important, is so costly that small producers and traders would

encounter higher opportunity costs in obtaining it privately and the possibility of benefiting from it is circumscribed by the small amount of produce which they may wish to sell or produce. For this reason the case for government involvement is clearly made, otherwise the information would be limited to certain groups linked by kinship, caste, tribe or nationality.

3.2.4 Income Distribution.

Producers in most areas may be deprived of access to marketing facilities. In this regard, government may set up public sector marketing channels or introduce pan-territorial pricing to assist these people.

3.2.5 Externalities.

Agriculture marketing, involving the bulking of produce from numerous individual farmers and its subsequent distribution to countless consumers offers some interesting examples of externalities, often of a negative nature. A classical case is the potential sale of contaminated food stuffs which justifies, and requires, the public provision of food safety regulations.

3.2.6 Food Security.

Low income domestic consumers can be profoundly affected by agricultural production instability through its effects on food prices which are a major item of expenditure for the low income groups. Consumers can reduce the impact of shortages of any particular food item by switching to substitutes but the

possibilities for this are sometimes limited.

3.3 Main points of Bates and Smiths arguments:

Bates' Arguments	Smiths' Arguments
<p>Bates justifies the free market with the arguments that:</p>	<p>Smith justifies the government's significant involvement in agriculture on the basis of the following main arguments:</p>
<ul style="list-style-type: none"> - Governments are driven to spend in a way that maintain them in power, 	<ul style="list-style-type: none"> - A government may be the best organisation to undertake importation particularly where concessional supplies or government-to-government negotiations are concerned.
<ul style="list-style-type: none"> - They utilise the income extracted from agriculture (by depressing the farm prices) for political purpose, for example: 	<ul style="list-style-type: none"> - The uncertainties of international trade and possibilities of domestic emergencies make it desirable for governments to maintain a food reserve stock, regardless of the effectiveness of the private sector.
<ul style="list-style-type: none"> - serve elite's interests, - offer low food price to urban consumers, - subsidies are misused and offered mainly to the political loyal, - shelter domestic industries, 	<ul style="list-style-type: none"> - Adoption of a completely laissez-faire policy with regard to food grains with responsibilities vested in private import export is highly unlikely, given the price variability in the international grain market, particularly rice & the destabilisation effects this could have on domestic producer & consumer prices.
<ul style="list-style-type: none"> - The indirect intervention of governments mainly adopting over-valuation policy, lowers the earning of export crops, 	<ul style="list-style-type: none"> - Finally, the main circumstances which may justify government intervention in agricultural markets, includes the presence of risk and instability; imperfect information; & the need for a regulatory framework.
<ul style="list-style-type: none"> - Offering subsidies on farm inputs and suppressing crop prices results in a wastage of resources, instead of helping the producers and poor consumers. 	
<ul style="list-style-type: none"> - When the economy of any country depends mainly on agriculture and the income derived from it is misused, there will be disaster in the agriculture sector and the whole economy of the country. 	
<ul style="list-style-type: none"> - Hence the governments should withdraw from markets and let the economic forces prevail. 	

Conclusion.

In the debate between the writers, Smith's points regarding agricultural policies, in which he argues for significant State involvement, are well taken. But, if the state comes along and makes things worse, he may still be wrong. Particularly where there is a corrupt government, Smith may be theoretically right, but in practice the consequences may be worse.

On the other hand, Bates' opinion in which he argues for the prevailing economic forces and the complete withdrawal of the state from agricultural markets (liberalisation) is not enough.

The writers continue to comment on a particular historical echo, so they are not neutral. They hold that, in the 1960s and 1970s, all the problems were solvable by the state involvement. The early 1980s saw the beginning of the world debt crisis, the collapse of growth rates in the developing world and so on. With regard to this period, Bates' statement regarding free market holds water.

However, the same cannot be said about the 1990s. What seems to be true now is that people, who believe in the power of the market place, while still seeing some role for the government. A kind of messy mixture.

The next chapter will be focussed on the agricultural marketing: a case for liberalisation.

4 AGRICULTURAL MARKETING: A CASE FOR LIBERALISATION.

The object of this chapter is to examine a case for privatisation and liberalisation in general and with regard to agriculture in particular. These two concepts form the basis for the whole discussion.

This chapter is organised as follows: The case for privatisation and liberalisation in general, and with the agriculture sector in particular is described in sections 4.1 and 4.2 respectively. Activities amenable to market and Government are summarised in section 4.3.

4.1 Privatisation and Liberalisation in General.

Privatisation has received unambiguous acclaim in the developed world led by the USA and the Conservative government in the U.K. The 'Thatcher privatisation model' [see for example, Heald, 1988] has been widely hailed as a symbol of "successful privatisation".

One simple reason why a government privatises or liberalises is because it has reached a stage where it is no longer able to provide most of the services and goods to the public as it used to in the past. The days of abundant resources and excessive spending are over. In fact rising costs, shrinking revenues and federal aid cutbacks have grown to a stage that warrants immediate attention on

the part of governments.

In most cases of privatisation, external persuasion has been involved, be it as a strictly advisory input in the form of project aid such as the USAID-supported 'Bolsa' grain exchange project in Ecuador or as a precondition for further external capital inflows and monetary support by World Bank, IMF, bilateral and multilateral finance consortium and donor groups. In some countries, liberalisation and privatisation have been facilitated by 'structural adjustment loans, a favoured recent element in World Bank lending programmes [see Reusse, 1987, p.305].

Nowadays, because of the internal and external pressure, privatisation and liberalisation are on the economic policy agenda of most developing countries. It is a topic on which the volumes of writing and discussions have far outstripped the quantum of action. It is also a subject which has very different meanings in the hands of different commentators. The changing trends towards privatisation or public-private sector co-operation as a strategy for growth is becoming a popular goal among many governments of the world.

Privatisation in developing countries has been undertaken in a number of ways, including complete divestment by selling shares in the organisation: a strategy dependent for its success on the existence of a strong capital market. An alternative has been to lease the enterprise to a private sector organisation with government taking a share of any subsequent profits. In some cases

state owned enterprises (SOEs) have been liquidated and the market deregulated to encourage the private sector to take over the functions concerned. This last approach has been widely adopted in service industries where private contractors have been encouraged to provide services previously supplied centrally. While the main focus of privatisation in developing countries has to date been on the industrial sector, recently greater attention has been given to the role of government in agriculture.

4.2 The Agriculture sector: A case for Privatisation/Liberalisation.

In developing countries mainly dependent on agriculture, a central component of the recommendations for structural adjustment presently being considered is the liberalisation of agricultural marketing. This involves not only the question of pricing policy, the removal of subsidies and the realignment of exchange rates but also an increase in the role of the private sector, in the belief that greater competition in marketing will lead to increased efficiency and will permit a reduction in the high level of costs presently borne by governments in the support of State-owned marketing organisations.

In practice, opportunities for privatisation or reducing government involvement in the agriculture sector may be somewhat limited. In contrast to the industrial or infrastructural sectors, where public ownership is common, government involvement in direct agriculture production is often fairly low. In many developing countries, a major part of agricultural production is undertaken by small holder

farmers, the village or landlord. Clearly, in these circumstances a major share of agricultural production is in private hands anyway. Where governments do have large land holdings, there are opportunities to turn it over to private production.

Given that government land holdings may be relatively small and that a larger proportion of agricultural production is likely to be private already, it seems probable that the main targets for privatisation will be institutions servicing the sector, including those supplying inputs and those which market output. These are both areas where governments in developing countries have typically taken a major role. State marketing organisations in particular seems likely to become a major focus because, in many ways, they reflect the problem of SOEs in developing countries.

In practice, outright divestment of such organisations in their existing form may be difficult since as loss making concerns, they are likely to be unattractive to private investors. An alternative approach is to liquidate the organisation and let the private sector take over its functions. This approach will usually be accompanied by a range of measures to deregulate the market and free it from government control.

Generally in agriculture, the precise legal situation is normally hard to ascertain. An example of this is the implementation of divestment/deregulation/decontrol decrees and the degree of law enforcement. Neither public nor private participants in the system are able to define the situation precisely.

Nevertheless, a selective approach and appropriate speed and time of implementation might be safer. In which only one or two commodities at a time are subjected to deregulation and perhaps only certain functions of existing state organisations such as processing, transport, rural assembly or wholesale/retail distribution are initially considered for privatisation. An advantage of the selective approach is the opportunity to avoid mistakes experienced in the first liberalisation [see Reusse, 1987, p.306].

Past experiences [see, World Development, vol.17, no.5, 1989] of liberalisation and privatisation in the agriculture sector confirm that, liberalisation is a process rather than a one shot event in which the government leaves the market. It involves fundamental reallocation of roles between the public and private sector. Even where there are the chances of complete divestment in agricultural marketing, it is not enough to say that states should stop doing certain things.

The state must take new responsibilities, such as providing public information systems and infrastructural development, in order to facilitate the private sectors' ability to respond to its new opportunities. Particularly in countries that have little prior experience with liberalisation, the reallocation of roles involves a process of learning by doing, in which both the public and private sector gradually find out what changes in the 'rules of the games' are desirable and feasible. The best case of government intervention is in the activities where individuals do not absorb

the full costs or benefits of their actions, that is, where there are significant externalities. Table 4.1, exemplifies some of the main activities in the agriculture sector, some of which are amenable to market and some to government solutions.

Table 4.1

4.3. Activities amenable to Market and Government Solution.

Market Amenable Activities	Government Amenable Activities.
i. <u>Input subsidies.</u> - Fertiliser, - Credit, - Seeds, etc	i. <u>Infrastructure.</u> - Irrigation
ii. <u>output. (prices),</u> -producer prices, -consumer prices, -export prices,	ii. <u>Risks and Futures Markets;</u> -price instability/Minimum; support price -absence of futures markets -credit,
	iii. <u>Research.</u>

4.3.1. Infrastructure.

Most developing countries lack capital markets of a size sufficient to finance rural infrastructure, such as large irrigation projects, roads and electricity. These activities are not amenable to the market solution because people do not have the capital assets to invest in these projects. Consequently, the government has to carry out such investment because the state can borrow money from the world financial markets, primarily from the World Bank.

In these activities, the beneficiaries are clearly an identifiable group of users, from whom the costs can be recovered through taxes or rent. There is clearly a role for the state as well as the

market because if proper prices are not charged on projects like irrigation or electricity, people will misuse them, resulting in adverse after-effects. The classical example was the use of electricity in Egypt, where the people were getting cheap electricity when it was surplus. But when the population grew, electricity demand also grew very rapidly. Because of these unrealistically low prices in comparison to other sources of energy, in the end there was an electricity shortages [Khalid Ikram, 1980, pp.264-65].

4.3.2 Prices and futures Markets.

Artificial control on prices and monopoly behaviour by government in buying and selling distorts a market. Producers and consumers should be free to produce or sell and buy respectively, whatever they want and whatever they feel will profit them. There are few cases where the absence of an important market may justify or necessitate a limited state role. For example: the absence of futures markets and price instability¹, and measures to directly support the incomes of the poor farmers in ways that do not distort price signals.

None of these policies are without costs, however, usually the best policies are those that are aimed directly at the root of the problem, rather than symptoms. For example, two primary reasons for the failure of farmers and agro-processors to insure themselves in international future markets may be macro economic policies that generate uncertainty as to the level of real exchange rate and

restrictions on trading in foreign currencies. Here, the best policy would be to improve the macro economic and exchange rate policies, rather than trying to create an alternative insurance scheme by stabilising prices as suggested by Knudson and Nash [1991] in their study.

They [Ibid, 1991] say that, if government intends to stabilise prices, perhaps because the commodity is basic staple food for the poor or the prices are highly volatile, the experience of many countries show that it is crucial that the government pursue this goal in a manner that avoids government control and ownership of the crops. Stabilising prices by the system of variable border taxes and possibly subsidies instead of by direct procurement makes the system transparent and predictable, assuming it operates by well known rules. This system also minimises the possibilities of distortion of pricing in the distribution chain (that is, by regulating, processing, and distribution margins). A lesson of experience is that the system should operate under rules that do not break the link between domestic and international prices except at times of severe instability. The purpose of stabilisation is to insure against the risks associated with international commodity price movement.

4.3.3

Research.

In agriculture, this includes carrying out or sponsoring either basic or applied research that leads to the development of inputs or techniques that could not (realistically) be patented.

Governments all over the world carry out this function, though many governments (for example USA) extend their research activities into areas where private markets could be expected to work well if given a chance, since the resulting products could be patented and privately marketed for example, hybrid seeds or mechanical hardware production.

4.3.4 Fertilisers.

There is a significant role for marketing in supplying or distributing fertilisers. In the public sector, subsidies offered favour the big farmers [see chapter II] and the cost is further magnified by the inefficient way in which these subsidies are administered. Hence, subsidies negate whatever equity benefit might otherwise have accrued.

As far as the fertiliser production is concerned, various studies have confirmed that private sector fertiliser plants are more productive as compared to public sector plants [Srinivasan, 1986]. During the field work by the author in Pakistan, it was confirmed that the same situation exists there.

4.4.5 Credit.

Government involvement in subsidised rural credit for the producers is based on the perception that credit would otherwise be unavailable or available only at exploitative rates. But, yet when surveys have been done, it turns out that most farmers have access

to other private sources of credit, and these credit markets are competitive, not monopolistic [Harris, 1983; Singh, 1983; Well, 1983].

This does not mean that there is no role for the state or its involvement is not justified. Past experience, for example in rice marketing in Thailand shows that, governments can play a significant role in providing credit to traders and/or millers as well as producers, to promote competition and to keep stock with them when prices fell down. The traders and millers who need money on a large scale for installation of machinery and procurement of crops, will find it difficult to borrow from the market at certain times of year for seasonal crops. So clearly there is a role for the state as well as the market, because if proper market rate interest is charged, there will neither be a question of misusing it nor a drain on the government budget.

Conclusion.

This chapter began by looking at the privatisation and liberalisation in general. The latter part of this chapter has been focussed on the case of privatisation and liberalisation in the context of agriculture sector.

It was concluded that, in general, liberalisation or regulatory reform is better able than privatisation to bring about gains in economic efficiency.

As far as the case of privatisation in agriculture marketing is concerned, privatisation 'model' in general, cannot be proposed. There are clearly many approaches to the allocation of agricultural marketing responsibilities between private and public sector, the approach chosen in any country depends on the particular circumstances of the country.

In practice, the complete divestment of the agriculture sector is difficult. Even where outright privatisation takes place, arguments in the body of the chapter suggest that government will retain a degree of control. This is most likely to occur where governments seek to pursue non-commercial objectives or the activities where individuals do not absorb the full costs or benefits of their actions, such as maintaining food security, price instability, market information, and infrastructural development. In these cases, the private sector would be unlikely to undertake these functions.

In brief, the foregoing analysis amounts to asserting that, the activities which are beyond the approach market solution should be left to market government.

The next chapter, will focus on the economic structure of Pakistan in general, and the role of agriculture.

Foot Note.

¹International food markets are highly volatile partly because of the developed countries' agricultural policies.

PART - II

CHAPTER - 5.

PAKISTAN'S ECONOMY IN GENERAL AND AGRICULTURE IN PARTICULAR.

In this chapter, to understand the background of Pakistan, a brief review of its geography, and politics is undertaken, before describing the economy in general and agriculture in particular.

This chapter is organised as follows: Section 5.1 presents the geographical background of Pakistan. The brief political history is described in section 5.2. The position of Pakistan's economy and its structure is the subject of the rest of the chapter.

5.1 Geographical Background of Pakistan.

Although Pakistan is a new and young state - it emerged as a sovereign state, on August, 14, 1947 -- it is an old land because the Indus Valley contains the monuments of an ancient and well developed civilisation that flourished at least as early as 2500 B.C. Excavation of 'Mohen-Jo-Daro' in Sindh gives evidence of planned urban communities and civilisation.

The present Pakistan, with an area of 79,6095 square kilometres, is divided into four provinces namely: Punjab, Sindh, North West Frontier Province (NWFP), and Baluchistan. Islamabad is the capital of Pakistan. The total area of Pakistan by each province is mentioned in table-5.1.

Table 5.1**Breakdown of Pakistan's Area (SQ K.M) and Population (000) by Provinces.**

REGION/PROVINCE.	AREA IN SQ K.M.		POPULATION ^a		Density of Population in square K.M.
	Area.	Area (in %)	Population	% of total	
Pakistan,	796,095	100	84,253	100.0	106
Baluchistan,	347,097.5	43.6	4,332	5.1	12
Punjab,	206,188.6 ^b	25.9	47,292 ^c	56.1	230
Sindh,	140,908.8	17.7	19,029	22.6	135
NWFP,	74,832.9	9.4	11,061	13.1	148
Federally Administered Areas (FATA).	27,067.3	3.4	2,199	2.6	81

Note: a. Population figures are on the basis of 1981 census.

b. Includes Federal Capital Territory of Islamabad.

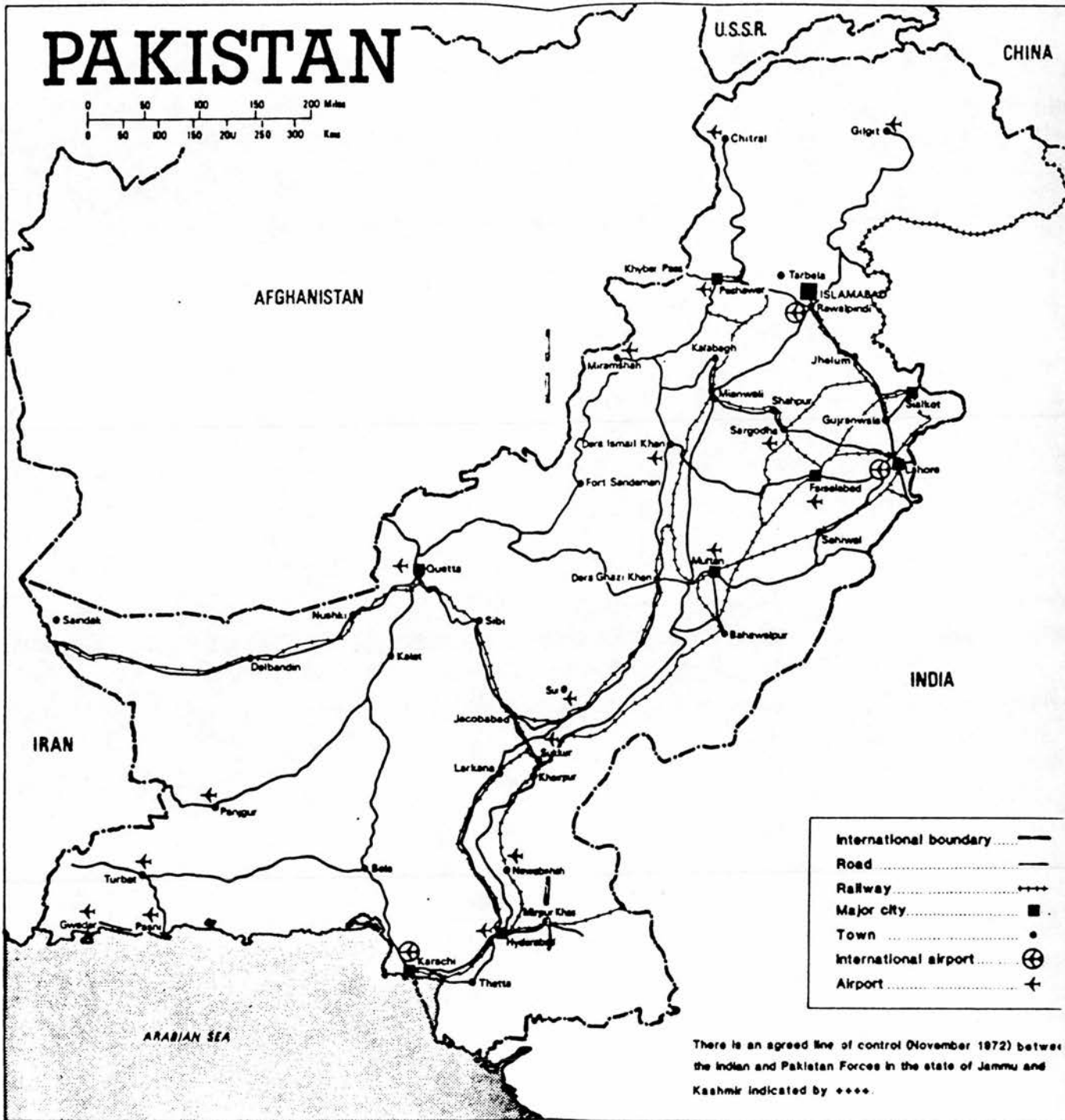
c. Excludes the Population of Federal capital Islamabad.

Sources: 'Pakistan's Economy Key Indicators' (May, 1990), National Bank of Pakistan, Planning and Research Division, Karachi; Economic Survey of Pakistan [1988-90] Government of Pakistan, Islamabad.

Pakistan touches the Himalayan foot-hills and Hindu-Kush mountains in the North and is bounded by India in the East and the South. It borders Iran and Afghanistan on the West. Along the mountain ranges of Himalaya and Hindu Kush in the North of Pakistan, lies the Soviet Socialist Republics. The disputed territory of the States of Jammu and Kashmir and the agencies of Gilgit and Baltistan are adjacent to the North-East of Pakistan [fig: 5.A].

Pakistan is a land of great scenic contrasts, varying from the snow-covered peaks of the Himalayas in the North of Pakistan to the arid desert of Sindh in the South. Pakistan can be broadly divided in to three distinct geographical regions:(i) The mountainous North and North-West; (ii) the table-land of Baluchistan to the West of mountain wall, and (iii) the plain of the Indus River basin.

Fig:- 5.A



The entire mountainous region is composed of young and soft sedimentary rock. Lying outside the mountain-wall and ringed by it on three sides is the arid plateau of Baluchistan. The altitude of the plateau varies from 1,000 to 3,000 feet above sea level, with peaks of over 6,000 feet in the surrounding mountains. It is largely barren desert and stony plain, handicapped by lack of water and subject to extremes of heat and cold. The plain of the Indus Basin stretches from the foot-hills of the Himalayas in the North-East and the Salt Range in the North-West to the Arabian Sea. The river Indus and its tributaries -- namely Ravi, Chenab, and Jhelum -- provide the very life blood to this arid region, whose economy is literally build around the rivers.

Pakistan lies wholly outside the tropics, and although its climate is generally classified as 'Tropical Monsoon' it is in fact 'Continental' in its character. Rainfall is low and both diurnal and annual ranges of temperatures are considerable. The hottest month of the year is June, the coldest month is January, the driest month is October, and the wettest month is July. During the summer, day temperatures are quite high everywhere in Pakistan; the mercury often rises to well over 110°F (43.3°C) and the mean July temperature is above 90°F (32.2°C). The seasonal -- winter and summer -- mean temperature and rainfall at selected centres (Capital Cities of Pakistan) in 1988 is shown in the table-5.2.

TABLE-5.2**MINIMUM AND MAXIMUM MEAN TEMPERATURE IN MAIN CITIES OF PAKISTAN.**

Cities.	Mean Temperature °C		Rainfall in millimetres
	Minimum.	Maximum.	
Karachi,	21.14	32.8	160
Lahore,	18.8	31.9	815
Peshawar,	16.7	30.5	367
Rawalpindi/Islamabad,	14.9	29.5	1259
Quetta,	9.1	25.9	259

Source: 'Pakistan at a glance' (1990), Agricultural Development Bank of Pakistan, Islamabad.

5.2 A Brief Political History of Pakistan.

On August 14, 1947, the Indian sub-continent was divided in to two countries -- India and Pakistan. Pakistan emerged as sovereign State consisting of East and West Pakistan under the leadership of Quaid-i-Azam Mohammad Ali Jinnah but he died quite soon after. The two parts of Pakistan -- East Pakistan and West Pakistan -- were separated by 1000 miles of Indian territory. For eleven years after the independence of Pakistan, it operated under a parliamentary system, during which time, no national election was held.

In March 1956, an Islamic Republic was proclaimed after the Constituent Assembly adopted a draft constitution drawn up the previous month. Several Governments rose and fell, and in October 1958 president Sikandar Mirza declared Martial Law and handed over power to General Mohammad Ayub Khan, who appointed himself as Chief Marshal Law Administrator. In 1962 Ayub Khan brought in a Presidential system of Government, but in 1969 he resigned, handing over power to the army under the leadership of General Mohammad Yehya Khan, who re-imposed Martial Law.

Under the new - 1956 - constitution, the first ever general election was held in December 1970 which resulted in a break between the Eastern and Western part of Pakistan. The Awami League, under the leadership of Shaikh Mujibur Rahman gained the majority of vote in the eastern part of Pakistan (present Bangladesh), and the Pakistan's Peoples Party (PPP) under the leadership of Zulfiqar Ali Bhutto, gained the majority in the western part of Pakistan (existing Pakistan). Negotiation to form a coalition broke down and civil war ensued, lasting until December 1971 when the eastern part declared itself an independent nation, Bangladesh. President Yehya Khan resigned and handed leadership of remaining western part (existing Pakistan) to Zulfiqar Ali Bhutto in 1971, who governed up to 1977.

Following the elections for the next term in March 1977, the opposition -- Pakistan National Alliance -- with the alliance of different parties, challenged the victory of Bhutto. Widespread rioting ensued and in due course a military coup in July 1977 brought into power General Zia, initially as chief Marshal Law administrator. Bhutto was arrested and soon executed. Public pressure for the Government to abolish Marshal Law and bring back democracy resulted in parliamentary elections in 1985 on a non-party basis because the political parties were banned. Mohammad Khan Junejo was appointed as Prime Minister and according to the 8th amendment of 1973 constitution, ultimate powers with President Zia-ul-Haque. Later on, in March 1988, Assemblies were dissolved.

Zia-ul-Haque died in air crash on 17th August 1988, Ghulam Ishaq

Khan -- Chairman of the Senate -- on the basis of the constitution, became the President and announced the date for the general election. On the basis of the majority of the seats, Benazir Bhutto -- daughter of ex-Prime Minister -- became the Prime Minister of Pakistan on December 1988. On August 6, 1990 the elected assembly was dissolved by the President Ghulam Ishaq Khan, and dismissed the Government of Benazir Bhutto. Mr Ghulam Mustafa Jatoi the leader of combined opposition party was appointed as the caretaker Prime Minister, and announced that the next election will be held on October 24, 1990.

In 1991, the general election was held on a party basis in which Nawas Sharif was elected as Prime Minister.

On the whole, it seems that about half of the time since independence (1947) to date, Pakistan has remained under the Army rule.

5.3. The Economy of Pakistan in General.

5.3.1 Economic Decision Making in Pakistan.

The different types of decisions that are taken by the state authorities are divided into four main categories, mainly on the basis of the duration or time period of the economic problem or choice with which the decision is concerned. The nature of the decision, the level of state authority which takes it, the objective to be achieved, the nature of the problem to be solved, and the economic means available to solve it [table - 5.3].

Table 5.3

Economic Decision Making by the State Authority (An illustration of key decisions).

Type of Decision.	Level of Decision-Making	Objectives	Means available/ Measures Taken
1. Very short-run (day-to-day running of the economy).	Local Administration Provincial Government Central Government	i. Provision of essential goods & utilities according to the accepted 'norms'. ii. Ensuring immediate relief in physical calamities (floods, rains).	a. Movement of goods from surplus areas, b. Emergency imports, c. Action against black marketing and hoarding.
2. Short-term (normally one year)	Provincial Govt; Central Government Planning Commission	i. Raising revenues for functioning of the State Machinery, ii. Financing of the annual development programme & its implementation, iii. Achievements of output targets in major sectors, specially agriculture & industry, iv. Price stability, v. Foreign trade balances,	a. Direct & indirect taxes, b. Foreign & domestic borrowing, c. Provision of key inputs, d. Price incentives, e. Commercial policy measures (protection & import controls), f. Controlling money-supply & interest rates.
3. Medium term development planning (5 year period).	Central Government Planning Commission	i. Formulation of five year plan with objectives, strategy, & production targets. ii. Overall goal of sustained growth in per capita income, creation of employment opportunities, and self reliance.	a. Fiscal policy b. Monetary policy c. Commercial policy d. Foreign borrowing.
4. Structural Changes	Central Government	i. Equitable distribution of economic assets, ii. Strengthening the economic & bargaining conditions of the weaker economic classes and groups, iii. Restrictions on monopoly practices interfering with the free functioning of the market economy.	a. Land Reforms & Tenancy Regulation, b. Nationalisation, c. Trade Union activity and minimum wages.

Source: Viqar Ahmed and Rashid Ahmed, [1984] 'The Management of Pakistan's Economy', p.46, Oxford University Press, Karachi.

5.3.1.1 The Structure of Economic Decision Making in Pakistan.

In Pakistan, the planning machinery is headed by the National Economic Council (NEC) as the supreme policy making body in the economic sphere. It has the President or the Prime Minister of Pakistan as the chairman, all Federal Ministers in charge of Development Ministries, and Provincial Governors as members. In addition, a number of other persons are invited to attend the meeting of the NEC as and when the agenda relates to matters concerning them.

The functions of NEC are:

- (a) to review the overall economic situation in Pakistan.
- (b) to formulate plans with respect to financial, commercial, and economic policies and economic development.
- (c) to approve the Five Year Plans, the Annual Development Plans, and Provincial Development Schemes in the public sector.

5.3.1.2 The Planning Machinery in Pakistan- A Critical Appraisal.

In Pakistan's history, one major obstacle which has stood in the way of establishing a sound, efficient, and independent planning authority is the lack of an effective administrative machinery and this has greatly limited the task of development policy and planning. Some of the factors which still continue to be major

hindrances and act as administrative obstacles and bottlenecks to planning as described by Viqar Ahmed and Rashid Ahmed [1984] are:

(i). Lack of Competent Personnel.

Qualified and competent persons are not attracted to join the planning bodies in the country mainly due to: low salaries, poor placement, promotional policies, and frequent and irrational transfer of personnel.

(ii). Dilatory procedure.

In Pakistan, documents and files must follow a prescribed series of stages through the administrative layers, which is a very lengthy process hence the delay in decisions.

(iii). Lack of Co-ordination.

In many cases, the co-ordination of development activities has become extremely difficult, because responsibility for different aspects of a project or programme are divided among many Ministries and agencies.

(iv). Inadequate preparatory work on projects.

When a politically desirable project has been identified, a feasibility study has to be undertaken to determine whether it is practicable and justified. But due to the political reasons

(favouritism), there is no feasibility study of the projects.

5.3.2 Forces which Influence the Economic Decision-Making.

As the economic decisions in Pakistan are being considered, they are not taken in a vacuum. They are influenced by individuals, vested interest groups and various economic classes, for the simple reason that the decisions themselves can have an important impact on, and greatly influence the economic condition and well-being of these different groups. In some cases an economic decision might be taken purely in response to a set of economic conditions and the groups favourably affected might not have made a conscious effort to obtain the decision in their favour. But if, as a result of the decision, certain groups are adversely affected they will exert pressure to have the decision changed or an alternative path followed which does not affect them so unfavourably [Viqar and Rashid, 1984, p.54].

Some of the groups which play an important role in influencing the economic decision-making of the state authorities have been listed in table-5.4.

Table-5.4

Some of the forces which influence the Economic Decision-Making in Pakistan.

Sector.	Classes/Groups.	Sources of power.
1. Agriculture sector.	i. Large Landlords	Land holdings (more than 150 acres)
	ii. Medium size farmers	
	iii. Small size farmers, tenants, landless labourers	A very significant portion of the population.
2. Manufacturing sector.	i. Big industrialists/ monopoly houses,	Ownership of industrial assets
	ii. Medium/small size industries,	
	iii. Industrial labour,	Trade Unions.
3. Trading Sector (services)	i. Big trading firms (both foreign and domestic).	Control trade & influence prices.
	ii. Medium/small trading firms.	
4. Foreign sectors	i. Western aid-giving countries (Consortium, i.e, U.S.A, U.K, France, W.Germany, Italy).	Play a major role in financing development plans & giving balance of payment support.
	ii. Loan giving agencies (World Bank, IMF and Asian Development Bank)	
	iii. Other loan giving agencies (USSR, Japan).	
5. Other important groups.	i. Bureaucracy	Central State Power
	ii. Urban groups & (workers, and students).	Create disturbances.

Source: Vigar Ahmed and Rashid Ahmed, [1984] 'The Management of Pakistan's Economy', p.55, Oxford University Press, Karachi.

5.3.3: An Overview of the Economic Policies in Pakistan in General.

It is widely believed that the economic policies of the Government of Pakistan have been concerned primarily with accelerating the growth rate of GNP only, and because of this, the social sector has been neglected.

During the period when Pakistan came in to existence, it inherited an economy which was widely regarded as an economic 'wasteland'. The 1950s were characterised by the initial difficulties of breaking the age-long stagnation in the economy. A high rate of industrialisation and considerable industrial progress were accompanied by neglect of the agriculture.

The 1960's witnessed a focus on policy support for agriculture by introducing the high yielding varieties and fertilisers together with the introduction of incentives for private investment in industry. In retrospect, the incentives were probably too lavish, even wasteful. However, at that stage the paramount national concern was to overcome the inertia and to get the economy moving. The intervention of disturbing factors notably the postponement of Consortium aid to Pakistan in July 1965 and the Indo-Pakistan war in September 1965 imparted a sense of urgency to the short term task of maintaining the growth momentum of the economy in a hostile climate [Omar Noman, 1988; and Viqar Ahmed and Rashid Ahmed 1984].

During 1970s, a policy of widespread nationalisation of industries was followed, but it failed because of mainly the political

reasons. On the other hand there is a feudal system in Pakistan in which the majority of the farmers are landless. Realising the importance of agriculture, the land reforms took place with the objective to limit the size of land holdings and to distribute it to the landless farmers as incentive so they would be motivated to work harder and improve the agricultural production by using the modern technology as much as possible. But it is widely believed that the situation has not changed to a great extent, even after couple of land reforms because the land reforms were not implemented properly. Generally poor, these tenants are small farmers, using mostly primitive farming techniques and the majority of these farmers are farming without their own land.

There was denationalisation by the Zia-ul-Haque Government in the late 1970s. The Zia Government, with regard to increasing the agriculture output, implemented policies aimed at reclaiming water-logged land, and re-orienting agricultural credit in favour of the small farmers. In 1987-88, a number of policy measures to ensure better returns to farmers and to accelerate the pace of development in agriculture were introduced, along with schemes of crop insurance, covering wheat and rice.

The National Commission on Agriculture' which was set-up by the order of Prime Minister Mohammad Khan Junejo in 1986, submitted its report in 1988. The Commission evolved a comprehensive strategy to raise the growth rate in agriculture to 5% per annum during the next 15 years.

During the Zia regime (1977-1988), the Government was committed to the introduction of an Islamic economic system such as Zakat, Usher, and Iqra Taxes, levied on the personal savings, agricultural produce, and imports/exports respectively, whilst all banking transactions are in principle based on Islamic modes of financing. The fundamental principle of these is profit and loss sharing.

In view of the previous discussion, it seems that in the past there had been a frequent change of Government in Pakistan, especially in 1970s and 1980s. Every Government announced its own policies and development programmes. For example in the early 1970s, the Bhutto Government announced the 'three points' based (socialism) programme -- 'Roti, Kapra ovr Makan' (bread, cloth, and shelter). During the Zia regime, Mohammad Khan Junejo -- Prime Minister at that time -- announced a five point programme, and Zia-ul-Haque's programme was based mainly on the principles of Islamic economy.

5.3.4 Economic Outturn in Pakistan.

The term economic outturn used here means the economic change or economic progress of any country. There are different views to measure the economic development or economic performance of any country, some people measure the economic development of any country by GDP or GNP, and per capita income, whereas others by keeping in view the development of social sectors such as literacy rate, health and life expectancy. In the author's view, both factors are important for measuring the economy of any country; but the simplest and most commonly used measure of economic development

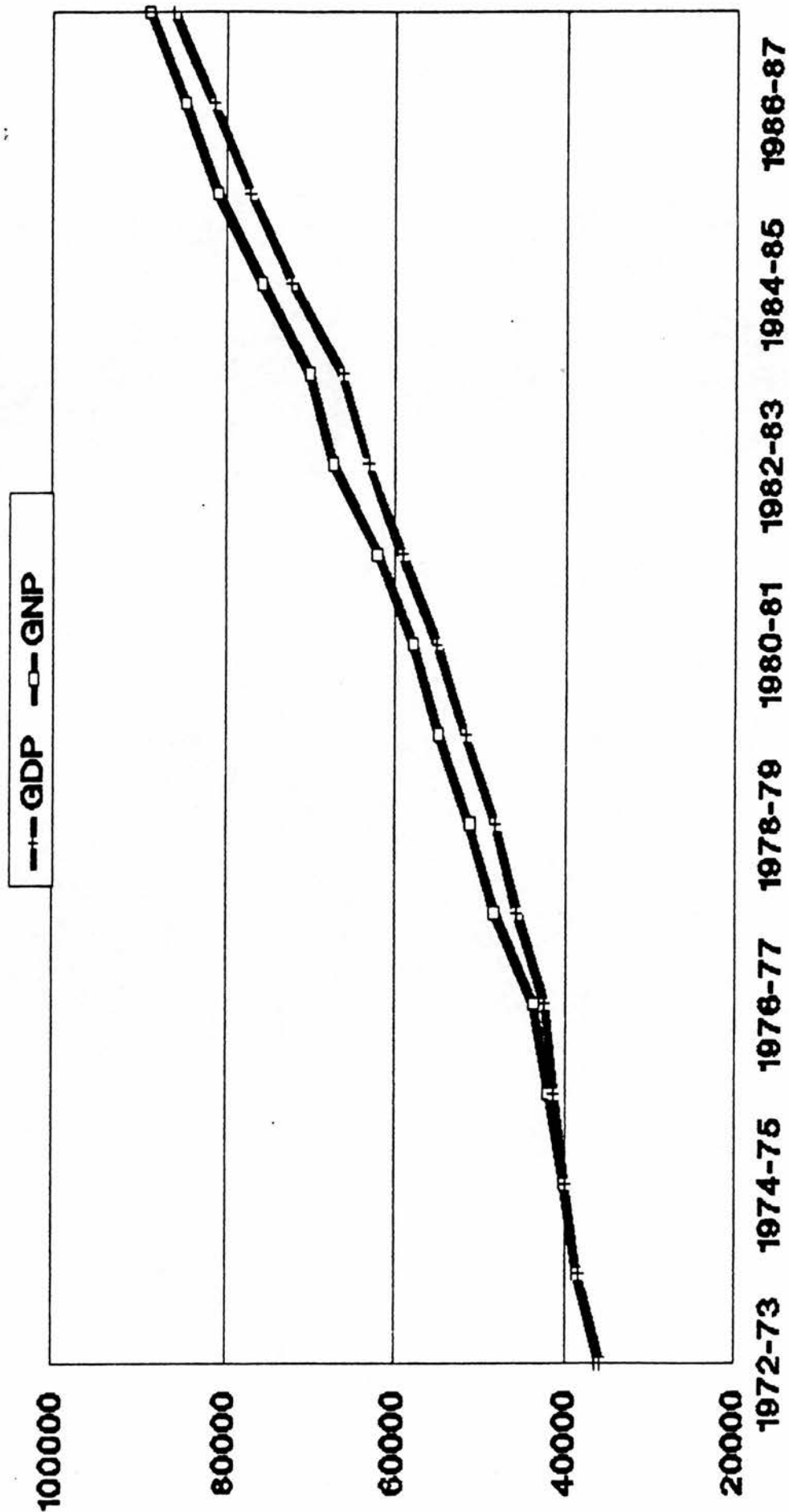
is the level of change in the national income rather in the gross national product (GNP). If one is interested to know the level and the rate of change in the living standard of the people, per capita income would be the best indicator. For general purposes on country level, the measure adopted is the rate of growth of GNP. If international or inter-regional comparisons of living standards are to be made, a rough measure is per capita income during a given year.

The Gross Domestic Production in Pakistan was Rs: 35,773 million in 1972-73, and Rs: 86,166 million for the year 1987-88 at constant factor cost of 1959-60. This shows a real growth of 140% in the last one and a half decades. The Gross National Product as an indicator of overall economic activity has increased almost 137% on average since 1970-71 to 1987-88. For example, in 1970-71 it was Rs: 32,664 million and in 1987-88 Rs: 88,887 million. This means that approximately same is the case of GNP as GDP (table-5.5, fig:- 5.5.A), [Economic Survey of Pakistan, 1987-88].

On the whole, Pakistan's economy has expanded at well over an average of 6% per annum in the past one and a half decades. It seems that the economy of Pakistan from the GNP point of view is satisfactory because since 1947, the GNP has increased at the rate of 5.1% per annum. Since the population grew at a rate of 2.8%, personal incomes increased by only 2.3%. However, even at this rate, the income of the average Pakistani (Per Capita Income) in the 1980s is more than double that at the time of independence [The Economist Intelligence Unit, 'Pakistan and Afghanistan', 1989, no: 2, p.19].

FIG: - 5.5.A

GDP and GNP of Pakistan (at constant factor cost of 1959-60)
(MILLION RUPEES).



Since 1947, Pakistan's economy has gone through a profound change from the GNP point of view, because it is about five times larger and more modernised. It provides two and half times as much income (per capita income) to a population nearly three times the size of that in 1947. It is much more open in the sense that it trades a large proportion of its output with the outside world. These statistics confirm that a significant change has occurred [Viqar Ahmed and Rashid Ahmed, 1984].

As far as the growth rate of GDP in Pakistan is concerned, each decade it tells a different story. In terms of the increase of GDP in the 1950s, Pakistan did two and half times as well as the low income countries (table-5.6). The difference was in the 1960s but the situation changed in the 1970s. The growth of the low income Asian countries picked up and that of Pakistan declined. The worrying thing about this picture of performance is that the economy seemed to be losing momentum in the 1970's. Although Pakistan's national product (GNP) continued to increase at a rate higher than the average for all low income countries. The 1980s have turned the picture around once again; and Pakistan's performance is twice as good as that of low income countries.

To measure the economy of a country, there are also some other factors need to be taken into account, that is, social sector such as education, health, and standard of living. Pakistan's achievement in terms of social progress is somewhat less striking [table-5.7]. The most disappointing feature of its development experience is in the area of education which has not improved much, because at present its literacy rate is 24% whereas the low income countries' literacy rate is 49%.

TABLE-5.6

Real GDP growth rate as an annual average in percentage.

	1950-60	1950-75	1960-70	1970-80	1980-87	1988
Low Income Countries^a:						
Africa,	1.4	2.4	4.2	4.0	0.4	3.1
Asia,	-	1.7	3.0	3.8	6.1	8.5
Pakistan,	-	4.6	6.7	4.8	6.7	6.3
Middle Income Countries^b:						
	2.2	4.0	5.5	5.8	3.1	3.5
Developing Countries^c:						
	-	-	4.9	5.4	3.7	4.3
Industrial Countries^d:						
	4.2	3.0	3.4	4.2	2.3	2.8

Source: - David Moravetz, [1976] 'Twenty five Years (1950-75) of economic development; World Bank, World Development Report [1990].

Note: The categories of the economies described in the World Bank Annual Report 1990 are as:

^aCountries with GNP per capita of \$545 or less.

^b = = = = more than \$545 but less than \$6000.

^cSince 1989 World Development Report, the Developing Countries group was dropped.

^dCountries with GNP per capita income of \$6000 or more.

TABLE - 5.7

Social Sector of Pakistan with Cross Country Comparisons.

Country/Region.	Per Capita income (\$ per annum in 1988)	Life Expectancy (Years in 1988)	Child Death Rate (per thousand)		Literacy rate in percentage. (1988).
			1965	1988	
High Income Countries ^a .	17080	76	25	09	-
Middle Income Countries ^b .	1930	66	98	52	70
Low Income Countries ^c .	320	60	124	72	49
Malaysia.	1940	70	55	23	60
Thailand.	1000	65	88	30	86
Philippines.	630	64	72	44	83
Indonesia.	440	61	128	68	62
Sri-Lanka.	420	71	63	21	86
Pakistan.	350	55	149	107	24
India.	340	58	150	97	36
China (Main).	330	70	55	23	60
Bhutan.	180	48	171	127	10
Bangladesh.	170	51	144	118	26

Source: World Bank, World Development Annual Report [1990].

Note:

^aCountries with GNP per capita \$6000 or more in 1988.

^bCountries with GNP per capita more than \$545 but less than \$6000.

^cCountries with GNP per capita \$ 545 or less.

Table 5.7, indicates that in Pakistan, though the health facilities have helped to cut the child death rate from 149 per thousand in 1965 to 107 per thousand at present, it is still a very high death rate in comparison to the other low income countries. The health status of the people depends up on a number of factors which include: the nature and the quality of the available health services, income level, nutrition, sanitation, housing, drinking water, and other environmental variables. Thus it is not surprising to say that the existing health conditions in Pakistan are generally unsatisfactory and that the health services are quite inadequate and unevenly distributed. The quality of life also depends upon access to safe drinking water, waste disposal, and general sanitation.

In Pakistan, both in urban and rural areas, there are serious deficiencies of such facilities. Access to safe drinking water is available to only 26.8% of the total population. But most of these facilities are concentrated in urban areas only. Generally to improve the social sector, the need, remains in any society to organise the special programmes for small vulnerable groups of people. They are not in a position to adequately participate in normal social and economic life on equal footing with the large groups of population.

5.3.5 Pakistan's Balance of Trade and Balance of Payments.

5.3.5.1 Balance of Trade.

No country in the world is self sufficient in the sense of supplying all its needs from within its own borders, every country has to import or export. As far as the pattern of Pakistan's foreign trade is concerned, it is similar to that of many other under-developed countries. Table-5.8 shows the position of Pakistan's exports and imports. It indicates that Pakistan has had a negative Balance of Trade for almost all the years. The most important source for improving the balance of trade in Pakistan is the country's own foreign exchange earnings through foreign remittances. This may be supplemented by foreign exchange reserves accumulated in the past and foreign assistance in the form of loans, grants, and direct investment.

Table - 5.8

Pakistan: Summary of Balance of Trade, Balance of Payment, & workers remittances from abroad.
(U.S million dollar at constant prices).

Years	Export.	Imports.	Trade Balance.	Total Remittances.	Current Account Balance ^a
1972-73	531	518	13	136.00	n.a
1977-78	1283	2751	- 1468	1156.33	- 605
1978-79	1644	3816	- 2172	n.a	-1114
1979-80	2341	4857	- 2516	1744.14	-1140
1980-81	2799	5563	- 2764	n.a	-1037
1981-82	2319	5769	- 3450	n.a	-1534
1982-83	2627	5616	- 2989	2885.67	- 517
1983-84	2669	5616	- 2989	2737.44	- 997
1984-85	2457	6009	- 3552	2446.00	-1680
1985-86	2942	5984	- 3042	2595.31	-1236
1986-87	3498	5792	- 2294	2278.56	- 719
1987-88	4362	6919	- 2557	2012.60	-1682
1988-89	4634	7207	- 2573	1986.99	-1934

^aIt includes net non factor non services, net investment income, and net private transfers or net workers remittance.

Source: Economic Survey of Pakistan [1989-90], Government of Pakistan, Islamabad, pp.151,173.

Note: n-a = Not available.

The remittances from abroad, particularly from the Middle East have been a major source of foreign exchange earnings for the last decade. Its importance can be judged from the fact that remittances exceeded the country's merchandisable export earnings during 1982-83 and 1983-84. Workers remittances were \$136 million or about 18% of merchandisable export during 1972-72. Within a decade, they reached the level of \$2886 million in 1982-83 and surpassed the merchandisable export earnings by about 10% [table-5.8]. In Pakistan, the remittances constituted the largest source of foreign exchange earnings. Remittances were four times greater than net aid flows to Pakistan. It seems that their volume was substantial in relation to the size of the economy. Keeping in view the significance of remittances, if the capital market is liberalised, there will be no black marketing in foreign exchange, [Omer oman, 1988, pp.162-63].

In 1987-88, to improve the Balance of Trade, the Government of Pakistan announced a three year export policy, which aimed to reduce the trade deficit by promoting higher-value added exports by liberalising the regulations governing the import of raw materials, by banning the import of certain type of machinery to protect local industry by making the exports of rice and cotton to some extent accessible to the private sector and encouraging counter-trading [The Europa World Year Book, p.2074, 1988]. But the liberalisation policies were not actually implemented.

5.3.5.1.1.

Direction of Pakistan's Trade.

Pakistan after partition (1947) was primarily an exporter of agricultural products and an importer of manufacturing goods mainly consumer goods. The trade was with virtually all regions of the world, but with the needs of foreign assistance, the trade with the developed countries increased at a higher rate, particularly with U.S.A, Japan, and Western-Europe. With the process of industrialisation, the pattern of trade underwent certain changes because imports from the industrial countries tended to decrease with the production of import substitutes at home. The import of raw materials for manufacturing increased and thus did the trade with the developing countries.

Pakistan nowadays imports, especially: machinery, transport equipment, manufactured goods -- construction, iron and steel -- chemicals, petroleum and petroleum products, vegetable oil, fats and milk.

On the export side, other than agricultural products; manufactures particularly cotton - based industrial products, wool, hides, and skins, fish, and minerals are exported to all regions of the world such as, Japan, U.S.A, United Kingdom, Canada, Middle East, Africa, Central America, South America, HongKong, Indonesia, Singapore and Oceania (Australia and New Zealand).

The major trading partners of Pakistan are: Japan, U.S.A, Saudi Arabia, West Germany, and United Kingdom.

5.3.5.2

Pakistan's Balance of Payments.

The term Balance of Payments is used in a wider sense which includes all items of receipts and payments of a country over a year on the current account. Pakistan's Balance of Payments since independence has always remained in deficit (table-5.8 and fig: 5.8-A).

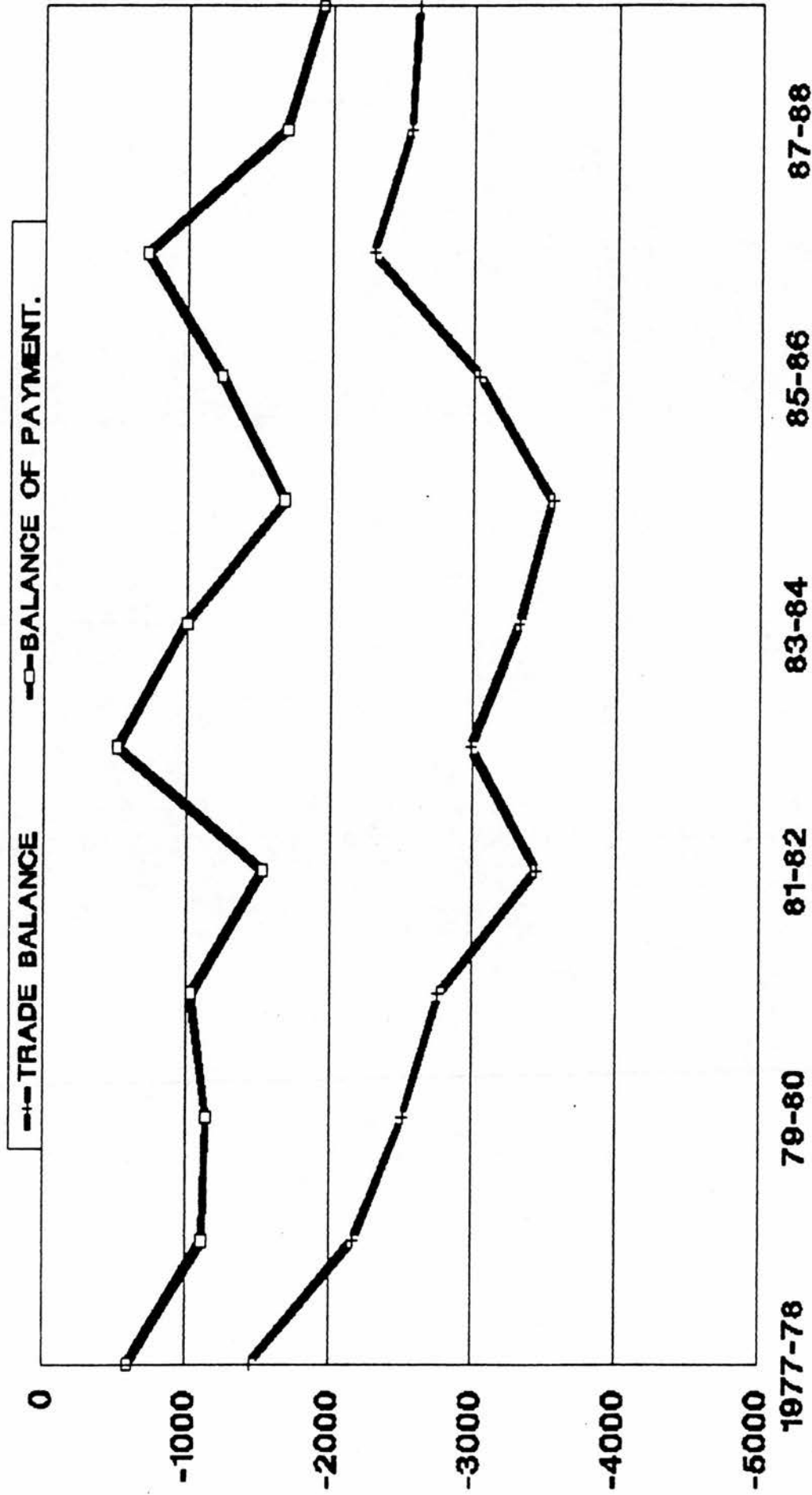
To meet the balance of payments requirements, the country finds some external resources like aid, loans or credits. In this regard Pakistan receives aid from OPEC countries bilaterally as well as through the international agencies, including the Islamic Development Bank and OPEC fund for development. Pakistan is also regular recipient of aid from the World Bank and World Bank sponsored aid - to - Pakistan from a consortium comprising the developed countries. The IMF also provides aid as balance of payments support under various arrangements.

Regarding the future, the improvement in the balance of payments will depend on:

- (a) how Pakistan increases the export surplus.
- (b) Pakistan's ability to produce import substitutes.
- (c) prices of exports and imports.
- (d) export of human capital.

Fig: - 5.8.A

SUMMARY OF BALANCE OF TRADE & BALANCE OF PAYMENTS IN PAKISTAN.
 (Million Rs. at current account).



5.3.6

Economic Structure of Pakistan.

The economy of Pakistan consists of three main sectors - Primary, Secondary, and Tertiary sectors - as shown in, table-5.9 and fig: 5.9.A.

5.3.6.1

The Primary Sector.

The primary sector contains agriculture - all agriculture crops, livestock, fishing and forestry - and mining. In this case nearly 95% of the primary sector is agriculture. The agriculture sector accounts for a quarter of GNP. The average share of the primary sector as a percentage of GNP from 1970-71 to 1987-88 was 30%. The share of mining and quarrying sector at constant factor cost of 1959-60 was 2.85% during 1987-88 in total agriculture production. In GNP, and GDP, the share of Mining and Quarrying was only 0.63% and 0.82% respectively [Economic Survey of Pakistan, 1987-88], [table-5.10; fig:-5.10-A].

The primary sector is dominated by crop production, with livestock contributing very little to the output. The principal food and cash crops are: rice, wheat (staple food), sugar-cane, cotton and maize. Cotton, the leading cash crop is vital for the country's textile industry. Cotton together with rice, constituted the principal foreign exchange earner, accounting for 47% of export revenue in 1985-86. Pakistan is one of the largest suppliers of cotton and rice, [National Westminster Bank, 1987]. The position of each main crop is discussed below as described by the Commission Report [Government of Pakistan, Commission Report, 1988]:

FIG: - 5.9.A

STRUCTURE OF PAKISTAN'S ECONOMY.

(BREAKDOWN OF GNP AT CONSTANT FACTOR COST OF 1959-60 IN PERCENTAGE).

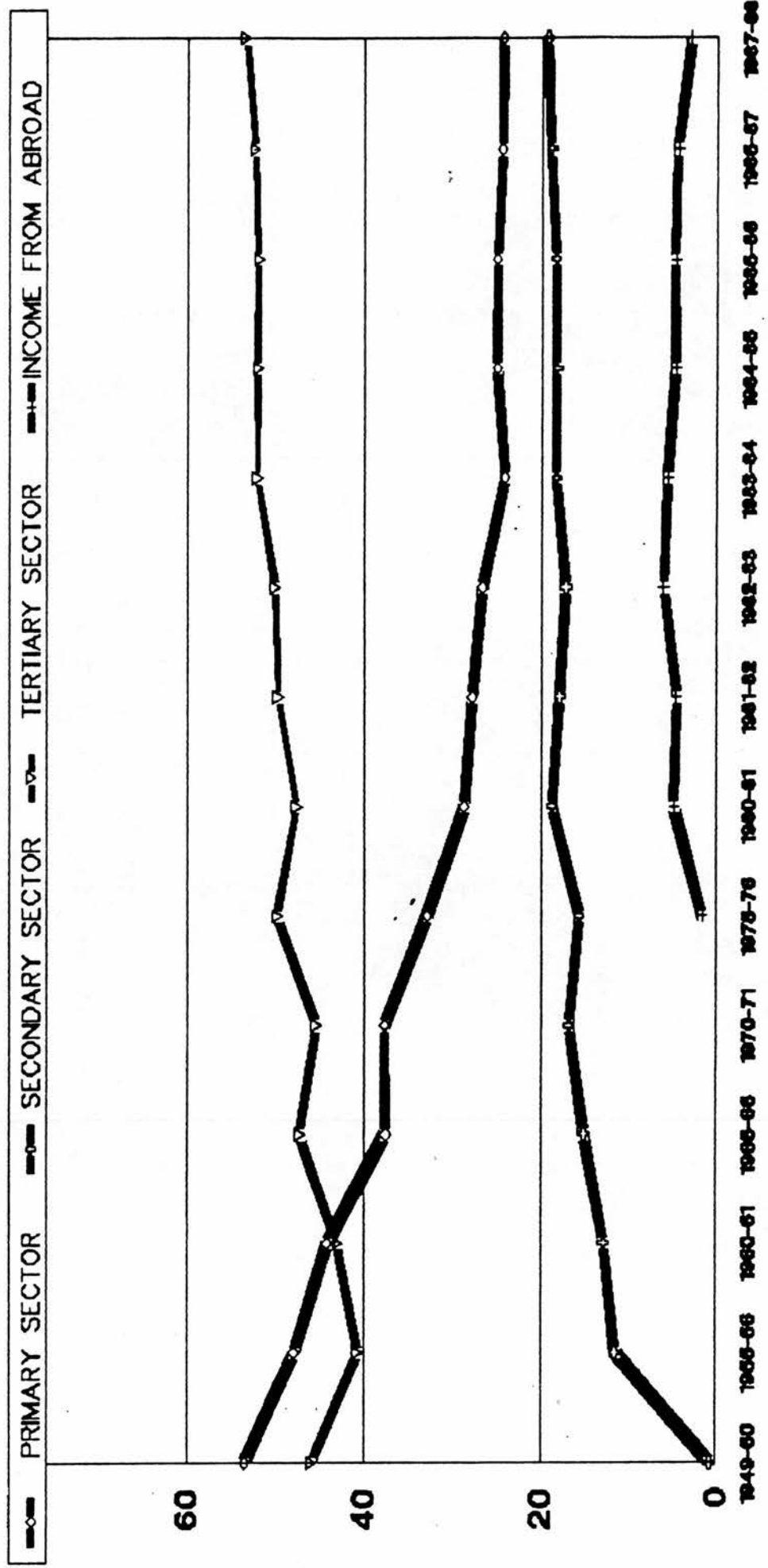
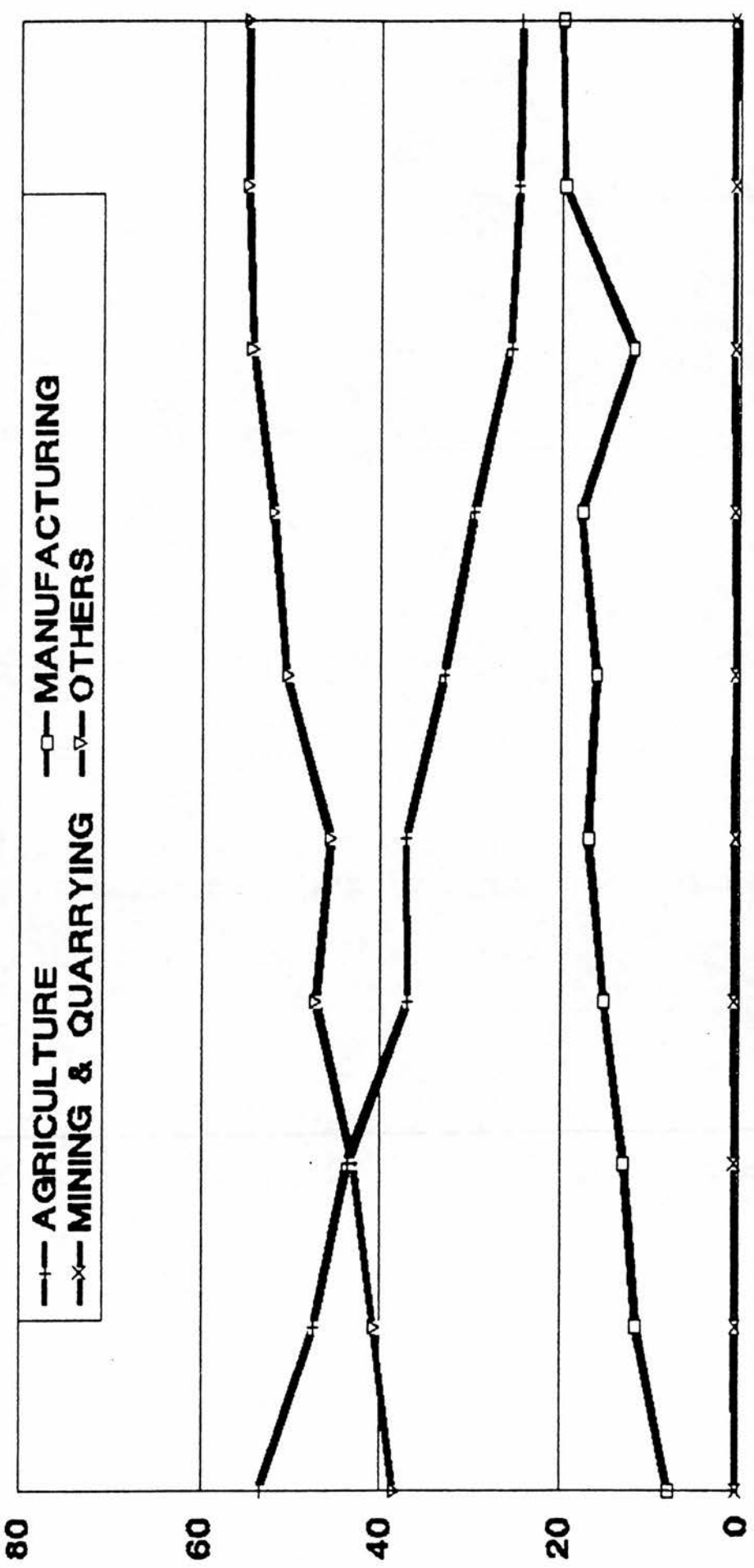


Fig: - 5.10.A

STRUCTURE OF PAKISTA'S ECONOMY.

(BREAKDOWN OF GNP AT CONSTANT FACTOR COST OF 1959-60 IN PERCENTAGE).



5.3.6.1.1

Cotton.

The present cotton scenario is exciting. Production levels increased from an average of 0.3 million tonnes in the early 1960s to 1.4 million tonnes in 1988-89 [table-5-11 and fig:-5-11.A].

The area under cotton doubled over the same period [table-5.12], primarily as a result of the increased canal water supplies and ground water development. But a more important contributing factor was the recent break-through in yields, attaining levels of 595 kg/ha. The main factor was the new high yielding varieties (HYV) like MNH-93 and NIAB-78, which evolved in the years 1980 and 1983 respectively and were sown extensively, mainly in Punjab [Ibid, p.143].

TABLE - 5.12

LAND IN PAKISTAN AND AREA UNDER CULTIVATION.
(Million Hectares).

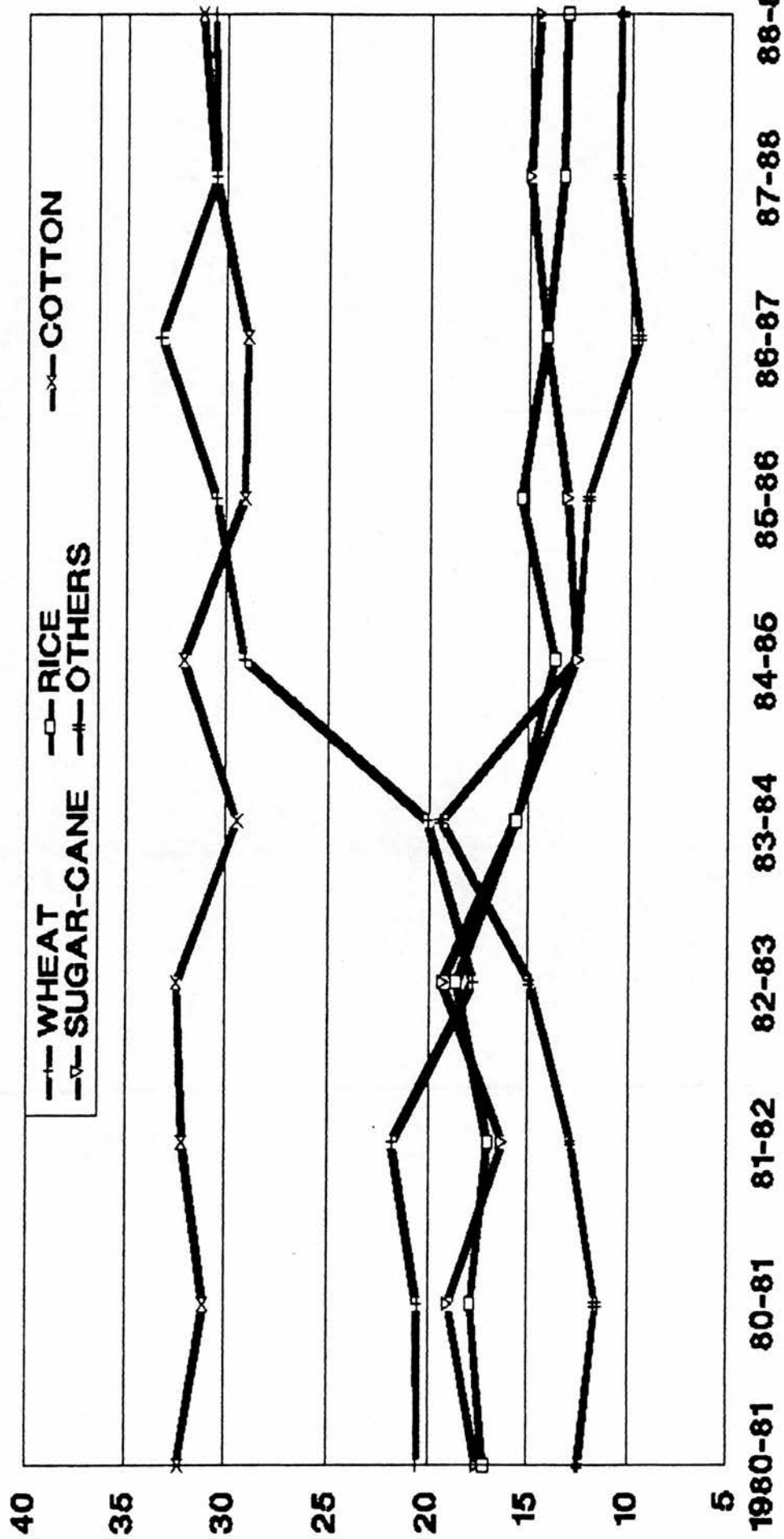
Years	Total Area	Forest Area	Cropped Area	Area Under Different Crops.			
				Wheat.	Rice.	Cotton.	Sugar-cane.
1947-48	79.61	1.38	11.63	3,954	790	1,327	189
1955-56	-	1.28	13.89	4,521	969	1,407	286
1960-61	-	1.68	14.86	4,639	1,181	1,293	388
1965-66	-	2.08	15.54	5,155	1,393	1,561	597
1970-71	-	2.83	16.62	5,977	1,503	1,733	636
1975-76	-	2.84	18.02	6,111	1,710	1,852	700
1980-81	-	2.85	19.33	6,984	1,933	2,108	825
1985-86	-	3.12	20.28	7,403	1,863	2,364	780
1989-90	-	2.92	20.90	7,755	2,115	2,617	842

Source: Economic Survey of Pakistan [1989-90], Government of Pakistan, Islamabad.

Fig: - 5.11.A

VALUE ADDED SHARE OF MAJOR AGRI: CROPS IN PERCENTAGE.

(at constant factor cost - base 1980-81)



5.3.6.1.2

Wheat.

As far as the wheat production is concerned, it has increased fivefold since 1949-50, [table-5.11 and fig:-5-11.A] mainly because the new varieties introduced in 1980-85. The area expansion also shows a clear trend over the entire period, virtually doubling from 3.95 million hectares to 7.4 million hectares in the period 1948-86. It is also important to recognise that with the increased water availability and improved water use efficiency, many farmers produce more than one crop (double cropping). In the barani (rain fed areas), yield levels, even when compared with those of the traditional farmers in Punjab and Sindh, are exceptionally low. The main point here is that the crops like cotton, wheat, and sugar-cane do not require as much water as rice [Ibid, p.130].

5.3.6.1.3

Sugar-cane.

With sugar-cane, the acreage under its production has expanded very rapidly, from 190,000 hectares in 1974-48 to 842,000 hectares in 1989-90, (table-5.12). Cane yields, however, have been low, stagnating between 35 and 39 tons/hect, with the result that production increases have come, primarily from area growth [Ibid, p.150].

5.3.6.1.4

Rice.

Drawing the historical picture for rice is somewhat more complex than for wheat and cotton as three separate categories need to be

distinguished by variety: Basmati, Irri, and other traditional rice. The total area under rice more than doubled, between 1948 and 1980, from 790,000 hectares to about 2 million hectares, [table-5.12]. Since then the total area has remained around the same. The reason for the stagnation in area is because, rice uses water intensively and expansion by area is held back by the limited availability of the water. However, there is considerable scope for shifting some of the existing rice area from the present low value to higher value rice.

Rice yields were virtually stagnant at less than 1 tonne/ha until mid -sixties, it rose by 50% in the next five years and more steadily to 1.7 ton/ha in 1986-87. This overall measure of yields is, however, deceptive as it combines higher and faster rising yields of Irri rice with lower and stagnant yields of Basmati and other non-Irri -- old traditional varieties. The quantities of the old traditional varieties produced at the moment is negligible [Government of Pakistan, Commission Report, 1988, p.138]. The Rice, which is the main focus in this study, will be discussed latter on in detail.

5.3.6.2 The Secondary Sector.

The secondary sector consists of manufacturing and processing. The average share of the secondary sector in the GNP, since 1971 to 1988 is 16% [table-5.9].

Except for a few years, the secondary sector appears to be lagging

because of the slow pace of private investment, and government investment in infrastructure. The problem of a lethargic business investment community in past has also been partially because of the difficult sanctioning procedures that must be followed to build new businesses. The restrictive regulations have also kept investors, especially foreign investors, from such activities as the seed business, feed milling, fertiliser manufacturers, sugar refining, machine manufacture, and repair services ['The Econogram', p.5, April, 1989].

5.3.6.3 The Tertiary Sector.

The tertiary sector comprises services such as construction, electricity, gas distribution, transportation, storage, communication, wholesale, retail trade, banking, insurance, public administration and defence. The average share of the tertiary sector in the GNP since 1971 to 1988 is 50%, [table-5.9]. With reference to table-5.9; and fig:-5.9-A, the tertiary sector is the major sector. It seems that, the Government is spending much on tertiary sector by offering the job opportunities.

Table-5.13 shows that the current expenditure of the government is roughly three-quarters of the total expenditure since 1983-84. The share of current expenditure was 60% in 1979-80 out of total expenditures, and 66.3% in 1982-83. The major portion of current expenditure is utilised for the defence purpose. For example in 1982-83 only, expenditure on defence was 40.2% out of the total current expenditures [Economic survey , 1988-89].

TABLE 5-13.

**SUMMARY OF PUBLIC FINANCE IN PAKISTAN SHOWING THE EXPENDITURES.
(Million Rupees).**

YEARS.	TOTAL CURRENT ^a EXP	TOTAL DVL ^b PMT; EXP;	PERCENTAGE OF TOTAL EXP:	
			CURRENT EXP;	DVL ^b PMT; EXP;
1979-80	32824	21805	60.1	39.9
1980-81	37839	25800	59.4	40.5
1981-82	44544	26469	62.7	37.3
1982-83	57738	29383	66.3	33.7
1983-84	71945	28057	72.0	28.0
1984-85	83796	33050	71.7	28.3
1985-86	94685	39777	70.4	29.6
1986-87	116242	36160	76.3	23.7
1987-88	133645	46728	74.0	25.9
1988-89	153805	46734	76.7	23.3
1989-90	160629	56000	74.1	25.9

Source: Economic Survey of Pakistan, [1989-90] p.131,

Note:

^aCurrent subsidies are included in the current expenditures.

^bDevelopment subsidies are included in the development expenditures.

On the other hand, the development expenditure is around one-fourth of the total expenditure. Therefore it is clear that the development side in the past has been neglected. In terms of current and development expenditures, the proportions were 74:26 in 1988-89, and 77:23 in 1989-90. The major portion of the development spending is utilised in the physical infrastructure such as water, power, transport and housing. Not more than 8% has been spent on agriculture in recent years [table-5.14].

TABLE - 5.14

STRUCTURE OF DEVELOPMENT AND CURRENT EXPENDITURES IN PAKISTAN (in PERCENTAGE).

CURRENT EXPENDITURES.				DEVELOPMENT EXPENDITURES.			
SECTOR.	Years			SECTOR.	Years.		
	1982-83	87-88	88-89		1982-83	87-88	88-89
Defence.	40.2	36.0	33.6	Agriculture	18.7	8.5	7.5
Interest payments	19.3	23.5	24.2	(incl; fertiliser subsidy)			
Current Subsidies	4.8	5.3	6.6	Physical Infrastructure.	66.2	61.6	63.4
Social Services	12.8	14.1	13.5	Social Infrastructure.	15.1	29.9	29.1
Gen: Administrat:	7.2	7.0	8.5				
Others.	15.7	14.1	13.6				
Total in percent	100	100	100	Total in Percent	100	100	100

Source: Economic Survey of Pakistan, [1988-89] pp.83-86.

5.4 The Public and the Private Sector in the Economy.

In Pakistan, in the earlier stages, especially in the fifties and sixties, there was a deep commitment to the role of private sector in the economic development. The public sector was limited either to the provision of essential public utility services like transport, electricity, and water or in the industrial sector to those considered essential for defence purposes.

As a result of the Government's policy of nationalisation in the early seventies and with the diminished role of the private sector in undertaking major new investment, especially in manufacturing, the public sector had begun to play a far more important part in the country's overall development effort. In 1979-80 it accounted for about 11% of the total industrial output and about 70% of the total investment. It had complete control over domestic banking and

insurance and a monopoly in the export of raw cotton and rice [Viqar Ahmed and Rashid Ahmed 1984].

5.4.1 Ownership Pattern in the Agriculture Sector.

Since independence to date, agriculture has been and is the largest single contributor to the national output. Most of the agricultural land, and its production in Pakistan is in private hands. But there are a number of important questions regarding the ownership pattern in the agricultural sector. Perhaps the most important and controversial regards the extent to which the uneven size distribution of land holdings and the existence of tenancy relations hindered or expedited agricultural growth [Viqar Ahmed and Rashid Ahmed, 1984].

5.4.2 Ownership Pattern in the Industrial Sector.

As already described, the industrialisation in Pakistan during the fifties and sixties was carried out mainly by the private sector.

In 1970s, the new Government reversed the pro-industrial policies which had been followed earlier, and for the first time the private sector in industry felt itself faced with a more hostile economic and political environment. Nationalisation, which was introduced mainly in the intermediate and capital goods industries, only marginally influenced the concentration of ownership of industrial assets, but the takeover of the banking and insurance sector by the Government did help break the link between the industrial and

financial capital. With the private sector not investing in industry, the public sector stepped in with major investments in the heavy and intermediate goods industry and, by the end of seventies, it emerged as the major shareholder of the industrial assets. Table-5.15 indicate that the share of private investment was very low during 1970s in comparison to other years.

TABLE-5.15

GROSS FIXED INVESTMENT BY PUBLIC AND PRIVATE SECTOR (AT CURRENT PRICE) (in percentage).

Years.	Agriculture Sector		Manufacturing Sector		Others.		Total.	
	Public.	Private.	Public.	Private.	Public	Private	Public	Private.
1972-73	N.A	N.A	9.8	90.1	64.5	35.48	65.17	34.8
1973-74	10.7	89.2	27.1	72.8	75.19	24.80	63.82	36.17
1974-75	28.2	71.7	42.5	57.4	78.20	21.79	69.55	30.44
1975-76	20.0	79.9	63.6	36.3	78.94	21.05	67.68	32.31
1976-77	22.35	77.64	68.1	31.8	76.51	23.48	66.92	33.07
1977-78	13.78	86.2	74.3	25.6	74.47	25.52	66.38	33.61
1978-79	15.70	84.2	72.8	27.1	73.64	26.35	65.97	34.02
1979-80	14.61	85.3	65.2	34.7	70.97	29.02	62.06	39.93
1980-81	9.8	90.5	52.6	47.41	72.56	27.43	60.73	39.26
1981-82	15.02	84.9	51.1	48.84	74.46	25.53	63.56	36.43
1982-83	19.39	80.6	48.7	51.27	72.45	27.51	61.68	38.31
1983-84	16.85	83.14	44.4	55.65	69.36	30.64	56.85	43.14
1984-85	16.64	83.3	29.9	70.0	73.19	26.80	58.61	41.38
1985-86	20.74	79.2	28.4	71.56	73.39	26.60	58.82	41.17
1986-87	18.94	81.0	19.1	80.8	75.01	24.98	59.33	40.66
1987-88	20.24	79.7	17.09	82.6	73.44	26.66	56.78	43.21

N.A= Not available.

Source: Adopted from, 'Annual report', State Bank of Pakistan, [1987-88], pp.17.21.

5.4.3 Ownership Pattern in other sectors.

In the service sector, transport and communications, railways and air travel have traditionally been in the public sector. Road transport, which had been at the time of Independence, solely in the hands of the private sector, is now also significantly

controlled by the public sector. With the expansion of public sector transport operations, and the setting up of the National Logistic Cell in the late 1970s, public sector control in terms of passenger transport is approximately one-third and for goods haulage it is about 30%. Utilities like water, gas, and electricity have traditionally been controlled by the public sector. The retail trade has been almost completely controlled by the private sector except for a few very small number of Government controlled 'co-operatives' and 'utility stores'.

As far as foreign investment is concerned, in a number of developing countries like Taiwan, South Korea, and Singapore, it has been very high, however, this has not been the case in Pakistan. In the manufacturing sector, for example, only about 10 to 15% of the total industrial assets in 1979-80 were controlled by foreign firms, mainly in the pharmaceutical and fertiliser industries. In banking and insurance there have been traditional British-based banks but more recently foreign banks from the Middle East have also begun operation in the country [Viqar Ahmed and Rashid Ahmed, 1984].

5.4.4 The Current Situation of the Private sector.

The situation, since the Zia Government, has changed to a great extent regarding the restoration of private sector confidence and motivation in order to revive investment in agriculture and industry. This is being done by:

- a) denationalisation of certain public sector projects,
- b) protection of the rights of investors,
- c) offering a package of fiscal and other incentives,
- d) relaxation of economic control,

A number of industries which were run inefficiently are denationalised and/or privatised. A number of incentives have also been offered to the private sector, the most important of which is the tax holiday. A number of concessions in import duties and income tax have also been given.

5.5 Importance of Agriculture in Pakistan Economy.

At the time of independence, Pakistan was predominantly an agricultural country. Both the major share of GDP and the bulk of the labour force emanated from this sector. Over 99% of the country's exports consisted of primary commodities [Viqar Ahmed and Rashid Ahmed , 1984].

In 1950, agriculture accounted for 53% of the GNP, since then the share of agriculture in GNP has declined steadily and in 1988 it was just under 24%. However, agriculture's contribution to other spheres of Pakistan's economy is even greater than its share in the GNP. For example, it provides employment for about 50% of the labour force and directly accounts for about 30% of the total exports. If one takes into account the raw material content of cotton textiles and other agro-based manufactured exports, its share would be over 60% of the total exports.

In terms of imports, the share of agriculture was lower in the early 1980s compared to the 1970s because agricultural growth resulted in increasing self-sufficiency in wheat. In recent years the import share has risen again because of higher imports of agricultural inputs and declining self-sufficiency in edible oil and sugar. In the 1980s agricultural imports accounted for around 14% of total import [table-5.16]. Even though the importance of agriculture has been recognised in developing countries, it has never been regarded as a leading sector. Policies related to agriculture have reflected this fact.

Table - 5.16

**Share of Agriculture in (Pakistan) GNP, Imports and Exports.
(1960-1987).**

Year	Share of Agriculture in GNP (%)		Total Employment (by decade) (%)	Agricultural Imports		Agricultural exports ^a		
	Nominal	Real		Level (in US\$ m ¹)	Share in Total Imports (%)	Level (in US\$ m)	Share in ^b total export (%)	Share in total Agri: output (%)
1960-61	44.66	43.66	59.30	-	-	-	-	-
1969-70	36.83	38.88		-	-	111.72	33.1	3.33
1970-71	35.35	37.31		-	-	136.50	32.6	4.00
1971-72	35.95	37.57		-	-	317.09	44.8	8.42
1972-73	35.40	35.65	58.60	205	25.8	223.46	39.4	10.80
1973-74	34.12	34.58		330	24.2	404.75	39.4	14.27
1974-75	32.02	32.53		474	22.4	498.18	48.0	14.71
1975-76	31.23	32.56		415	20.1	495.15	43.7	12.79
1976-77	31.08	32.04		365	15.3	466.87	40.9	10.15
1977-78	29.38	29.76		482	17.1	468.10	35.7	9.16
1978-79	28.11	28.92		841	22.9	552.90	32.3	10.11
1979-80	27.16	28.78		591	12.5	993.74	42.0	15.83
1980-81	26.52	28.28	52.72	630	11.7	1295.35	43.8	17.89
1981-82	26.46	27.45		701	12.4	863.67	34.7	10.92
1982-83	24.70	26.30		640	12.0	809.88	30.0	11.38
1983-84	22.19	23.71		878	15.4	800.37	28.9	11.71
1984-85	23.00	24.61		984	16.6	724.34	28.9	10.09
1985-86	22.67	24.46		991	17.6	1062.49	34.6	14.25
1986-87	22.01	23.87	49.24	763	14.2	973.15	26.0	13.04

Sources: Pakistan Economic Survey 1987-88; Pakistan Statistical Year Book, 1988; Hamid, et, al., [1990], Trade, Exchange Rate, and Agricultural Pricing Policies in Pakistan, p.135, The World Bank.

Note:

^a Exports of primary commodities.

^b It does not include the raw material content of cotton textiles and other agro-based manufactured exports.

¹ Million.

Conclusion.

Pakistan is rich in land resources and possesses all kinds of soil. Along with land, it has both types of climate -- hot and cold. The economy of Pakistan is agrarian in nature. The predominance of the agricultural sector is usually one of the main characteristics of developing countries like Pakistan, in the sense that agriculture is not only the largest contributor to the national income but the major source of employment, and foreign exchange earnings. It is also the provider of food grain especially for the growing urban population and for the generation of the profits to finance development efforts.

It is thus evident that a programme for overall economic development must lay great emphasis on agricultural development. Any credible programme for growth, greater savings and investments, improved technology, and removal of social balances would be incomplete without agriculture making a major contribution. At the same time it should also get its due share of the resulting benefits.

The proportionate contribution of agriculture in the national economic framework tends to diminish as other sectors emerge and expand, its role and functions continue to grow in both depth and range.

In next chapter, the author will turn to describe the agricultural policies in Pakistan.

Chapter - 6

AGRICULTURAL POLICIES IN PAKISTAN.

In this chapter, a brief review of Pakistan's agricultural policy is undertaken. The object of this chapter is to discuss the types of government intervention in agriculture sector. This chapter is organised under the different categories. Section 6.1. presents the agricultural policies applied by the Government of Pakistan, & in section 6.2 agriculture taxes and Subsidies have been summarised.

6.1 Agricultural Policies & Government intervention in Pakistan.

Agriculture is the mainstay of Pakistan's economy. It not only provides the surplus for investment in the manufacturing sector but also to meet other expenditures of the government. This surplus is extracted by government intervention through direct taxation and also indirectly through government control over the prices received by farmers for their crop. Typically, what this means is that farmers receive lower prices than what they would get without government intervention in price determination.

Pakistan like other developing countries, has implemented a complex set of pricing, subsidy and tax policies which have altered over time the nature of incentives facing the agriculture sector. Some policies, such as those determining the level of the foreign exchange rate, are aimed principally at inducing activity in other sectors, yet by influencing the level of prices received and paid

by farmers for traded commodities and inputs. These policies have important incentive or disincentive implications for the agricultural sector as well. Other policies call for specific subsidies, price support or taxes aimed at the agricultural sector.

Government intervention in agriculture has taken many forms over the years. Along with indirect intervention arising from over-valuation of the rupee, the most important types of direct intervention included the government monopoly on international trade in rice and cotton, government control of internal trade in wheat, and (at times) regulation of domestic sales of flour at cheap prices through the network of ration shops in cities only. Over the last three decades, government intervention has had negative effects on the producer prices, (hence, the output and export earnings) of wheat, rice and cotton in Pakistan. These outcomes were the result of a strategy designed to keep domestic prices low and to build up the country's industrial sector by protecting it from overseas competition [Hamid, et, al., 1990].

One study [Ender Gary, 1990, pp.1-10] about government intervention in agriculture shows that the main intervention in Pakistan's agriculture sector can be divided into three groups: support price and state trading, input subsidies, and investment in infrastructure. The fourth category would include the over-valuation of the exchange rate.

Overall, control of trade was the agricultural intervention with the greatest impact on producers and consumers alike. As far as the

agriculture subsidies are concerned, the same study [Ibid] estimated that in Pakistani agriculture, its aggregate producer's subsidy equivalence¹ (PSE) is below zero. In other words, the Government's support to agriculture is amounting to taxation, rather than support. The agricultural commodities covered in this study are: cotton, wheat, Basmati rice, and Irri rice. These crops compose 45% of the value added in agriculture. Measured policies include: state control of trade, price support, food rationing, and input subsidies for example, fertilisers, credit, irrigation, and electricity. Other agriculture crops not included in this study are: sugar, vegetable oils, oil seeds, and poultry. Important policies -- the effect of which have not been measured, include: exchange rate over-valuation, exempting agriculture from income taxation, public investment in irrigation, and electricity. The estimates were made for the year 1982 through 1986.

The agricultural policies applied by the Government of Pakistan are described as follows under the categories of input policy, pricing policies, direct and indirect taxes and subsidies:

6.2.1. Input Policy and Subsidies.

In Pakistan, like many other developing countries, the input for agriculture is provided with the help of subsidies. In agriculture, subsidies are justifiable as a means of introducing and popularising new technologies, but problems arise when introductory subsidies tend to perpetuate on various pretexts long after the introductory stage is over and also create many distortions

[Commission, report, 1988, p.517].

It is important to distinguish the subsidies to agricultural producers from those that are provided to consumers of agricultural products. Many subsidies although meant for the benefit of producers in reality have benefited urban consumers. Agricultural products ranging from wheat flour, rice, sugar and edible oils were sold at less than the market price: the difference being paid to them from the current account of the government budget. Besides these consumer subsidies, there are producer subsidies on cost of inputs like fertiliser, agriculture machinery, tube-wells, pesticides, and seeds. These producer subsidies are also known as development subsidies as they are budgeted and paid through the development budget.

The major government subsidies presently to the agriculture sector are for fertiliser, water, and credit. Minor subsidies have also been available for, seeds, plant protection, heavy earth moving machinery and tube-wells. Of these, seeds and plant protection subsidies have been phased out.

6.2.1.1 Fertilisers.

Fertiliser is one of the most important agricultural inputs. Chemical fertilisers were first imported in to Pakistan in 1952, while domestically produced fertilisers became available from 1957. Most Nitrogen fertilisers are domestically produced with supplementary amounts imported, for the most part, by the Federal

Directorate of Fertiliser imports. Phosphate fertilisers are largely imported (table-6.1).

Table - 6.1.

Fertiliser Consumption And Source of Supply.

Year	Nutrient	Consumption	Domestic Prod:	% share of Domestic Production.
		(000tonnes)	(000tonnes)	
1970-71	N	251.5	140.1	56
	P205	30.5	4.5	15
	K20	1.2	0	0
	Total	283.2	144.6	51
1975-76	N	441.6	316.5	72
	P205	103.6	10.6	10
	K20	2.9	0	0
	Total	548.1	327.1	60
1980-81	N	842.9	580.9	69
	P205	226.9	57.7	25
	K20	9.6	0	0
	Total	1,079.4	638.6	59
1985-86	N	1,128.4	1,016.0	93
	P205	350.1	93.0	26
	K20	33.3	0	0
	Total	1,511.5	1,190.0	73

Source: Commission Report [1988, p.617] 'Report of the National Commission on Agriculture', Ministry of Food and Agriculture, Government of Pakistan.

The government fixes the retail price of imported fertilisers. Until recently, most of the subsidies have been provided on the imported Phosphatic fertilisers. The subsidy on nitrogen fertiliser produced locally, has already been phased out [Commission report, 1988].

Until 1986, in the case of local production of fertiliser, a tax was levied on the (old) low cost plants while the (new) high cost plants were reimbursed the difference between government fixed

price and the cost plus guaranteed minimum profits. During the field work interviews, it was stated by the respondents that, the high cost plants are mostly in the public sector, which were reimbursed by the private sector plants.

In the Seventh Five Year Plan [Government of Pakistan, 1988-1993, p.166] it is clearly mentioned that the subsidy on imported phosphatic and potassic fertilisers will be phased out gradually over a period of 3 and 6 years respectively.

As far as the distribution of fertilisers are concerned, one study [Commission report, 1988, p.243] confirms that there is a fairly efficient distribution network through the private sector in the country.

6.2.1.2 Seeds.

Improved seeds constitute perhaps the most important component of the 'green revolution'. A quantum jump in agriculture productivity comes where better seeds of improved varieties become available. However, the production of a better yielding variety is a function of research, while a subsidy on seeds is meant merely to introduce the farmers to selected seeds of good quality with tested viability and a high degree of purity.

Available information (table-6.2) shows that, in Pakistan, the total amount of subsidy on all agriculture seeds reached Rs: 29 million and then declined. Finally, the subsidy has been phased out since 1983-84 and 'Seed Corporations' are able to sell seeds at a profit.

TABLE - 6.2.

Direct Subsidies to Agriculture Producers.

(Rs: Millions).

YEARS.	DIRECT SUBSIDIES, (B1) .				
	Fertilisers	Tube-Wells	Plant Protection	Seeds	Total
1972-73	207.0	22	128	3	360
1973-74	278.0	10	63	12	363
1974-75	326.0	16	112	-	491
1975-76	607.0	24	241	6	878
1976-77	381.0	48	424	6	859
1977-78	617.0	20	347	25	1009
1978-79	1692.0	24	267	8	1991
1979-80	2454.0	22	218	29	2723
1980-81	2457.0	20	-	2	2479
1981-82	1794.0	24	-	8	1826
1982-83	1948.0	24	-	8	1980
1983-84	1690.0	16	-	-	1706
1984-85	1501.0	16	-	-	1517
1985-86	2408.0	16	-	-	2424
1986-87	2026.0	18	-	-	2044

Sources: Qureshi, S.F, et, al,.[1987], ' Taxes and Subsidies on Agricultural Producers',pp.553-54, table.1, PIDE,Islamabod, Pakistan; Commission Report, [1988, pp.517-540] 'Report of the National Commission of Agriculture', Ministry of Food & Agriculture, Government of Pakistan, Islamabad.

6.2.1.3

Tube-wells.

In Pakistan, water is the most critical input in agriculture. There are several limitations on the supply of the surface irrigation water while most of the country is too dry to support the rain-fed agriculture. To encourage the use of subsoil water as a supplement to surface water supplies, the government has encouraged installation of tube-wells by giving a subsidy on the cost of tube-wells. About 37%² of the total irrigation water supply to crops comes from tube-wells. Their contribution becomes particularly critical at times of failure of rains and shortages of waters in storage dams. The beneficial effects of tube-wells are associated

not only with enhanced supply of irrigation but also with land improvement through lowering of the underground water table [Commission Report, 1988, p.524].

The rate of subsidy on diesel tube-wells varies by type of areas - preference being given to the barani (rain-fed) areas. The average proportion of subsidised tube-wells over last ten years was 27%. The latest figures (1985-86) show that out of 55822 private diesel tube-wells, 14959 are subsidised. The subsidy on electric tube-wells is Rs: 30,000 per unit which is taken by Water and Power Development Authority (WAPDA) for extending the power line. The subsidy, however, is not specially targeted for small farmers but under the rules they are to be given preference. The total average annual amount of subsidy of private tube-wells installed in Pakistan, is Rs: 21 million from 1972-73 to 86-87 [Commission Report, 1988, p.524].

6.2.1.4.

Irrigation.

Pakistan's agriculture is predominantly Irrigated and is based on probably one of the oldest and largest contiguous gravity flow irrigation systems in the world. But its economic output per unit of water derived at the source is also perhaps the lowest in the world, [Mahmood and Walters, 1990, p.45]. For agriculture - barani (rain-fed) or Irrigated - land and water go together. Where the water supply is under human control the agriculture system is considered Irrigated; where such conditions do not exist, the resultant agriculture is considered barani. Pakistan is well

endowed with water resources and about three quarter of its cultivated lands are Irrigated. The soils and the irrigation system of the Indus Basin are the most valuable resources of the country.

As far as the cost of the irrigation is concerned, the capital cost of Irrigation work has normally been recovered through the sale price of land in canal colonies and the water rates (Irrigation charges/Abiana) charged on a regular basis are supposed to cover the operation and maintenance (O and M) charges of irrigation works. In recent years the O and M charges have increased considerably and much of this increase is ascribed to the inclusion of some expenses that do not strictly qualify as O and M charges, because it includes the Salinity Control and Reclamation Project (SCARP) expenses as well. However, the land reclamation charges can not be legitimately considered as irrigation expenses. The position of O and M costs and recoveries excluding SCARP operation is mentioned in table-6.3 and table-6.4.

Table - 6.3.

Operation and Maintenance (O & M) Cost (excluding the SCARP operation) & Recoveries from Irrigation Charges.

(per acre of cropped area)

	Punjab	Sindh	NWFP	Baluchistan	Total
Annual O & M cost Rs:/ acre.	25.39	47.61	106.85	43.75	223.60
Irrigation Charges Rs:/ acre	28.12	20.70	32.20	25.75	106.77
Difference.					116.83

Source: Commission Report, 1988, p.526.

The situation changes radically when SCARP operations are included in operation and maintenance, as shown in table-6.4.

Table - 6.4

Operation and Maintenance (O and M) Cost (including SCARP operation) & Recoveries from Irrigation Charges.

(Rs: per acre of cropped area).

	Punjab	Sindh	NWFP	Baluchistan.	Total.
Total Annual Cost.	55.52	73.26	143.30	43.75	315.83
Total Recoveries.	32.30	26.52	40.46	35.72	135.00
Difference.					-180.83

Source: Commission Report, 1988, p.527.

In the existing irrigation system, there is overuse (misuse) of water, hence the problem of waterlogging and salinity. In Pakistan, 12 million acres of land is waterlogged and 10 million saline [World Bank Report, 1982].

In the irrigation system, it has been observed that other than misuse of water, there is also a misuse of funds. There is no hard proof but it is widely believed that there is widespread corruption in irrigation. It is observed that the department invests large amounts but there are press criticisms about the expenditures on maintenance of canals, sale of water, and the payments of salaries only on paper to the workers.

Table-6.3 indicates that irrigation, excluding SCARP operation is subsidised at the rate of Rs: 116.83 per acre, whereas table-6.4 indicates that irrigation, including SCARP operation is being

subsidised at the rate of Rs: 180.83 per acre. The total subsidies on irrigation are mentioned in table-6.14.

6.2.1.5

Credit Policy.

Agriculture producers receive interest free short term loans as well as low interest medium and long term loans. The subsidy on institutional loans such as those advanced by the Banks is calculated by taking the difference between the lending rate and the rate at which the State Bank advance loans to these institutions. Thus there is an 8% subsidy on Agriculture Development Bank (ADBP) loans. It was 3% on cooperative loans until 1982-83. It increased to 4% in next two years and jumped to 9.5% in 1985-86.

The interest rate structure in Pakistan is controlled by the State Bank of Pakistan (the Central Bank). Apparently the rates are low compared with those charged by the informal credit sector. The total subsidised amount (table-6.5) of credit may not give a true picture of the subsidy on credit because the total amount of the loss suffered by the institutions concerned in recovering the full cost of their advances should be taken as the subsidy. Although the exact amount of the defaulted credit is not available, it is widely believed that the default rate mainly by the big land owners in Pakistan is high.

TABLE-6.5**Credit (Subsidies) to Agricultural Producers.**

(Rs: Millions).

YEARS.	CREDIT.
1972-73	23
1973-74	37
1974-75	34
1975-76	45
1976-77	54
1977-78	44
1978-79	48
1979-80	116
1980-81	180
1981-82	265
1982-83	349
1983-84	524
1984-85	661
1985-86	923
1986-87	1064

Sources: Qureshi, S.F, et, al., [1987], ' Taxes and Subsidies on Agricultural Producers', pp.553-54, table.1, PIDE, Islamabad, Pakistan; Commission Report, [1988, pp.517-540] 'Report of the National Commission of Agriculture', Ministry of Food & Agriculture, Government of Pakistan, Islamabad.

Despite the very impressive expansion in agriculture credit , there is ample evidence to support the fact that the credit is not reaching a vast majority of farmers, particularly small ones [Mahmood and Walters, 1990, p.57]. In this regard, one study [Knudsen and Nash, 1990, p.78] confirms that only 25 to 50% of loans funds went to increase agricultural investment in Pakistan.

Under another scheme, interest free loans are provided to farmers, with a maximum of Rs:12000 per borrower, per year subject to limit of Rs: 1000 per acre. Loans are payable in one year. However, there is a general complaint that these loans do not reach the small deserving farmers because of the large scale misuse of proxy loans,

family loaning, and paper loaning. Subsidised interest rates, though well intentioned, have also played a role in misdirecting credit and impeded efforts to target loans to small farmers [Scot, et, al., 1988]. It is also popularly believed that the banking personnel, mostly in public sector, charge illegal commissions while granting loans.

One study [commission report, 1988, p.443] concludes that there are four major problems regarding access to institutional credit. These are:

- a. The actual flow of credit to the small farmers still remains very limited.
- b. Complex procedures for advancing agricultural loans by the commercial banks.
- c. Delayed disbursement of credit even after it has been approved due to unnecessary documentary requirements.
- d. Interest rates charged on agriculture loans are high, particularly for the low income farmers in the less developed areas.

6.2.2 Agriculture output Pricing Policy.

In Pakistan, the determination of support prices³ is a balancing act of different conflicting interests. The growers regard the

support prices as a cost-plus mechanism which guarantees the producers their costs and some profit, the higher the better. When international prices rise they expect the support prices to pass on the full advantage to producers but when the international price falls they want the government to stabilise prices at the former high level. The consumer interest usually calls for keeping the prices down and that coincides with the interests of domestic processors of the agricultural raw materials and exporters of agricultural commodities. The effort of the government is to balance the various interests but it often serves the interests of the pressure group.

In Pakistan, since independence (1947), the government's main concern is regulating agricultural prices to keep the cost of food low for the urban industrial workers and provide cheap raw materials for domestic industries. Thus, the agriculture pricing policy in Pakistan followed the development strategy which sought to channel resources away from the massive agricultural population to the urban industrial entrepreneur. This was done by keeping the prices of manufacturing goods above the world level through import controls and the prices of agricultural products below the world level through the compulsory procurement of major agricultural crops at predetermined prices and the imposition of domestic taxes and export duties on agricultural commodities thereby making the inter-sectoral terms of trade unfavourable to agriculture [Griffin, 1969, p.27].

One study [Commission Report, 1988, p.530], has estimated the

transfers from the crops sub-sector through the pricing mechanism as mentioned in table-6.6. It reveals that even without the effect of overvalued foreign exchange rate, the transfers due solely to pricing measures were very substantial, which assumed massive proportions when the exchange effect was added. It showed a very significant and steady improvement since 1980-81 so that the pure pricing effect in 1985-86 was reduced to an insignificant amount equal to 1.7% of the sector value added.

Table - 6.6

Transfer from Crops Sub-Sector through Pricing Mechanism.

	1980-81	1983-84	1984-85	1985-86
a. Total Price Transfers at official exchange rate. (Rs: Million).	21676	13325	17187	1970
As % of Sector Value Added.	30.2	14.5	15.8	1.7
b. Total Price Transfers at Equilibrium Exchange Rate: (Rs: Million).	43520	32295	35134	18966
As % of Sector Value Added.	60.7	36.1	32.3	15.9

Source: Hamid and Nabi [1986], 'A Comparative Study of Political Economy of Agriculture Pricing Policies.

Along with the exchange rate regime which was applied to agriculture, it's burden was further exacerbated by the imposition of export taxes which had the effect of depressing the domestic produce prices.

The industrial sector was shielded from the effects of exchange regimes by a system of export subsidies, bonuses, rebates, refund of import duties and other tariff and non-tariff barriers, while it

was a direct beneficiary of export duties on the primary agricultural commodities and cheap imports due to the overvalued exchange rate.

Agriculture has also suffered from subsidised imports of wheat, edible oil and powdered milk. Not only are these surplus products dumped on the Pakistani market at low prices subsidised by exporting countries but the Government of Pakistan has also been subsidising their domestic prices. The result has been a heavy penalty on domestic producers.

One study [Hamid, et, al., 1990, p.97] concludes that other than indirect (overvalued exchange rate) interference, there were three major considerations driving the direct price intervention system in Pakistan. The first was balance of payments considerations. Government policies generally attempted to either maximise foreign exchange earning in the case of export crops such as cotton and rice or minimise the imports in the case of deficit crops -- wheat and sugar. Second was political considerations which prompted the Government to adopt policies to protect urban consumers against increases in food prices. The third was budgetary considerations which imposed an upper limit on subsidies and created a need to generate revenues. There were obvious conflicts between policies appropriate for each of these three factors.

Because of the above three factors, price policy applied by the government for various crops were different. In Pakistan agriculture, cotton, rice, wheat, and sugar-cane are the major cash

and food crops. In the section that follows, the author highlights the general policies applied to these crops - based on the work of Hamid, et, al., [1990]. The policy for rice which is the main theme of this study will be discussed in chapters 7, 8 and 9.

6.2.2.1. Wheat.

The Government's primary objective for price intervention in wheat was to provide urban consumers with wheat flour at low prices. The second objective was to protect the farmers against seasonal price fluctuation. This was done by supplying wheat flour through a Government controlled system at a fixed price. The wheat procured by the Government as part of its support price policy was supplied to the ration shops after processing. These shops provided the flour at a fixed low price to the consumers. Therefore the two objectives -- cheap food for urban consumers and price stability for producers -- were inter-linked and an understanding of Government intervention in wheat can best be achieved by looking at the overall working of the wheat procurement and rationing system.

6.2.2.1.2 Administrative Structure of Procurement and Rationing for wheat.

The Federal Government makes the policy decisions regarding the procurement price of wheat, its issue price to the mills and the flour price for the consumers at the ration shops. The actual operation of procurement and ration system was the responsibility of the Provincial Government and the Food Department was the

responsible agency.

The ration shop system consisted of specially licensed private retail outlets through which a fixed quantity of wheat per person per day at very subsidised rates was distributed. The subsidy became very large: about Rs: 2 billion a year in 1973-74 and 1974-75, or more than 10% of the Government's current expenditure. Therefore, the Government was forced to increase the price of ration shop flour a number of times [Hamid, et, al., 1990].

It was evident that the costs to the Government of operating this system were much greater than the benefits to the consumers. For example in 1975, flour in ration shops was sold at Rs: 1 (one) per k.g compared to the open market price of about Rs:1.30 per kg, that is, a benefit of Rs: 0.30 per kg to the consumers. The cost of the wheat subsidy for 1974-75 was Rs: 2119 million, while during that year total release of wheat by Government was less than 2 million tons, that is, the cost to Government was over Rs: 1 per kg, more than three times the benefit to the consumers [Hamid, et, al., 1990].

The direct administrative cost of operating the procurement and rationing system was not very large. The total establishment cost -- in salary and allowances -- of the concerned Government departments in 1985 was about Rs: 150 million, that is, about 25% of the total expenditure on Agricultural Research and Extension in that year. In other words the administrative costs, though significant, were not too great [Hamid, et, al., 1990].

The more important cost of the rationing system was the cost of the subsidy and the corruption it had engendered. According to one study [Alderman, et, al., 1987] only 20% of the subsidised wheat supplied by the Government to the flour mills was actually purchased by the consumers in the ration shops. This study shows that the benefit -- that is, the difference between the open market price and the ration shop price times the quantity purchased -- received by consumers was only Rs: 250 million in 1985-86. However, the cost of the subsidy to the Government was Rs: 1800 million. That is to say that under this programme, Rs: 1550 million worth of subsidy was lost because of corruption and waste.

Another study [International Food Policy Research Institute (IFPRI) Report no:4, May 1988], as quoted in the 'ECONOGRAM'[p.2, April 1988], stated that some ration system mills which used to supply flour to the ration depots, only functioned on paper. They earned a profit by setting the low priced Government wheat in the higher-priced open market. This fraudulent practice was possible in connivance with some Food Department officials, and Ration Depot Holders. Approximately 72% of the wheat released to the ration system mills never reached its targeted consumers, that is, the poor third of the society, but leaked to a open market. It is evident that the prime beneficiaries of the system were not the consumers but the ration shop owners who maintained false records of sales to ration card holders, the flour mill operators who actually processed and sold the wheat in the open market; and the staff of the Food Department who were supposed to police the system.

Although no hard evidence is available, newspaper reports of the period and interviews with some of the people involved indicate that smuggling of wheat to India was widespread during most of the 1960s and first half of the 1970s [Hamid, et, al., 1990]. The reason for this was that price of wheat in India was substantially higher than in Pakistan as shown in table-6.7.

Table - 6.7.

Harvest Wheat Price in Pakistan and Indian Punjab.

(Rs: per 100 kg)*

Year.	Pakistan Punjab.	Indian Punjab.
1966	40	63
1970	48	83
1974	72	115
1975	107	108
1980	129	121

Source: Agriculture statistics of Pakistan (various Years); the statistical Abstract of Punjab (India).

*Prices are in local currencies at the official exchange rate. However, the difference would be even greater, if converted at the equilibrium exchange rate.

6.2.2.2

Sugar-cane.

In Pakistan, there are very few areas where the climate and the soil are ideal for sugar-cane cultivation. In 1949-50 about 200,000 hectares, or 1.6% of total cropped area was under sugar-cane. By 1959-60 it expanded to about 400,000 hectares and 900,000 hectares in 1984-85. Pakistan inherited only 2 sugar mills and in the 1960s the number reached to twenty. In 1985-86 the total number of sugar mills in the public and private sector was thirty nine. Having an annual production capacity of 1075,000 tons of sugar-cane and 39,000 tons of beet sugar.

One study [Hamid, et. al., 1990] confirms that, in sugar economy, there are three interest groups namely; the farmers, the consumers and the sugar-mill owners. On pricing, the farmers inside the mill zone, the mill owners and consumers have conflicting interests. Until 1983 the conflict between the farmers and the mill-owners was latent because the government fixed the price of sugar-cane to keep the farmers happy, and the price of sugar was fixed to ensure a good profit to the mill owners. The consumer was the loser but he was given the impression that the government was very concerned about him since it was supplying him with 'cheap' sugar through the ration system. By creating an artificial scarcity through restrictions on imports and keeping the ration shop price below the open market price (though substantially above the import price) the Government was able to create this illusion for the consumers.

Like wheat flour, the rationing of sugar also resulted in widespread corruption because as long as the open market price was above the ration shop price it paid the ration shop owners and others to divert a part of the quota to the open market. This was done by getting false ration cards issued. Such cards may have been as much as 20% of the total. However, in the case of sugar the cost of the corruption was not born by the Government as there was no subsidy on sugar sold through the ration shops.

In the same study [Ibid, p.110] it was further concluded that, from 1962 to 1977, when open market sales were illegal, an active black market developed and there was a substantial difference between the open market and the ration shop prices. For example, in 1974-75 the

black market price was Rs: 8.00 to Rs: 10.00 per kg compared to the ration shop price of Rs: 4.60 per kg. Although no guess can be made about the proportion of sugar sold on the black market, according to the available evidence it tended to increase over time and by 1977 it continued a significant proportion of the total.

6.2.2.3 Cotton.

Cotton is the principal cash crop of Pakistan, the significance of which can be judged from the fact that it alone accounts for about 11% of the total cropped area or about 2,500,000 hectares which is more than any other cash crop. The crop as a whole along with cotton manufacturing contribute about 40% to the total foreign exchange earnings.

With cotton, the identifiable interest groups in the earlier system were the cotton growers, the middleman, the ginners, and the export traders who participated in the Karachi and the International Cotton Exchange. The Karachi Cotton Exchange was linked to the International Cotton Exchange based in London where in addition to spot trading, buyers and sellers could also do forward trading. However, because there was no price setting by the Government, group conflicts as we see them now, in the sense that one group can influence the prices more compared another, did not exist.

Up to the 1960s, the role of the Government in cotton trade was fairly passive. Pakistan adopted the regime of multiple exchange rates. In implementing this regime, the government had several

considerations, the most important of which was industrialisation of the economy.

Furthermore, because of Government's discretionary role in implementing its multiple exchange rate policy, various distinct groups emerged in cotton trade: cotton growers, ginner, yarn manufacturers and cloth manufacturers. Group interests and conflicts until 1972 were focussed mainly on influencing the government's discretionary power regarding the exchange rate used for each group. After 1972 the story changed rather dramatically.

First of all, 1972 was the year of a major devaluation of Pakistani rupee and abolition of the multiple exchange regime. It was also a period of commodity price boom in the international markets and as a result exporters made substantial profits on cotton trade. The Government saw this as an opportunity to raise additional revenue, so, first it levied an export duty on raw cotton and then it decided to takeover the lucrative cotton trade by establishing a government monopoly in the export of cotton but unlike RECP it relied on voluntary procurement. The reason for this was the existence of a large domestic textile industry which also purchased cotton directly from the ginner. With the setting up of 'Cotton Export Corporation' (CEC), forward trading in cotton and the Cotton Exchange in Karachi became redundant and was abolished.

6.2.2.4. With regard to the price policy for different crops, Pakistan has a long history of price intervention designed to protect the interests of urban consumers, industrialists and

workers. With the result that from potential exporter of food grains it became a net importer in the 1960s. On average, the inflation adjusted border price for wheat, at about Rs: 2400 per ton over the period, was higher than the corresponding producer price. But this was not always so. In the late 1960s and early 1970s, for instance, it was lower which suggests greater variability of border prices compared to producer prices [see Hamid, et, al., 1990].

The nominal protection rate or the ratio of the domestic prices paid to farmers relative to the equivalent international price - the import or export price adjusted for the transportation cost - is shown in table -6.8.

In table-6.8, it is clear that in most years, there was negative nominal protection, that is, the price policy taxed wheat growers. On average, the negative nominal rate of protection was around 10%. Since on average consumer prices were also less than the border prices, it appears that the Government used direct intervention to maintain lower consumer prices. The inflation adjusted producer price of cotton has followed the movements in the border price but it has consistently remained below the latter. In other words throughout the period there was a tax on cotton growers. On average, nominal rate of protection was -19%. The tax was not as high as it was on rice. The tax was highest in the 1970s when there were both export taxes and a monopoly to extract the maximum fiscal revenue.

Table - 6.8

Nominal Protection Rate (NPR) of Major Crops (Producer Prices/Transport Cost - 1)^a

Year	Wheat	Basmati Rice	Irri Rice	Cotton	Sugar-cane.
1960-61	0.03	-	-	-0.15	-
1961-62	-0.06	-	-	-0.21	5.44
1962-63	-0.10	-	-	-0.18	2.61
1963-64	-0.07	-0.13	-	-0.14	1.26
1964-65	0.04	-0.19	-	-0.02	1.85
1965-66	0.02	-0.10	-	-0.14	1.25
1966-67	0.23	0.06	-	-0.15	2.28
1967-68	0.08	-0.31	-	-0.15	4.20
1968-69	0.51	-0.15	-	-0.16	10.95
1969-70	0.53	-0.02	-	-0.15	3.74
1970-71	0.45	-0.01	-0.47	-0.05	2.41
1971-72	0.08	-0.41	-0.23	-0.33	-0.31
1972-73	-0.30	-0.51	-0.56	-0.23	-0.19
1973-74	-0.48	-0.67	-0.79	-0.35	-0.42
1974-75	-0.48	-0.49	-0.69	-0.31	-0.67
1975-76	-0.38	-0.55	-0.45	-0.22	-0.18
1976-77	-0.18	-0.12	-0.09	-0.40	-0.15
1977-78	-0.27	-0.39	-0.40	-0.17	-0.20
1978-79	-0.28	-0.63	-0.47	-0.08	-0.21
1979-80	-0.21	-0.61	-0.50	-0.26	-0.56
1980-81	-0.25	-0.52	-0.54	-0.34	-0.58
1981-82	-0.30	-0.51	-0.42	-0.17	-0.48
1982-83	-0.21	-0.53	-0.19	-0.26	-0.22
1983-84	-0.43	-0.53	-0.18	-0.06	-0.18
1984-85	-0.33	-0.60	-0.29	-0.22	-0.18
1985-86	-0.11	-0.62	-0.01	-0.19	0.05
1986-87	-0.32	-0.60	-0.03	-0.08	0.35
Mean.	-0.10	-0.38	-0.29	-0.19	1.24
S.D	0.28	0.23	0.32	0.09	2.54

^aAll producer and Border prices are inflation adjusted.

Source: Hamid, et, al., [1990], 'Trade Exchange Rate, and Agricultural Pricing Policies in Pakistan', table 4.3.1-4.

Inflation adjusted producer price of sugar-cane has declined steadily since 1962 when it was several times the border price. However, the border prices have fluctuated widely. For the period as a whole the average nominal rate of protection is positive. In the 1960s the sugar-cane growers were heavily protected, especially for the year 1968-69 there was a a large implicit subsidy to the

sugar-cane growers and after the 1970s until recently, a substantial tax on them.

Looking at table-6.8, it is clear that Government taxing of agriculture has shifted to Basmati rice. This is the main theme of our discussion which we will discuss in the next chapter.

6.2.3 Taxes and Subsidies on Agriculture Sector.

The fiscal burden on agricultural producers takes into account open and concealed⁴ taxes and subsidies affecting agricultural producers in both output and input markets. Table-6.9 mirrors, the tax and subsidy practice in Pakistan.

TABLE - 6.9

Taxes and Subsidies on Agriculture: Pakistan.

i. Open/Direct Taxes,	<ul style="list-style-type: none"> - Land Tax, - Agricultural Income Tax, - Usher,
ii. Indirect Taxes,	<ul style="list-style-type: none"> - Export Duties, - Profit/Loss by the State Agency - Cesses on different crops,
iii. Concealed Taxes.	<ul style="list-style-type: none"> - Over Valuation of Exchange Rate.
iv. Direct & indirect Subsidies.	<ul style="list-style-type: none"> - Electricity, - Water, - Tube-Wells, - Fertilisers, - Plant Protection, - Seeds, - Credit

Open taxation of the agricultural sector comprises of two broad categories of taxes. Land tax, agricultural income tax⁵ and Usher⁶ are the three taxes in the first category that affect producers directly as their disposable income is reduced as a result of the imposition of these taxes [table-6.10]. This is happening despite the fact that the method of tax collection (water charges) by the revenue department is inefficient. Tax is charged on the cultivated land only personally by one of the lowest grade employees of the revenue department, who is authorised to show on record that the land is cultivated or uncultivated. Such taxes can still be paid directly into the bank by the producers. It is also widely believed that more than 90% of the producers are unaware about the official tax rates and the majority pay tax without getting the tax payment receipts.

Table-6.10

Direct Taxes on Agricultural Producers.
(Rs: Millions).

YEARS.	DIRECT TAXES (A1).			
	Land Revenue (Land Tax)	Agri: Income Tax ^a .	Usher ^b	Total.
1972-73	168	03.00	-	171.0
1973-74	196	05.40	-	201.4
1974-75	228	04.00	-	232.0
1975-76	260	06.00	-	266.0
1976-77	236	-	-	236.0
1977-78	125	01.00	-	126.0
1978-79	291	03.00	-	294.0
1979-80	172	02.60	-	174.6
1980-81	226	09.00	-	235.0
1981-82	286	01.40	-	287.4
1982-83	249	02.00	177.00	428.0
1983-84	209	03.00	265.00	468.0
1984-85	280	02.00	253.00	535.0
1985-86	290	03.00	226.00	519.0
1986-87	298	02.00	140.00	440.0

Sources: Qureshi, S.F, et, al., [1987], ' Taxes and Subsidies on Agricultural Producers', pp.553-54, Table.1, PIDE, Islamabad, Pakistan; Commission Report, [1988, pp.517-540] 'Report of the National Commission of Agriculture', Ministry of Food and Agriculture, Government of Pakistan, Islamabad.

^aIt is misnomer as it is not tax on agricultural incomes as conventionally understood. It is gradual surcharge on land revenue with high exemption limit and low rates.

^bIt is an Islamic levy imposed only on the Sunni Sect of Muslim land owners.

A number of indirect taxes (table-6.11) on agricultural commodities from the second category adversely affect prices received by agriculture. These comprises cesses (fees) on different crops -- mainly sugar-cane and cotton, export duties on rice and cotton and profit and/or loss of the Rice Export Corporation and Cotton Export Corporation. The revenue from such taxes is, by far, more important in magnitude than the direct taxes on producers.

TABLE-6.11

Indirect Taxes on Agricultural producers.

(Rs: Millions).

YEARS.	Indirect Taxes. (A2)						
	Cotton.			Rice.		Sugar-cane	Total.
	Export Duty.	Cess (Fee)	Export Profit. (CECP) ^a	Export Duty.	Export Profit. (RECP) ^b	Sugar-cane Cess.	
1972-73	442.0	120.0	-	128	-	22		712
1973-74	192.0	110.0	-76	464	-	27	717
1974-75	335.0	115.0	-228	333	-	24	579
1975-76	340.0	90.0	-61	241	353	29	992
1976-77	01.0	80.0	142	58	57	34	402
1977-78	-	101.0	220	-	114	36	471
1978-79	-	85.0	-152	-	289	25	247
1979-80	-	130.0	151	-	711	23	1015
1980-81	500.0	135.0	724	-	454	37	1850
1981-82	150.0	142.0	-237	-	234	59	348
1982-83	462.0	154.0	77	-	667	50	1410
1983-84	265.0	95.0	46	-	576	54	1036
1984-85	300.0	185.0	-72	-	406	59	878
1985-86	834.0	229.0	-2456	-	343	48	-1002
1986-87	84.0	242.0	-1994	-	89	55	-1526

Sources: Qureshi, S.F, et, al., [1987], ' Taxes and Subsidies on Agricultural Producers', pp.553-54, table.1, PIDE, Islamabad, Pakistan; Commission Report, [1988, pp.517-540] 'Report of the National Commission of Agriculture', Ministry of Food & Agriculture, Government of Pakistan, Islamabad.

Note: a = Cotton Export Corporation of Pakistan.

b = Rice Export Corporation of Pakistan.

As described in the earlier sections, the government intervenes in agriculture sector indirectly, through the exchange rate mechanism. For example, if the Pakistani rupee is overvalued, foreign currency becomes cheaper relative to Pakistani rupee. To a farmer, for example selling rice to a foreign customer, an overvalued exchange rate implies that he gets fewer rupees for every ton of agriculture product that he sells abroad compared to when the exchange rate is in equilibrium. This mechanism (of over-valuation) is known as concealed taxes.

The agricultural producers in Pakistan have always been subject to concealed taxes. During the 1950s and 1960s, agricultural exports suffered an income loss through an overvalued exchange rate. After the devaluation in 1972, this source of concealed taxation was replaced by open taxes in the form of export duties and profit from monopoly trading corporation.

In addition to the open taxes, farmers are forced to pay taxes (or receive subsidy) if the prices of the products sold by them are kept lower (higher) than those that prevail in the international market. The size of the tax or subsidy to producers is measured by the difference between the value of output at domestic prices and the value of output at world prices. The rate of tax or subsidy for different crops can be measured by the divergence of the Nominal Protection Coefficients (NPCs) from a value of 1. The NPC with a value greater than 1 implies a subsidy while the NPC of value less than 1 implies a tax (table-6.8).

The evidence on the extent of concealed taxes for wheat, Basmati rice, and Irri rice, Cotton and sugar-cane are mentioned in table-6.12. The important subsidies are subsidies on: (1)fertiliser, (2)tube-wells, (3) plant protection, (4)seeds, (5)electricity, (6)water, and (7)credit, (table - 5.13 & 5.14). The subsidies on electricity, water and credit do not appear in government budgets. The subsidies on other items are budgeted and paid through the development budgets.

Table-6.12

Concealed Taxes On Agricultural Producers.

(Rs: Million)

YEARS.	Concealed Taxes (A3).					Total.	Total Taxes. (A1+A2+A3) ^a
	Wheat.	Basmati Rice	Irri Rice	Cotton.	Sugar-cane.		
1972-73	462.56	145.14	160.48	657.26	-305.93	1119.51	2003.50
1973-74	1796.63	762.09	4112.36	3371.55	-509.97	9533.60	10449.60
1974-75	2254.56	1725.08	1920.28	869.86	1099.22	7869.00	8680.00
1975-76	1168.83	754.80	318.57	1266.51	1669.44	5178.15	6436.15
1976-77	60.84	-26.50	-376.92	4598.10	-1200.85	3054.67	3692.67
1977-78	979.36	-1650.53	2503.76	6979.35	-1369.66	10753.35	11350.35
1978-79	184.45	1844.50	1042.44	-22.69	-2047.06	1001.46	1542.64
1979-80	551.69	1859.13	2200.77	691.47	-2682.91	2720.15	3909.75
1980-81	2521.84	1675.04	1472.04	1666.92	905.96	8241.80	10326.80
1981-82	1963.52	2004.82	932.20	-1253.39	-683.90	2963.25	3598.65
1982-83	231.68	2017.80	-508.47	1391.22	1062.00	6294.23	8132.23
1983-84	6123.74	2269.33	-555.46	1686.23	1897.48	7626.36	9130.36
1984-85	4278.56	3516.26	-9.09	4437.07	-6176.03	6046.77	7459.77
1985-86	1782.00	3960.00	-1082.50	-1476.50	-5258.33	-2066.33	-2549.33
1986-87	8872.80	5556.00	-1433.33	-2984.17	-6352.50	3658.80	2572.80

Sources: Qureshi, S.F, et, al., [1987], ' Taxes and Subsidies on Agricultural Producers', pp.553-54, Table.1, PIDE, Islamabad, Pakistan; Commission Report, [1988, pp.517-540] 'Report of the National Commission of Agriculture', Ministry of Food & Agriculture, Government of Pakistan, Islamabad.

Note:

^aA1 = Direct Taxes, (Table-6.10).

A2 = Indirect Taxes, (Table-6.11).

A3 = Concealed Taxes, (Table-6.14).

A consolidated picture of taxes and subsidies shown in table-6.13, throws up a number of conclusions which are briefly listed [Qureshi, S.K; et, al., 1987]:

a. Net taxes on farmer-producers record negative values in three out of fifteen years.

b. The yield from direct taxes on land and/or agricultural produce has not declined in absolute terms yet it shows a declining trend when measured as a proportion of agriculture value added. The assessments of, and collection from 'USHER', have been much lower than the estimated potential of this tax.

c. The revenue from taxes on agricultural commodities from export duties and/or from the profits of State trading corporations has been large in some years. However, this source of revenue exhibits a large measure of instability and cannot be relied on to finance development programmes on a continuing sustained basis.

d. Concealed taxation on agricultural commodities due primarily to trade and exchange rate policies has been heavy.

e. Open subsidies on inputs have grown in magnitude over time. The Government has eliminated subsidies on plant protection, seeds, and some other minor items. There is also a stated Government policy goal regarding the elimination of fertiliser subsidies.

f. Concealed subsidies on irrigation, credit and electrified tube-wells have increased significantly. The water and Power Development Authority (WAPDA), through fuel adjustment charges, has been successful in eliminating the subsidy on electricity for the agriculture sector.

TABLE - 6.13.**Net Tax Burden on Agricultural Producers.**

(Rs: Millions).

YEARS.	Total Taxes ^a - Total Subsidies ^b		
	Total Taxes (A1+A2+A3)	Total Subsidies (B1+B2)	Net Tax Burden.
1972-73	2203.5	400	1603.5
1973-74	10449.6	384	10065.6
1974-75	8680.0	830	7850.0
1975-76	6436.15	1252	5184.15
1976-77	3692.67	1253	2439.67
1977-78	11350.35	1373	9977.00
1978-79	1542.64	2380	-837.36
1979-80	3909.75	3067	842.75
1980-81	10326.80	3159	7211.00
1981-82	3598.65	2762	836.65
1982-83	8132.23	2912	5220.23
1983-84	9130.36	3161	5969.36
1984-85	7459.77	3737	3722.77
1985-86	-2549.33	4790	-7339.33
1986-87	2572.8	5294	-2721.20

Sources: Qureshi, S.F, et, al., [1987], ' Taxes and Subsidies on Agricultural Producers', pp.553-54, table.1, PIDE, Islamabad, Pakistan; Commission Report, [1988, pp.517-540] 'Report of the National Commission of Agriculture', Ministry of Food & Agriculture, Government of Pakistan, Islamabad.

Note:

^aTotal Tax includes: A1+A2=A3 or Direct Tax, Indirect Tax & Concealed Tax respectively.

^bTotal subsidies includes: B1+B2 or Direct subsidies and indirect subsidies respectively.

Note: for details see table no: 6.2, 6.10, 6.11, 6.12, & 6.14.

Table-6.13 shows that producers are taxed in twelve out of fifteen years. In reality, producers are always taxed, while keeping in view the misuse and misdirection of subsidies offered to the producers, the inefficient way of collecting direct taxes, and the corruption in export and procurement procedures. For example, the total subsidy amount on credit (table-6.14, column-1) may not give the true picture as it includes the amount of the loss suffered by the institutions concerned in recovering the full cost of their advances.

TABLE-6.14**Indirect Subsidies to Agricultural Producers.**

(Rs: Millions).

YEARS.	INDIRECT SUBSIDIES, (B2).			
	CREDIT	IRRIGATION	ELECTRICITY	TOTAL.
1972-73	23	-25	42	40
1973-74	37	-75	59	21
1974-75	34	150	155	339
1975-76	45	189	140	374
1976-77	54	169	171	394
1977-78	44	113	207	364
1978-79	48	274	67	389
1979-80	116	244	-16	344
1980-81	180	588	-88	680
1981-82	265	682	-11	936
1982-83	349	683	-100	932
1983-84	524	1084	-153	1455
1984-85	661	1456	103	2220
1985-86	923	1428	15	2366
1986-87	1064	1811	375	3250

Sources: Qureshi, S.F, et, al., [1987], ' Taxes and Subsidies on Agricultural Producers', pp.553-54, Table.1, PIDE, Islamabad, Pakistan; Commission Report, [1988, pp.517-540] 'Report of the National Commission of Agriculture', Ministry of Food and Agriculture, Government of Pakistan, Islamabad.

Another study [Commission Report, 1988, p.538] concludes that in aggregate, 40 to 60% of the value added in agriculture was transferred out of agriculture during the period 1960-1985, thus making agriculture the most heavily taxed sector of the economy. The major beneficiary of these transfers was the manufacturing sector. The agriculture sector has been made to bear an extremely unfair share of the cost of country's industrialisation as well as the urban consumption.

This continuous massive transfer of resources out of agriculture seriously diminished the sector's capacity to renew or increase its capital at a rate commensurate with the needs of the country. The consequences are now manifest in serious shortages of edible oils, sugar, pulses, meat and milk and a shaky self sufficiency in wheat. If the cost of lost production (30 to 50%) in agriculture is added to the transferred sources, it would show that whatever industrialisation has been achieved, it has been achieved at an unacceptable cost to the economy.

The third and recent study [Hamid, et, al., 1990, p.127] confirms that intervention in the agriculture sector resulted, on average, in resources being transferred out of agriculture. Price related transfers range from 4% of GDP (9% of the agriculture GDP) in the early 1960s to about 9% of GDP (25% of agriculture GDP) in early 1970s and about 2.5% of GDP (10% of agriculture GDP) during the last two years (1983-84, 1984-85).

Gary Ender [1990, p.3-4] discussing the government's intervention

in Pakistan agriculture concludes that the main intervention can be put in three groups: support price and state trading, input subsidies, and investment in infrastructure⁷. A fourth category would include the over-valuation of the exchange rate. Overall, control of trade was the intervention in agriculture with the greatest impact on producers and consumers alike. The commodities covered in this study are: cotton, wheat, Basmati rice, and Irri rice. These crops compose 45% of the value added in agriculture. The measured policies include: state control of trade, price support, food rationing, and input subsidies such as fertiliser, credit, irrigation, and electricity. The major commodities not estimated in this study include: sugar, vegetable oils/oil-seeds, and poultry. Important policies--the effect of which have not been measured include: exchange rate over-valuation, exempting agriculture from income taxation, public investment in irrigation, and electricity.

As far as the agriculture subsidy is concerned, in the study [Ibid] it was found that in agriculture its aggregate PSE is below zero. In other words, the government's support to agriculture is amounting to taxation, rather than support at an average rate of 23% (1982-1986). The estimates were made for year 1982 through 1986, as shown in table-6.15.

TABLE - 6.15

Producer's Subsidy Equivalence (PSE)^A in Pakistan.

Items	Units	1982	1983	1984	1985	1986	Average 1982-1986
1. Producer Value,	Mln: Rs	40,176	41,318	45,940	52,157	60,762	48,071
2. Support price, State Control of trade.	=	-11,257	-13,672	-15,628	-7,460	-22,714	-14,146
3. Subsidies,							
- Fertiliser,	=	1514	963	908	1732	1295	1283
- Credit,		235	236	477	569	627	449
- Electricity,		683	714	739	808	963	782
- Irrigation,		497	543	617	760	841	652
Total policy transfers (2-3)	=	-8,327	-11,116	-12,887	-3,590	-18,988	-10,982
PSE (per unit value)	PERCENT	-21	-27	-28	-7	-31	-23

Source: Gary Ender [1990, p.4] 'Government Intervention in Pakistan's Agriculture', USDA staff report no:9027, New York.

Note:

^a A producer subsidy equivalent measures the effects on producer revenue of all agriculture-specific Government policies or, in other words, the value to the producer of all the Government's policies. One could say that the PSE, when expressed in currency terms, is the amount that would compensate producers for the removal of all policies. This definition is given by Dr. Gary Ender.

6.2.4 Effects of Government Intervention in Agriculture sector.

How large were the price interventions in Pakistan's agriculture sector? A simple way to answer this question is to calculate the nominal protection rate (NPR) which is calculated as: Producer price/Transport cost Adjusted Border Price - 1. The NPR with value greater than 1 implies a subsidy while the NPR of value less than 1 implies a tax. Table-6.8, which has already been discussed, gives the clear picture of Pakistan's agriculture intervention.

How would have agriculture performed in the absence of the price

intervention? One study [Hamid, et, al., 1990, p.126] calculated this, the estimated distortions in prices, along with supply elasticity estimates, were used to estimate the output, export, and foreign exchange earnings effects of price intervention. It was found that the maximum output losses for the long run price intervention may have reduced the actual outputs (compared to the potential) of wheat by 12%, Irri rice by 25%, Basmati rice by 32% and cotton by 44%.

The same study [Ibid, p.126] - using data on demand elasticities and assuming infinite export elasticities (a dubious assumption for Basmati rice) - calculates the export effects of price intervention. For three export crops, the 'cost' of direct price intervention in terms of reduced exports was 40% for Basmati rice, 37% for Irri rice, and 13% for cotton. The maximum export 'losses' were in the long-run because of both direct and indirect distortions. These were: 65% for Basmati rice, 68% for Irri rice, and 76% for cotton. Note that losses are overstated since import costs of greater input requirements for additional output are not taken into account in the analysis.

The combined effect of intervention on Pakistan's foreign exchange earnings was substantial [Hamid, et, al.,1990, p.126]). The average foreign exchange earning 'foregone' in the short run due to direct price interventions as a proportion of Pakistan's total foreign exchange earnings were about 17%. In the long run, however, taking into account both direct and indirect interventions, the foreign exchange 'losses' increase to almost 150%. In the 1980s,

because of the more liberal policies, the intervention in agriculture prices in Pakistan was greatly curtailed and the exchange rate became more realistic.

CONCLUSION.

This chapter began by looking at the agricultural policies implemented by the government of Pakistan. It was found that Pakistan, like other developing countries, has implemented a very complex set of pricing, subsidy and tax policies. The Government has usually intervened in the agriculture sector in different ways: through direct price intervention, direct subsidies and taxes. The other way is the indirect intervention through: control over exchange rates -- the Rupee remained mostly overvalued --; indirect taxes and subsidies. Overall it was estimated and found that the producers were mostly taxed and prices were distorted, and subsidies offered were mostly misdirected and misused.

The broad conclusion that emerges in this chapter is that the government has attempted to balance three major considerations in agriculture intervention: (i) maximising foreign exchange earnings to support the balance of payments, (ii) the Government's own revenue needs, (iii) the political consideration to keep food prices low for urban consumers. However, given that three are interrelated, pursuing one soon led to problems with another, so that it has been a tightrope walk.

Distortions in producer prices due to Government intervention impose significant costs on the economy of the country in terms of

foregone output, export losses and foreign exchange losses.

However, it has been observed in the last few years that the Government has made a sustained effort to reduce the intervention in the agriculture sector. The steps taken so far include reduction in input subsidies, and elimination of the rationing system. Also the over-valuation of the Rupee has been substantially reduced. As the State monopolies in the export of rice and cotton are concerned, the Government has recently announced measures to liberalise these markets, however, it is too early to say what implementation measures will be in practice.

The next chapter which is the main theme of our study, is focussed on the paddy/rice varieties, production, procurement and milling.

FOOTNOTES.

¹It is the Producer Subsidy Equivalent measure. It measures the effects on revenue of all agriculture - specific Government Policies. One could say that the PSE, when expressed in currency terms, is the amount that would compensate producers for the removal of all policies. PSE can be positive indicating that policies subsidise producers; and negative, indicating taxing of producer.

²This figure is controversial, because one source [commission report, 1988, p.524] gives the figure as 37%, where as in other source [Hamid, et, al., 1990, p.9] it shows 16%.

³It is a minimum price fixed on the basis of the cost of production and offered by the government.

⁴These are taxes which are hidden under an overvalued exchange rate mechanism. For detailed analyses of this aspect for an earlier period, [Applyard, 1987), [Cheong and D'Silva, 1984] [Gotch and Brown, 1980].

⁵It is misnomer as it is not a tax on agricultural incomes as conveniently understood. It is gradual surcharge on land revenue with a high exemption limit and low rates.

⁶It is an Islamic levy imposed only on the Suni sect of Muslim land owners, charged at fixed percentage, on production.

⁷Many people would not call investment in an irrigation facility a subsidy, but it is included when measuring the intervention.

CHAPTER - 7

PADDY/RICE PRICES, MILLING AND THE FUNCTIONS OF RECP.

The aim of this chapter is to describe in brief the policies of the Government of Pakistan with regard to the procurement of paddy and pricing of Paddy/Rice and also to review the functions and organisational structure of RECP, which deals with rice.

This chapter is organised as follows: very briefly, the importance of rice in Pakistan is discussed in the opening section. Section two deals with the rice varieties in Pakistan and in general. The area, production, and yield of Paddy are summarised in section three. The procurement and pricing policies of Paddy/Rice are described in section 4 and the functions and organisational structure of the RECP is the subject of rest of the chapter.

7.1 Importance of Rice in Pakistan.

As already described in the last chapter, Cotton and Rice are the major crops of Pakistan's agriculture sector. Before 1972, when Bangladesh was a part of Pakistan, Jute and Cotton were the major export crops. Though the large quantity of rice was produced at that time, but was sufficient only to feed the people of both the parts (East and West) of Pakistan. In 1972, when Eastern part of Pakistan (present Bangladesh) was separated, rice became the major export crop of Pakistan. Since then, Pakistan has been among the major rice exporting countries in the world.

Rice does not feed only the 120 million people of Pakistan, but also is a valuable source of foreign exchange earnings. In Pakistan, rice occupies second place in importance as an export crop after cotton, and second place following wheat, in importance as food crop. In 1989-90, 12% of land in agricultural crops in Pakistan was devoted to the production of rice and about 15% of the nation's value added by agricultural crops was contributed by rice [Economic Survey of Pakistan, 1989-90, p.146-47].

7.2 Paddy/Rice Varieties in General.

There are about 7000 botanical rice varieties, of which about 400 have been identified in India alone. The United States Department of Agriculture (USDA) has tested more than 5000 varieties in the last few years, of which only a small percentage are of real value [J.C Abbot, et, al., 1972, p.8]. New and improved varieties are also constantly being developed.

In the developed countries like U.S.A, Japan, China, Australia, Italy, and Republic of Korea, where the rice is grown, the number of rice varieties grown are very limited. In contrast, the number of varieties cultivated in most developing countries are often very large. Many varieties of rice that are cultivated are not properly identified and there are no regular price quotations for them. Here it is worth while to note that the prices are always quoted regularly of very few varieties.

From the botanical point of view all the rice varieties come under

the species of 'Oryza Sativa'. This species is further divided into main two sub-species -- Indica, and Japonica¹ [Slayton Thomas, 1984, p.14]. Indica is very important in the sense that the major area in the world is cultivated under Indica sub-species. The main varieties which comes under Indica species are long grain and medium grain as mentioned in fig:-7.A. Long grain varieties consist of fine varieties like Basmatii and coarse varieties like Irri.

The fine -- Aromatic/scented -- rice variety is produced only in Pakistan, and recently in India and Thailand. The Coarse variety -- low quality -- is mainly produced in China, U.S.A, Thailand, India, Australia, Italy, and Pakistan. The Aromatic variety of rice is sold at prices roughly double that of the coarse rice variety. This type of rice is consumed mostly by rich people.

On the other hand, the Japonica sub-species of rice which is round shaped, is found mainly in Japan, the Korea, Taiwan, parts of China, Brazil, and Australia. Because of the cooking characteristics, the demand for this type of rice is relatively limited to Indonesia, and South Korea being the principal importers [Barker, Randolph, et, al., 1985].

Rice is a highly differentiated product and in practice its market is segmented. Distinctions for dividing the rice market into separate 'sub-markets' are based on four separate considerations, three of which relate to the product itself -- long grain, Medium grain, and Round grain, and the other, to the degree of processing -- whole-milled, semi-milled/brown, Par-boiled, and broken.

Fig:-7.A

MAIN RICE VARIETIES IN GENERAL.

MAIN RICE VARIETIES.		Main Exporters.	Main Importers.
BOTANICAL NAME.	TRADE MARK NAME.		
INDICA RICE or LONG GRAIN RICE.	PAR-BOILED RICE.	-H.Q ^b	- U.S.A, - Thailand, - S. Arabia, - E.E.C, - Canada, - S.Africa, - Nigeria,
		-L.Q ^c	-Burma, - Thailand, - B.Desh, - Sri Lanka,
	AROMATIC RICE. - Basmati,	H.Q	- Pakistan, - India, - Thailand, - M.East, - E.C, - Hong Kong, - Singapore,
	NON AROMATIC RICE. -Irri, -Other	H.Q	- U.S.A, - Thailand, - Iran, - Iraq,
		BROKEN.	M.Q	- U.S.A, - Thailand, - Pakistan, - Indonesia, - U.S.S.R, - Brazil, - Hongkong, - Malaysia,
		L.Q	- Thailand, - Pakistan, - China, - Burma, - Indonesia, - W. Africa,
JAPONICA ^a	GLUTINOUS, WAXY OR SWEET RICE.		- Thailand, - Indonesia, - Laos,
	ROUND GRAIN RICE.		- China, - Japan, - Australia, - Indonesia, - Korea,

Sources: Slayton Thomas [1984] 'World Rice Markets: its Structure and workings; Barker, Randolph, et, al., [1985], 'Rice Economy of Asia'.

Note:

- a. According to some agronomists, Japonica is not the species but it is a trademark name.
- b. High quality rice variety.
- c. Low quality variety.

Quantity estimates of the different rice types and qualities traded in the world during the last decade suggest the following distribution: 75% to 85% long grain, while the rest are medium and short grain, and in terms of quality, about 60% are high grade with less than 20% broken [Nick Amin, 1987, p.15].

Generally speaking, there are hundreds of known rice varieties, grown in different parts of the world and they differ in grain quality, yield, physical features, sensitivity to light, resistance to stress (bad weather, pests, and diseases), responsiveness to fertilisers and cultivation methods.

7.2.1 Rice varieties in Pakistan.

There are different varieties of rice produced in Pakistan, depending upon the suitability of climate and soil, but mainly there are two types -- fine (Basmati) and coarse (Irri) varieties. The Irri rice which is a high yielding variety was introduced in Pakistan in the late 1960s and early 1970s. Before the introduction of Irri rice, many local varieties like 'Sugdasi', 'Kangni', 'Bidri', and 'Sighro' were grown. But nowadays the rice varieties are limited to Basmati, Irri, and very few other traditional varieties. Basmati rice is produced in a particular part of the Punjab province of Pakistan, like Shekhupura, Gujranwala, and Sialkot districts. This area is known as 'Kolar Area'. The Irri rice variety is mainly produced in Sindh, and Punjab.

The Government of Pakistan is trying to shift the rice area from

low value coarse varieties to the high value rice. Research has long been undertaken at different agricultural research centres in Pakistan, to produce the Basmati or other similar types of rice in a wide area. In this regard few varieties like 'DR82', 'DR83', 'Lateefy', and 'Shadab' varieties have been developed but have not yet actively been introduced to the producer to any great extent. According to one of the senior officials in the Pakistan Agriculture Research Council (PARC), the Council (PARC) recommend the modern technological methods of production and seed varieties from their experiments to the farmers through the Agriculture extension wings. But it has been observed that their recommendations are kept in the offices and are not distributed to the farmers.

According to one respondent, in field work interviews in Pakistan, Basmati-370 -- the original fine variety -- can not be grown in all rice growing areas of Pakistan, except the 'Kolar Area', because it needs a particular type of climate and soil. If the same Basmatii rice is brought to the other areas of the same province or even to the same district, it will not produce the same quality and same quantity. However, other Basmatii varieties have been introduced, which are not so similar in taste, and as such are not preferred to Basmatii-370.

The varieties of paddy/rice being procured by RECP for export purposes fall into two general groups.

a) fine variety.

b) coarse variety.

a) Fine Varieties (from Punjab only).

- i) Basmati-370.
- ii) Basmati-6129.
- iii) Basmati-193.
- iv) Basmati-385.

b) Coarse Varieties (Others).

- i) Irri-6 (Punjab).
- ii) KS-282 (Punjab).
- iii) Irri-6 (Sindh).
- iv) Dr-82/83 (Sindh).
- v) Ks-282 (Sindh).

It seems that in Pakistan there are two main types -- high and low quality rice. No variety of rice has been developed yet to meet the needs of intermediate level consumers and which could compete successfully with other non-Aromatic long grain rice exporting countries such as Thailand, and U.S.A.

7.2.2 Rice Varieties and the Consumer's Taste.

There are different varieties of rice liked and disliked by the consumers of the different nations in the world. In some countries consumers like rice to have no special natural smell, on the other hand, there is a liking for scented/aromatic Basmati rice. The aromatic rice varieties are grown in very few places around the

world. Because of its cooking characteristics, there is a high demand of these varieties, specially in Middle East. These varieties are sold at a premium price and consumed by rich people. Again in Basmati there are different varieties with more and less aromatic types.

Par-boiled rice is consumed only in parts of India, Sri Lanka, Africa, Mauritius, and Bangladesh.

People especially in Africa and other low income countries consume rice with a high percentage of broken (low quality rice) due to their low income. Because if the percentage of broken rice is greater, the price achieved will be less. In this regard, the careful attention to consumers preferences from the taste and the income point of view is at the heart of successful marketing.

7.3. Breakdown of Rice Area, Production and Yield in Pakistan.

In Pakistan, Punjab and Sindh are the two main rice producing provinces , together contributing about 85% to 89% of the total output. Basmati rice is almost exclusively grown in the Punjab province except for a small quantity produced in Nasirabad division of Baluchistan province. Sindh province occupies a predominant position for the production of coarse varieties, the provincial share in some years being almost two thirds of the total (table-7.1).

7.3.1 On the whole, the total area under rice production is about 8 to 10% of total cropped area (table-7.2).

TABLE - 7.1.

**BREAKDOWN OF RICE PRODUCTION IN DIFFERENT PROVINCES OF PAKISTAN.
(000 TONNES).**

YEARS/Province.	VARIETIES OF RICE.			
	BASMATI.	IRRI.	OTHERS.	TOTAL.
1980-81				
Punjab,	965.3	332.0	64.4	1361.7
Sindh,	0.0	1343.9	206.0	1549.9
N.W.F.P,	14.7	23.9	66.5	105.1
Baluchistan,	0.0	96.8	9.7	106.5
Total.	980.0	1796.6	346.6	3123.2
1985-86				
Punjab,	785.2	603.9	89.1	1478.2
Sindh,	0.0	975.0	96.7	1071.7
N.W.F.P,	22.2	30.8	60.8	113.8
Baluchistan,	75.7	174.9	4.6	255.2
Total.	883.1	1784.6	251.2	2518.9
1986-87				
Punjab,	791.2	690.8	52.8	1534.8
Sindh,	0.0	1402.7	145.8	1548.5
N.W.F.P,	24.8	35.5	58.0	118.3
Baluchistan,	100.9	180.9	2.9	284.7
Total.	916.9	2309.9	259.5	3486.3
1987-88				
Punjab,	903.9	420.5	27.9	1352.3
Sindh,	0.0	1393.1	144.4	1537.5
N.W.F.P,	21.3	35.8	50.4	107.5
Baluchistan,	18.0	220.4	5.2	243.6
Total.	943.2	2069.8	227.9	3240.9

Source: 'Agricultural Statistics of Pakistan' [1988-89], Government of Pakistan, Ministry of Food, Agriculture and Co-operatives, Islamabad.

TABLE - 7.2.

AREA UNDER RICE CROPS, (Million Hectares).

TOTAL AREA, AND AREA UNDER RICE CROPS.					
YEARS.	Total Cropped area (Million Hectares.)	Index no;	Area under Rice Crops. Million Hect;	Index no;	Area of Rice as percentage of total Cropped area.
1971-72	16.60	100	1.45	100	8.73
1972-73	16.93	101.98	1.48	102.06	8.74
1973-74	18.23	109.81	1.51	104.13	8.28
1974-75	17.37	104.63	1.60	110.34	9.21
1975-76	18.02	108.55	1.71	117.93	9.48
1976-77	18.21	109.69	1.74	120.00	9.55
1977-78	18.49	111.38	1.89	130.34	10.22
1978-79	19.30	116.26	2.02	139.31	10.46
1979-80	19.22	115.78	2.03	140.00	10.56
1980-81	19.33	116.44	1.93	133.10	9.48
1981-82	19.78	119.15	1.97	135.86	9.95
1982-83	20.13	121.26	1.97	135.86	9.78
1983-84	19.99	120.42	1.99	137.24	9.95
1984-85	19.92	120.00	1.99	137.24	9.98
1985-86	20.28	122.16	1.86	128.27	9.17
1986-87	20.38	122.77	2.06	142.06	10.10
1987-88	20.90	122.77	1.96	135.17	9.37
1988-89	20.90	125.90	2.04	140.68	9.76
1989-90	20.90	125.90	2.11	145.51	10.09

Source: 'Economic Survey of Pakistan,' [1989-90], Government of Pakistan, Finance Division, Islamabad.

Figure:-7.3.A indicates that the area under Irri rice has increased more in comparison to the area under Basmatii rice, whereas the area under other traditional rice varieties has been decreasing. On average between 1977-78 to 1986-87, the area under Basmati, Irri, and other traditional varieties is 38.7%, 47%, and 14.3% respectively out of the total rice cropped area (Fig:-7.3.B).

7.3.2 On average, the total production of rice between 1975-76 to 1987-88 was 3.16 million tonnes. Which include Basmati, Irri, and other rice varieties at 28%, 59%, and 13% respectively (FIG:-7.4.A). The same figure also shows that the share of Basmati, Irri, and other rice in total rice production in 1975-76 was 25%, 49%, and 26%. In 1987-88 it reached 29%, 64%, and 7% respectively. This means that the production of Basmati rice is not going to increase as much as the production of Irri rice. On the other hand, the production of other traditional varieties is going to decline.

7.3.3 On the whole, the per hectare yield of rice, including all varieties, on average between 1977 to 1987 is 1.5 mt/ha. The average per hectare yield of Basmati, Irri and other varieties is 1.4, 2.2, and 1.1 mt/ha [Agricultural Statistics of Pakistan, 1988].

Comparing the per hectare yield of rice in Pakistan with other rice producing countries, it seems that Pakistan's per hectare yield is low. The average yield between 1976-80 in Pakistan was about 2.3 metric tonnes per hectare, whereas China, Japan, South Korea, and Taiwan produce about 3.77, 5.71, 5.38, and 4.42 metric tonnes respectively [Barker, Randolph, et, al., 1985].

Fig: - 7.3.A
 BREAKDOWN OF AREA UNDER DIFFERENT VARIETIES OF RICE (IN 000 TONNES).

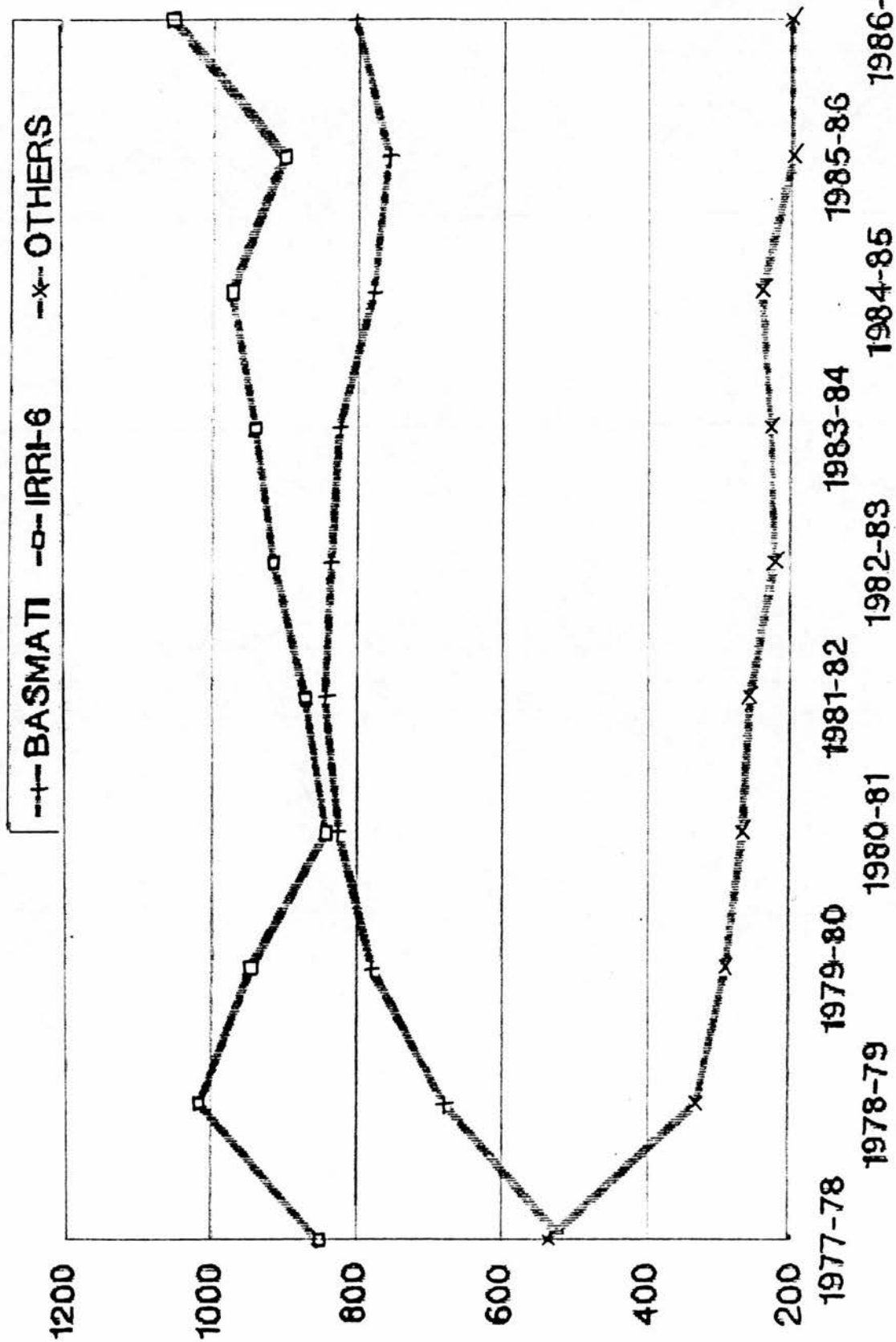


FIG: - 7.3.B

BREAKDOWN OF AVERAGE AREA IN PERCENTAGE UNDER DIFFERENT RICE VARIETIES.
(1977-87.)

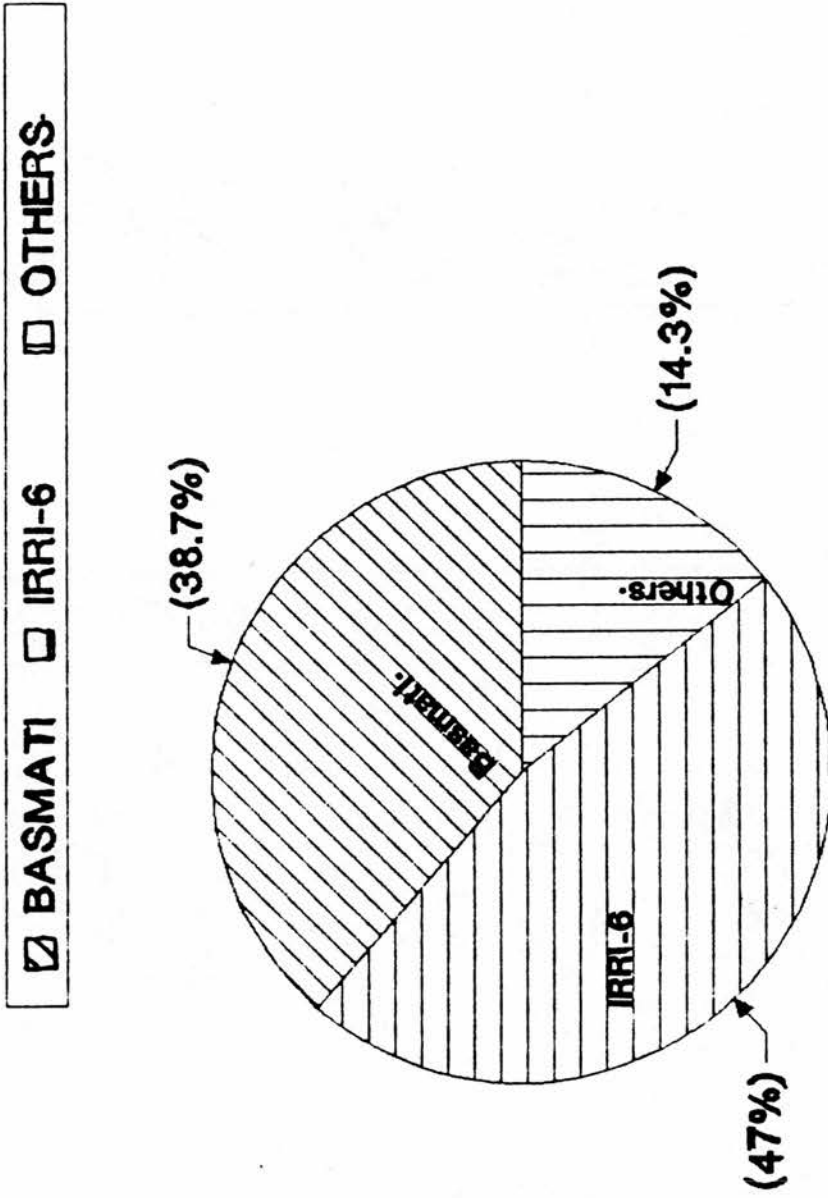
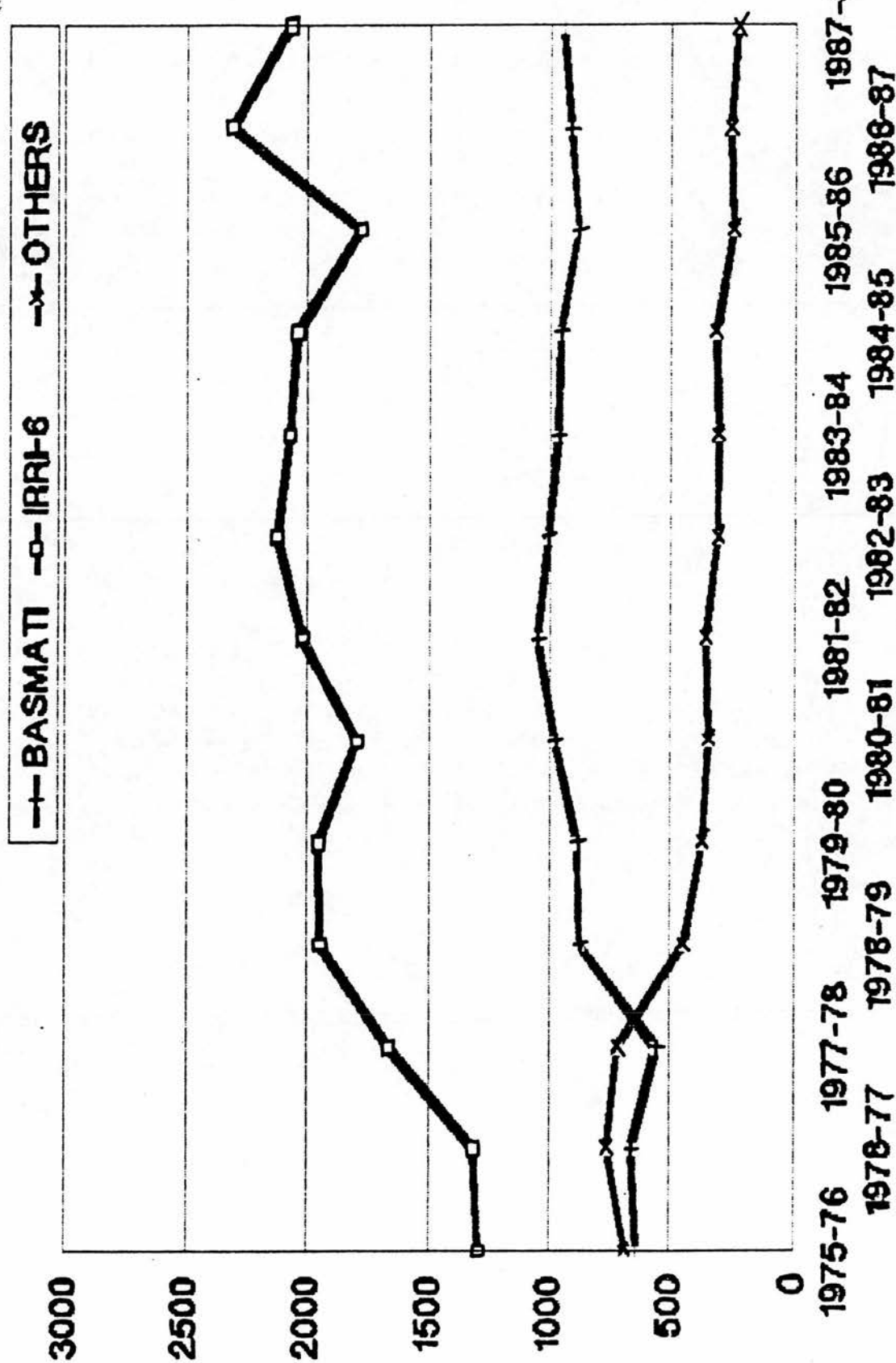


Fig: - 7.4.A

BREAKDOWN OF RICE PRODUCTION BY VARIETIES (IN 000 TONNES).



Prior to the 1970s rice exports were not very important in Pakistan. The reasons were twofold. First, since East Pakistan was a rice deficit area most of the rice surplus of West Pakistan went there. Second, the international market for fine quality -Basmatii- rice was still fairly small.

The creation of Bangladesh in 1971 resulted in the diversion of the rice previously shipped to East Pakistan to the international market, and the oil price increase in 1973 led to rapid growth in the demand for Basmatii rice in the Middle East. Since then, in setting the procurement price of rice, particularly the Basmatii variety, revenue considerations have been dominant. All along the Government has acted on the assumption that the elasticities of supply and international demand for Basmatii rice are low, therefore, to maximise its revenue it has attempted to keep the international price high by restricting exports, and created a large wedge between the international price and the domestic price².

However, to prevent the low producer price resulting in high domestic consumption of Basmatii rice the government introduced monopoly procurement - scheme and allowed only limited sales in the domestic market. The Bhutto Government, to maximise its revenue, attempted to stop leakages into the domestic market through smuggling by continuously expanding Government's role in the rice trade and ultimately nationalising the rice milling sector in 1976.

The measures had major economic and political implications for the Bhutto Government. On the economic side there were two consequences. The first was the impact it had on the country's rice exports which declined in 1972-73 and did not pick up again until 1975-76 despite the increasing trend in output in these years. It is widely believed that the difference was simply smuggled out of the country. Second, the rice trade involved a large number of small traders working with low profit margins. They, along with the private rice mills, provided employment to a large section of the rural non-farm middle and lower-middle class. As a result of the reforms, and in the absence of other business opportunities, many among these class were rendered unemployed.

The political consequences of the nationalisation were very bad for the P.P.P Government. Bhutto could not survive and his Government fell to a military coup in July 1977. Rice mills were returned back to the private sector by the Zia Government soon after the coup of 1977.

After the 1977 military coup, middlemen were allowed to operate again. Until 1986-87, rice exports were a Rice Export Corporation (R.E.C) monopoly. The R.E.C regulated and curtailed the activity of private traders through a large number of legal measures. These measures were enshrined in the manual 'Monopoly Procurement Scheme' under the auspices of the provincial Food Department. The document of over one hundred pages in length covered the entire procurement process. The R.E.C, armed with this set of rules, was able to influence and direct the activities of rice traders. In particular,

the rules regarding licensing and appointment of rice dealers and mill owners, the movement of rice across districts, the quotas allowed to dealers for release in the domestic market, and quality control inspection of the procured rice, gave the Government considerable leverage over the rice traders.

One study [Hamid, et, al., 1990, p.115] confirmed that an important source of corruption in the system arose at the quality control stage of procurement and resulted from R.E.C having the sole monopoly of export.

In the same study [Ibid, p.115], it was confirmed that another important factor contributing to corruption in the system of price controls, referred to earlier, concerned the dealer's quota for release into the local market where prices were considerably higher. Because control was exercised by Food inspectors whose salaries bear no relation to their controlling power, there was corruption. By bribing Food Inspectors, rice dealers were able to sell in the market larger quantities than their allowed quotas.

7.5 Current Paddy Policies in Pakistan.

7.5.1 Criteria for Determining the Paddy Prices.

Prices for paddy and rice are determined and fixed separately. The price for paddy is determined first, and then rice prices are fixed keeping in view the process cost, and value of paddy by-products such as, bran, husk, and brokens.

What happens in practice is as follows: Agricultural Price Commission (APCOM), established in 1981, has the primary responsibility for making recommendations for producer prices well before the rice sowing season begins. The commission submits a 'secret' document, titled 'Support Price Policy of Rice' to the Ministry of Agriculture. This document contains a review of the most recent domestic situation for rice, that is, acreage sown, cost patterns, trade situation, mark ups, and profitability, based on its own surveys and reports submitted by the Ministry of Agriculture, Ministry of Commerce, Rice Export Corporation, and the Planning Commission. This report is summarised in a memorandum containing the price recommendations and is then submitted to the Cabinet for approval and public announcement. In determining the level of 'support price'³ of a commodity like rice, keeping in view the different interests like producers, consumers, and traders, no mathematical formula can be laid down for the purpose as a balance has to be struck between multiple objectives some of which could be mutually contradicting.

Support prices for the agricultural commodities are determined either on the basis of the cost of production or what is termed as the 'parity approach'. The cost of production for agricultural crops is calculated by the Agriculture Price Commission (APCOM) through field surveys on the basis of questionnaires and personal interviews [Viqar Ahmed, and Rashid Ahmed, 1984, p.179]. The 'parity price' approach is used in order to correct imbalance in terms of trade between the agricultural and non-agricultural sectors. The parity price is an output price that will yield income

which will buy the same quantity of other (non-agricultural) products as it would in some specified period. Thus a balance can be maintained between the prices of commodities sold by the farmers and the commodities which they purchase. It can be calculated through a comparative index of agricultural and non-agricultural prices.

According to a APCOM report [APCOM, April 1990, p.32] the following factors are considered while determining the support prices:

- a) Domestic stock, procurement, and export of rice during the last year.
- b) Prices of Paddy in the domestic market.
- c) World supply, demand, stock, trade and price situation.
- d) Export parity price of Pakistani rice.
- e) Differential between the support prices of various coarse varieties of paddy.
- f) Profit and loss in the export of Pakistani rice.
- g) Cost of production for the current crop of Pakistani rice (paddy).
- h) Real prices of rice (paddy).

However, it is generally believed and the author was reliably informed that the major criteria for determining the support price is the cost of production. In this regard the author attempted to interview the Chairman of Agriculture Price Commission (APCOM) in Pakistan to know the exact method of price determination but he declined to explain the system.

7.5.2. Paddy Procurement Prices and Cost of Production.

Bearing in mind the level of Support prices especially for Basmati paddy as shown in table-7.5, these are admittedly low in comparison to the world prices. The producers of Basmati have been getting only 57 to 67% of the export prices. On the other hand the prices of the Basmatii rice in the domestic market are also low in comparison to the export prices. This is indicative of the extent of hidden taxation especially on Basmatii rice. As Basmatii rice in the country is consumed by the rich people only due to the high prices comparative to Irri rice, there seem no justification to subsidise Basmatii rice for the rich people by lowering the support price.

TABLE-7.5.

PRICES FOR THE DIFFERENT VARIETIES OF RICE.

(Rs: per 40 kgs)

YEARS.	BASMATI RICE				IRRI RICE.			
	Procurement Price.	F.O.B Cost.	(Average) Export price	Whole sale Price (Yearly Av;	Procurement Price.	F.O.B Cost.	Export Price (Av; Yearly)	Wholesale Price. (Yearly Av;)
1982-83	154	196	324	270	89	113	108	79
1983-84	160	217	325	274	92	137	94	99
1984-85	160	250	385	275	92	139	121	113
1985-86	175	233	445	296	95	142	103	117
1986-87	206	257	497	279	98	138	109	95
1987-88	250	-	510	292	99	-	146	95
1988-89	268	-	537	308	111	-	181	106

Sources: UCG [1989] 'Rice Export Operation Study', Government of Pakistan, Islamabad; APCOW [1990] 'Support Price Policy for Rice/Paddy', Government of Pakistan, Islamabad; Agriculture Statistics [1988-89], Ministry of Food & Agriculture, Government of Pakistan, Islamabad.

With regard to the price, the farmers have approached the Government many times. The explicit lobbying regarding price by farmers and traders takes several forms. The most common method is

to carry out newspaper campaigns, in the shape of articles and 'appeals' to the Government to revise its policy.

In a very recent pamphlet of June 2nd 1991, titled جاولوں کی قیمت کا تعین اور کسانوں کے مطالبات, [CHAWALOON KI QIMAT KA TAAYUN OWR KISANNOO KE MUTALBAT, (It means the rice prices and the grower's demands)], issued by the Pakistan 'Kissan' Board (Farmer's Association) in Punjab. Producers claimed that 'RECP is corrupt and it earns huge profits on Basmatii export by depressing the producer's prices, and they are deprived from getting their proper prices. In this connection, they made demands to the Government for higher prices'. Further in the same pamphlet, they alleged that 'RECP's Inspectors who are authorised to procure rice are corrupt. Because they procure pure Basmatii from the producers but supply to the RECP by mixing other low quality varieties. With regard to this matter, once the issue was subsequently brought to the attention of the Minister of Agriculture who in turn concurred with the views of the board'. These groups also lobby the Federal cabinet directly by sending delegations to the Ministers of Agriculture, Commerce, and Finance or through the ministers from rice growing areas.

On the other hand, the price paid to the producers of Irri rice are close to the export prices. But actually the producers of both -- Irri and Basmatii rice are paid mainly on the basis of the cost of production (table-7.6).

TABLE - 7.6.

COMPARISON OF COST OF PRODUCTION, AND SUPPORT PRICES FOR PADDY.
(Rupees per 40 Kg.)

YEARS	BASMATI VARIETY.			IRRI VARIETY.		
	Cost of Production.	Support Price.	Profit Margin.	Cost of Production.	Support Price.	Profit Margin.
1982-83	85	88	3	-	53	-
1983-84	85	90	5	47	55	8
1984-85	86	90	4	48	55	7
1985-86	88	93	5	50	57	7
1986-87	93	102	9	52	57	5
1987-88	96	130	34	54	59	5
1988-89	97	135	38	56	65	9

Sources: United Consulting Group (UCG) [1989], 'Rice Export Operation Study', Volume-1, Lahore; APCOM, [1990-91], 'Support Price Policy for Rice (Paddy) crop', Government of Pakistan, Islamabad.

It can be seen from these tables that the margin of profit for both Irri and Basmatii producers is very small. The price of coarse rice in the world is low because of the low quality and the greater competition of coarse rice variety in the world on one hand, and the developed countries' agricultural policies on the other, which will be discussed in chapter 10.

The Government procurement scheme has potential for increasing regional tensions. Nearly all Basmatii is grown in Punjab, while nearly all Irri is grown in Sindh. This specialisation results from soil conditions. So, the compulsory procurement scheme benefited the Sindh farmers at the expense of the R.E.C.'s profits because of the poor international market and low international prices for Irri rice. Now that procurement is voluntary, the R.E.C does not have to purchase Irri, and it has not done so in the Punjab where its price has fallen. This is because the domestic market is free and has no outlet to export. So far R.E.C continues to purchase Irri rice in Sindh but if losses on export of Irri rice continue to increase then there is the possibility of it turning into an issue having important implications for regional income distribution.

In Pakistan, the crop procurement programme for agricultural commodities was started during the early 1950s. The major change that has been taking place especially in paddy procurement during the past years has been that the Rice Export Corporation of Pakistan no longer uses the services of Provincial Food Department for procurement of Paddy. Now, mainly the private millers procure rice and the RECP also procures on its own, voluntarily, through its subsidiaries but on very small scale and if necessary, PASSCO on behalf of it⁴.

The RECP's two subsidiaries: Pakistan National Product Limited Company (PNPLC), and Doabo Rice Mill Limited (DRML) procure paddy regularly for the milling operations of their units. This is 66,000 and 36,000 tonnes -- 6% and 7% of Basmati and Irri respectively as an average between 1983-84 to 1987-88 out of total average paddy production. The remaining produce is procured by the private sector. The private sector procures the paddy on the basis of the market prices which are close to, but mostly little bit above the support prices in some places due to competition.

One point should be noted here that for buying paddy, the millers get loan from commercial banks -- mostly in public sector -- at the market interest rate on their personal guarantee.

7.5.4

Paddy Inspection.

As far as the paddy inspection is concerned, there is no standard laboratory with public as well as private sector. Formal specification and testing equipments are never or rarely used for the purchase of paddy. The producers have no options but to agree to the buyers analysis. Visual inspection is the norm for determining the quality and price. While assessing the quality at the inspection stage, the tolerance limits, scale of deductions, and limits of rejections for different varieties are determined in respect of the following characteristics:

- Moisture,
- Mixture of other varieties,
- Shrivelled grain,
- Dust and inert matter,

7.6.1.

Rice Milling.

Rice Milling in Pakistan is classified into the following types of units in terms of functions and scales.

7.6.1.1

Hullers.

The Hullers are attached to the traditional 'chakkies'⁵, and are located mostly in the rice producing areas. The total number of hullers in operation in Pakistan is estimated at 1558. The actual processing capacity of the hullers is 300 to 400 kg/hour of paddy. The majority of rice milling units in Pakistan are of this type

since the machinery is cheap and easy to operate and maintain [United Consulting Group, 1989, p.146].

One Study [Japan International Co-operation Agency, 1986, p.3-19], confirms that these units are extremely inefficient, giving total milling recovery of only 60%. Nor is the product of good quality. The grains are milled unevenly and the percentage of broken grain is high, which is about 35% of the total.

7.6.1.2 Sheller Mills.

Shellers, in comparison to Hullers are better and are the medium quality rice processing machines. These are the main commercial rice milling units presently functioning in Pakistan. Their name came from the under runner disk shellers which they use in the husking process. Some of these units have up-graded their operations through the use of imported rubber roll hullers. They use rubber-roll hullers, manufactured by domestic factories or imported from China, instead of disk shellers. The total number of these mills is about 1000 [Japan International Co-operation Agency, 1986, p.3-20].

7.6.1.3 Modern rice Mills.

These are the latest and the best quality rice processing machines because in these mills the percentage of broken grain is very low. But the number of these types of machines is very small. In these mills, rubber-roll huskers are used in husking processes. These

machines, manufactured in West Germany and in Japan, have been introduced in nine existing modern mills. Out of these nine mills, eight are Government (RECP subsidiaries) mills and there is only one mill in the private sector, six are situated in Punjab and two in Sindh. These mills produce superior quality rice, both of Basmati and other varieties, and also have facilities for par-boiling. In view of the limited capacity of these mills, most of the rice procured for export comes from the Sheller units. The quality of the output, however, does not conform to the standard specifications required for export purposes necessitating re-milling by RECP at its Karachi plants. The share of the modern mills in the total rice milling capacity is estimated at 5% only [table-7.7].

TABLE - 7.7.

Relative shares of milling in different type of Rice Mills.

TYPE OF MILL.	PERCENTAGE
HULLERS,	52
SHELLERS,	43
MODERN MILLS,	05
TOTAL.	100.

Source: United Consulting Group [1989], table 6.1, p.148, Lahore.

During the fieldwork for this thesis, the author was informed by senior officials of RECP, that the mills with RECP, which are believed to be modern are in fact 20 to 30 years old. The processed quality of rice is not so good because it contains a larger proportion of brokens.

From the above discussion, it seems that there is quite a small number of modern mills. There is a lack of investment by the private sector in the modern mills which requires more capital and process the best quality rice. This may be because on the one hand the private sector is not encouraged or properly paid by the RECP on quality rice, or on the other hand they have had no outlet to export rice. Hence they do not bother to invest in modern milling.

7.6.2 By-Products of Rice Milling

The main by-products of rice milling are:

- i - Husk,
- ii - Bran,
- iii - Brokens,

7.6.2.1 Husk.

Approximately 20 to 22% husk is generated relative to the weight of paddy depending on its variety and the type of machine. Presently the major proportion of husk is used in brick making where it is used as the fuel. These uses are uneconomical and not beneficial. The other traditional uses are animal feeds in mixture with bran and seed beds for rice farming.

The manufacturing of husk board and activated carbon are the two potential uses of husk but they are still in the experimental stages in Pakistan.

The husk board is used as panel board in construction, quality furniture, and possesses many characteristics like; resistance to moisture, bacterial resistance, good strength, resistant to fire. The activated carbon is used extensively in various industrial processes such as refining of edible oil, beverage and food products, water purification, and protection against toxic gases [UCG, Vol-1, 1989].

7.6.2.2 Bran.

The production of rice bran is estimated at 8 to 9% of rice output. One study [UCG, vol-1, 1989, p.173] confirms that the available quantity of bran can produce 26,000 to 32,000 tonnes of edible oil, but mostly it is consumed as animal feed. In some places, rice bran is used as an ingredient of poultry feed. A very few commercial mills sell bran to feed dealers of oil makers, mainly for making laundry soap.

7.6.2.3 Broken.

With regard to the broken rice product, it is sold in the domestic and international markets. The broken rice is sold at very cheap prices in comparison to the whole rice.

7.7 Functions and the Organisation of RECP.

The Rice Export corporation of Pakistan (RECP) was incorporated on August 22, 1974 at Karachi as a private limited company under the

Company Act, 1913. The entire capital of the Corporation was subscribed by the Government of Pakistan and it was intended to act as an agent of the Government, having full monopoly on rice exports. It was to undertake all operations connected with procurement, milling, cleaning, storage, packing and arranging exports.

7.7.1 Functions of the RECP.

The RECP is given the following functions to perform:

(i) to carry on the business of export of rice from Pakistan including all operations connected with procurement, milling, cleaning, storage, packaging and sales or export.

(ii) to take all measures necessary for promotion of exports of rice from Pakistan, including internal and external publicity, sending of sales missions to foreign countries and inviting foreign purchase missions to visit Pakistan.

(iii) to collect and maintain adequate market intelligence in respect of rice; and

(iv) to construct, purchase or acquire by lease the godowns, cleaning plants, show-rooms, and business centres, required for the corporation business.

The functions entrusted to RECP include the full range of

operations involved in export sales. The functional integration of the above activities under a single administrative control was expected to ensure better export performance and timely corrective action where necessary. RECP receives the guidelines from the Ministry of Commerce, regarding the procurement prices, procurement quantity, exports of rice on a regular basis.

7.7.2 Organisation Structure of the RECP.

The Corporation is headed by a Chairman, who is nominated by the Government through the Ministry of Commerce. The Chairman is assisted by a board of five Directors who are also appointed by the Federal government. The Corporation being an autonomous body, the Chairman enjoys full powers relating to its general administration and operations subject to the policy guidelines of the Government.

The present strength of the staff of the administrative level is shown below:

Chairman	1
Director	5
Technical Directors	2
General Managers	12
Deputy General Managers	12
Managers	42

Considering the number of the activities performed in the

Corporation, the managerial level in terms of quantity seems more than sufficient [UCG, vol-1, p.86, 1989].

7.7.3 Appointment System of Top Executives.

The management of some technical departments in RECP, for example export operations, requires a number of professional and operational skills for achieving a reasonable degree of success. The skills include, among others, familiarity with product characteristics, the international marketing environment and the ability to forecast probable trends. However, the present system of nomination of the top executives does not always ensure the availability and development of the required skills.

The Chairman and the Directors are nominated directly by the Government. In this regard, one study [UCG, 1989, Vol-1, p.88] confirmed that their average tenure had been too short to permit any major contribution for improvement. It was found that average tenure of Chairman was only 2 years against 2 years and 5 months for Directors, most of them also did not have any relevant background before coming to RECP.

The international rice market environment is too complex to be understood in a short period. Therefore, a new person requires some time to get acquainted with the problems. By the time he is well set, he is transferred to some other department, hence they do not have the opportunity for improving efficiency.

This whole situation could be termed as 'experimental leadership'. The persons posted temporarily on deputation have basically a training of basic public administration. Attempts to bring 'improvements' or his own ambition may push him to develop new approaches. This implies 'experimentation' and a process of learning through 'trial and error'. Here 'experimentation' in a given time framework of a maximum of three years involves the risk of vulnerability. Experimental leadership rarely permits one to move ahead at a reasonable speed in some logical direction, especially when dealing with complicated and highly competitive international markets.

Under this environment the general tendency is not to undertake any bold step which may place a reputation or even a career at stake. This is one reason, why a newcomer generally lets the system work the way it has been in the past. Due to this very fact, though the operational environment of RECP has changed considerably on account of the introduction of a voluntary procurement scheme plus exports by the private sector; the internal structure, policies, procedures and systems remain the same. Obviously routine administrative and operational measures are least conducive for developing successful export operations under dynamic environments.

7.7.4 Responsibilities of the Chairman.

The Chairman and the Board of Directors share the power of decision making and policy formulation. The Chairman also enjoys full powers relating to general administration and operations subject to the

policy guidelines of the Government. It has however been observed that too much general administrative responsibilities of a routine nature are attached with the functional head of the organisation. Instances of some of these responsibilities are given below:

- a) Grant of leave (different kinds) for General Managers.
- b) Installation of telephone for official use.
- c) Counter-signing the TA/DA bills for DGM level and above.
- d) Approval of promotional advertisements.
- e) Permission to proceed on official tour 'within Pakistan' above DGM level.
- f) Permission for travel outside Pakistan.
- g) Nominate officers and staff to attend training courses/ seminars outside Pakistan.
- h) Powers to declare stocks as surplus and vehicles as unserviceable.
- i) Other miscellaneous matters not specified above which vary in capacities and most of which are irrelevant for the post of Chairman.

Other than these general administrative powers and tasks, the following financial aspects of his responsibilities are also 'cumbersome' and create obstacles in the performance of his more important functional tasks:

- i) Local purchase of workshop tools, spare parts of mills machinery.
- ii) Engagement of lawyers or advocates other than those already on RECP panel.

These tasks of routine nature leave less time for more strategic issues related to the actual performance of RECP

7.7.5 Operational Shortcomings in the Organisation:

The major organisational shortcomings in RECP as reviewed by one study [UCG, Vol-I, 1989, p.93] are described below:

7.7.5.1 Lack of Communication and Coordination.

A number of major instances of inadequate communication and coordination, having adverse effects on operational efficiency in the corporation were observed. The most common case of the lack of communication and coordination in RECP prevails between the exports cell and the top managerial level. This cut-off point in the communication process at this critical level is likely to produce adverse effects on marketing/export planning, strategy and implementation plans.

The activities of the marketing department, in particular suffer from these shortcomings. The views and recommendations of the department do not reportedly receive due attention at the top level mainly due to the inadequate communication and coordination among the concerned executives. Marketing and exports are among the most essential ingredients of RECP. The responsibility of managing the marketing intelligence parameters are given to the Marketing Manager by the decision making authorities of RECP.

7.7.5.2

Performance Appraisal System.

The Corporation does not have any special performance appraisal system linked with its operational activities. The system of appraisal through the 'Annual Confidence Reports' (ACR), as in vogue in other Government Departments also exists here [UCG 1989, vol-II, pp 10-16]. Being a government organisation, RECP has to use the ACR forms prescribed for Government officers, though they are not directly relevant for evaluating performance standards in respect of the specialist activities of RECP. So the ACR forms should be carefully designed as to fully reflect the functional and operational objectives of the performance evaluation and should be related to the actual working environment of the Corporation.

7.7.5.3

Structural Duplications and Distortions.

The major instances of structural distortions and duplications as confirmed by one study [UCG, 1989, vol-II, pp.17-24] appear to be the following:

- a) The existence of the post of Secretary, who looks after the company's corporate, legal and personnel matters working under Director Commercial.

- b) Functional duplication of activities between 'Secretary' and 'General Manager Personnel and Administration' under the 'Director Field and Operations'.

c) Dilution of the responsibilities of Director Administration among various levels.

Bearing in mind the above points, the responsibilities of each sectional head should be clearly designed so as there should not be distortions and duplications.

7.7.5.4 Internal Environment.

The organisational structure of RECP on paper looks nearly normal in its objectivity, with a few minor debatable points. The functional environment is more bureaucratic in nature than professional or business like. It is also supported by the fact that most of the 'deputed officers'⁶, that is, the top level RECP executives, belong to administrative services. Such a structure is based on a so-called 'military model', that assumes complete control of the organisation from the top. In pure form it is rigid hierarchy, complete with objectives but without fixed, measurable standards. Job descriptions are generally non-existent while the prescribed administration and financial powers lead to conflicts and contradictions within the system and structure.

7.7.5.5 Inadequate and Political Appointments.

One study [UCG, 1989, vol-1, p.97] confirms that there are very few managers who are working in positions in RECP that are relevant to their academic background and experience. There are many instances where people with inadequate and irrelevant experience are

occupying positions of great responsibility. This creates frustration among others, who are technically more qualified to perform the functions.

Reviewing the background of the existing managerial staff, it appears that except for the Finance and Accounts Department, other important operational areas of the organisation lack appropriate technical personnel to perform their functions efficiently. Obviously a person without the relevant and adequate background of corporate law cannot perform relevant functions for that department. Likewise, a person without a strong background of the international marketing and business can not be a source of benefit to export marketing which is the main objective of RECP. The rice export market is so dynamic and volatile in nature, that the need for people with adequate relevant academic qualifications and experience is more than necessary.

Can a senior civil servant whose frame of reference is the Government department be expected to make or implement a decision in a 'business fashion'? Or can a senior military officer whose experience has been in leading military units be expected to manage any state enterprise along commercial lines? These are the fundamental questions that are beyond the scope of this study. Generally, a common criticism of the SOEs in Pakistan is that the managers are often chosen for their political connections rather than their professional competence. Selection of the Chief executive officer of any SOEs can significantly effect ultimate performance of the enterprise.

One study [Jones, 1982, p.7] estimated that in Pakistan, a 5% increase of public enterprises efficiency would be equivalent to about 1% of the GDP, 53% of the direct taxes or enough to increase government expenditures on education by 50%. Clearly, managerial issues related to SOEs merit serious attention in research.

7.7.5.6 Neglect of Market Intelligence function.

The importance of exports for a developing country like Pakistan needs no emphasis. The country is facing stiff competition. Pakistani rice has declined both in terms of its share in Pakistan's total exports as well as in terms of its share in the total world rice trade. Countries like Thailand and USA have increased their share of the world market. These countries have developed adequate systems for regular collection and systematic evaluation of data relating to future world rice market [UCG, vol-1, 1989].

RECP has always been lacking a functionally viable system and procedures to collect, plan, analyse, and manage the information needed to perform the desired operations of market intelligence. The marketing section of the RECP comprises one 'Market Manager' and, without any professional and logistic support. His activities are confined to data collection through telephones, teleprinters, some journals on agriculture, and reports from U.S Embassy -- a rival. The 'Marketing Manager' submits these reports to the higher authorities without any attempt to analyse and evaluate.

Further, the Marketing Manager is reporting only to the 'General Manager-Export-1', who is responsible for the sale of Irri rice. Thus the other important part, that is, the sale/export of Basmati rice, is totally neglected, and therefore, the 'General Manager-Export-II', who does not have the services of the marketing manager, does not have the cooperation and information of this very important area. Hence, product development according to the changing needs environment has been ignored. RECP has thus been continuing to produce a set specification of Irri and Basmatii rice so that the buyer may take it without ascertaining the consumers preferences.

In order to compete in the world market and to expand exports, research and market studies are essential to penetrate new markets with products that the consumers want.

7.7.5.7 Promotion System of the Employees.

The internal promotion policies of the RECP affects the morale of the staff members. The critical factor in this case is that the permanent employees of RECP cannot be promoted beyond the level of General Manager in any department. However, even at the 'General Manager', level, most of the posts are filled by 'secondment'. The people who come from outside on 'secondment', are given key senior positions, thus depriving the seasoned qualified people of their due rights. This policy is imposed by the 'Government Sector'. It is strongly felt that the Corporation, , which is supposed to function as a full-fledged 'commercial house', functions almost in opposite direction with respect to its objectives.

7.7.5.8 Control Functions Exercised by the Ministry of Commerce and others.

The control of appointing and transferring the Chairman and Directors has created great obstacles in the functional and operational working flow of the Corporation.

The 'secondment' system of appointment by the Government has deprived the Corporation of an appropriate organisational structure with the specialised skills and tools necessary to cope with the dynamic environment of the product line and to meet its objectives successfully. Secondly, the lack of full authority of Chairman and the Board (of RECP) in deciding major commercial issues instantly have also contributed to the weaknesses in strategic decision making.

The present operational structure of RECP has moulded itself into a rigid system which is unable to adjust itself, both internally and externally, with the dynamics of its total environment. Up to the present time, the operations and survival of the corporation has been based on the 'structural factor' of the comparative advantage that Pakistan Basmati rice has enjoyed in certain markets.

CONCLUSION.

This chapter started by looking at the policies of Paddy/Rice adopted by the Government of Pakistan and the functions and organisational structure of RECP.

It was found that in Pakistan there are two main rice varieties -- fine variety -- Basmatii produced in Punjab and course varieties -- Irri -- mainly produced in Sindh province. No medium variety is yet introduced actively. The domestic market for paddy/rice is partly liberalised. The distribution is free but the domestic price is influenced by government floor price.

Private rice mills are mostly outdated, hence inefficient in processing the quality rice. As a result, the milled rice procured is re-milled by RECP (public sector) itself at Karachi. It has also been found that the mills in the public sector (RECP) which are believed to be modern, are also outdated. The result is that the broken ratio of rice processed is high and sold at cheaper rates. The Private sector is reluctant to invest in the modern milling because it is not encouraged to produce quality rice by RECP procurement officials. They accept the low quality rice through bribery as alleged. On the other hand, they are not allowed to export freely, hence they do not have any outlet and incentive to process the quality rice or invest in modern milling.

As far as the rice milling by-product is concerned, it is mostly misused mainly by using it as a fuel and animal feed.

The procurement prices of Irri and Basmatii paddy/rice are production cost oriented not export price oriented. Comparing the procurement prices with the export prices, the Irri procurement price is close to the export price because of low export prices due to low quality rice, world competition, and the developed countries' agricultural policies. Whereas the Basmatii procurement price is underpriced in comparison to the export price, and this is not justified.

However, it is just coincidence that the creation of Bangladesh in 1971 resulted in the diversion of the rice previously shipped to East Pakistan to the international market, and the increase in oil prices in 1973 led to rapid growth in the demand for Basmatii rice in the Middle East. This period also coincided with the world wide commodity boom and the export price for rice more than doubled in 1973-74 compared to 1972-73 and large profits were made by rice traders. The Government at that time saw an opportunity for generating revenue, therefore rice trade was declared a State monopoly and the Rice Export Corporation (RECP) was established to handle it. RECP was originally established with the aim to trade with the socialist countries. Since then, in setting the procurement price of rice, particularly the Basmatii variety, revenue considerations have been dominant. The Government has changed many times since then, but every Government is reluctant to withdraw it because on the one hand Government needs money and on the other hand it is very difficult to redeploy the people in other jobs or even make them jobless due to the favouritism. But now the farmers are going to organise in Pakistan and the Americans are

trying for liberalisation of world agricultural trade.

As far as the Irri rice price is concerned, it cannot be set below the current level, because it is already paid on the basis of the cost of production. At the moment, if the price is paid below the cost of production, millions of people will suffer whose staple food it is and millions of people will be unemployed and a significant portion of land will be unutilised. However, it could be switched over to other crops which has more potential benefits but it needs further study.

It seems that the support price is more important for Irri rice, but it needs improvement. If only the inspection and procurement system could have been controlled, much inefficiency and wastage would disappear.

Looking at the organisational structure of RECP and in particular the number of activities performed in the corporation, the managerial level in terms of quantity seems more than sufficient. The management of some technical departments in RECP, for example export operations, require a number of professional and operational skills for achieving a reasonable, degree of success. But the current/existing system of nomination of the top executives does not always ensure the availability and the development of the required skills.

The next chapter will deal with the rice procurement policies and the role of RECP in handling it (rice).

Footnotes.

¹According to some of the Botanists and the Agronomists, Japonica is not the species of rice but it is a trade mark name.

²One consequence of this has been the development of international competition (for example, Thai Basmati or U.S.A with Texamati) which is eroding the monopoly position of Pakistan in the world Basmati market.

³The support price is the minimum level of a commodity's price below which the Government would not allow it to fall. At times, the procurement prices may also tend to function as support prices, that is, after bumper harvests when open market prices are declining. On the other hand, during periods of bad harvest, procurement price may resist sharp price increases.

⁴In case there is an excess stock, or if private traders are not in a position to procure, and/or if they do not offer the prices to the producers, fixed by the Government (support prices), in this case the PASSCO, which mostly procure the wheat, is asked to procure rice on behalf of Government (RECP) and sell it to RECP after processing by hiring Mills.

⁵These are part of rice mills, which process rice into flour.

⁶The top executives who belong to civil services are transferred on secondment/deputation, from one organisation to other, no matter what qualifications or experiences they have. For example; a person with the background of civilian administration is/can be appointed as a Manager Export or Finance, depending on the political favouritism.

CHAPTER - 8

RICE PROCUREMENT POLICIES & THE ROLE OF RECP IN HANDLING RICE.

The objective of this chapter is to describe the procurement and pricing policies of rice in Pakistan and to analyse the role of RECP in handling the rice at its godowns.

This chapter is organised as follows: The rice procurement policy and procedure is described in section one. Sections 2 and 3 deal briefly with the rice transportation and the quality inspection of rice by RECP at godowns respectively. The paddy/rice marketing channels are summarised in section 4. Finally, the role of RECP in handling the rice is the subject of the rest of the discussion.

8.1. Rice Procurement Policy.

Rice was procured by the RECP under the 'Monopoly/compulsory procurement scheme' from its inception (1974). The scheme was issued annually and included the detailed instructions and legal clauses covering the entire procurement process.

It was felt that the compulsory procurement at support prices was detrimental to the interests of growers and was acting as a disincentive for increasing rice production. This was due to the fact that under monopoly procurement, the support price, which was intended to be the minimum guaranteed price, became in practice the maximum price that a farmer could get for his produce. The monopoly

scheme thus involved indirect taxation on the farmers, especially in the case of Basmatii rice, enjoying higher export prices compared to the FOB prices calculated on the basis of the prescribed support prices.

The voluntary scheme was expected to eliminate a number of malpractices involved in the monopoly scheme because of the restrictions on free domestic rice sale, that is, mismanagement mainly corruption, and the lower prices offered to the producers.

One study [U.C.G, vol-1, 1989, p.117] concludes that the major malpractices noticed were:

- a) Rapid increase in the cultivation of unapproved rice varieties, yielding better returns than Basmatii.
- b) Increasing the mixture of unapproved varieties with Basmatii, creating serious export problems.
- c) Smuggling.

In 1986-87, the Government made certain reforms in the procurement system. Compulsory procurement was abandoned altogether. Procurement centres still exist but delivery and sales to these are voluntary. Partly free market is allowed to operate for domestic sales. Export by the private sector was allowed under certain limitations. Exports of Basmatii rice in packages of 20 Kgs or less by the private sector was allowed but the bulk exports remained

the monopoly of R.E.C. However, an extremely high export tax has prevented any significant exports by the private sector so far. The consequences are that the domestic price of Basmati rice has fallen.

Nowadays, the dealers can now sell as much as they like in the local market. The producer price offered by the Government has increased, to induce traders to sell to the R.E.C, but it is still well below the international price because of high export duties and the Government monopoly on bulk exports. Many rice traders feel that the Government's objective of improving the quality of the voluntarily procured rice is unlikely to be met since the source of the problem lies with export monopoly and lack of public accountability to evaluate its performance.

8.1.1 Rice Procurement Procedure.

In the early years, the Food Department in Punjab and Sindh acted as an agent of RECP/Government to procure and dispatch the rice to RECP's storage in Karachi. The Food Department purchased rice at their procurement centres (205 in Punjab and 85 in Sindh). Nowadays RECP procures rice by itself at notified centres of the specified varieties on the basis of procurement targets fixed by the Government. The Food Department is not involved anymore.

The quality of the rice is tested visually on the basis of a prescribed sampling procedure. Basic specifications tested include ratio of head rice, brokens, unmilled, damaged, paddy, foreign

matter, the mixture of other varieties. The lot is accepted if the percentage is within the tolerance limits, or with deduction, if it falls in that category. It is rejected if any of the refraction's percentage is more than the specified limit. It is widely believed that the RECP officials accept the lower quality rice with bribes or by political influence.

RECP, procures Basmatii and Irri rice. The quantity of rice procured annually by RECP since 1975-76, classified by major varieties, are shown in table-8.1. The procurement levels have generally remained above the one million level and have shown a gradually rising trend, especially during the 1980s. The year 1987-88 was the exception when procurement levels were significantly lower.

TABLE - 8.1.

VARIETY WISE RICE PROCUREMENT BY RECP.

YEARS	PROCUREMENT (000 TONS)					PERCENTAGE SHARE OF TOTAL PROCUREMENT.				
	BASMATI	IRRI-6.			TOTAL	BASMATI	IRRI-6			TOTAL.
	PUNJAB	PUNJAB	SINDH	SUB-TOTAL		PUNJAB	PUNJAB	SINDH	SUB-TOTAL	
1975-76	313	80	328	408	721	43	11	45	57	100
1976-77	198	134	312	446	644	31	21	48	69	-
1977-78	197	256	467	723	920	21	28	51	79	-
1978-79	399	318	527	845	1244	32	26	42	68	-
1979-80	328	168	593	761	1089	30	15	54	70	-
1980-81	320	65	639	704	1024	31	6	62	69	-
1981-82	388	112	594	706	1094	35	10	54	65	-
1982-83	337	145	744	889	1226	27	12	61	73	-
1983-84	264	154	728	882	1146	23	13	64	77	-
1984-85	267	205	753	958	1225	22	17	61	78	-
1985-86	230	240	745	985	1215	19	20	61	81	-
1986-87	237	137	931	1068	1305	18	10	71	82	-
1987-88	222	-	607	607	829	27	-	73	73	-

Source: United Consulting Group (UCG) [1989], p.124, table 5-3.

The classification of procurements by varieties shows that the ratio of Irri in the total has varied between 57 to 80% during different years. Irri rice is procured from both Punjab and Sindh provinces except for 1987-88 when it was obtained only from Sindh. The relative share of Basmati in the total has been declining over the years, from 43% in 1975-76 to 18% in 1986-87. The share of Irri rice procured from Punjab has also shown a declining trend. Consequently, the share of the Punjab province in the total procurement operations has also been declining consistently. The reason for the decline of Basmati procurement seems to be either smuggling or an increase in the domestic consumption due to the low domestic price of Basmati in comparison to export prices. The domestic prices of Basmati rice is low because there is no free external outlet. There is RECP monopoly to export.

The relationship between annual production and procurement levels for Basmati, Irri Punjab, and Irri Sindh, and for total rice is shown in table-8.2. It appears that the production and procurement levels have varied within narrow limits during recent years. The procurement levels which have ranged between 1.0 to 1.3 million tonnes, have constituted about one-third to two-fifths of the annual output. The annual ratios of procurement to total output have been the highest in the case of Irri from Sindh where more than 50% of the crop had been procured during most of the years. The ratio rose to more than two-thirds of the total output during 1985-86 and 1986-87. The procurement of Irri in the Punjab has been in lesser quantities compared to Sindh. This is because, comparatively the Irri rice is produced less in the Punjab.

However, the percentage of the total provincial output has ranged between 36 to 48% in the early 1980s. With the introduction of voluntary procurement in 1986-87, only about one-fifth of the provincial output was procured while no quantities were procured in the subsequent two years.

TABLE - 8.2.

Production and Procurement of Rice Classified by Varieties.
(quantity in thousand tons)

YEARS	TOTAL RICE.			BASMATI.			IRRI-6 PUNJAB.			IRRI-6 SINDH		
	PRODUCT	PERCENT ^a	PERCENT AS % OF PRODUCT	PRODUCT	PERCENT	PERCENT AS % OF PRODUCT	PRODUCT	PERCENT	PERCENT AS % OF PRODUCT	PRODUCT	PERCENT	PERCENT AS % OF PRODUCT
1975-76	1891	721	38	642	313	49	221	80	36	1028	328	32
1976-77	1935	644	33	660	198	30	260	134	52	1016	312	31
1977-78	2446	920	38	552	197	36	579	256	44	1315	467	36
1978-79	2835	1244	44	863	399	46	676	318	47	1296	527	41
1979-80	2899	1089	38	874	328	38	526	168	32	1499	593	40
1980-81	2847	1024	36	965	320	33	332	65	20	1550	639	41
1981-82	2930	1094	37	1035	388	37	311	112	36	1584	594	38
1982-83	2904	1226	42	987	337	34	357	145	41	1560	744	48
1983-84	2833	1146	40	926	264	29	408	154	38	1500	728	49
1984-85	2768	1225	44	855	267	31	568	205	36	1345	753	56
1985-86	3550	1215	52	785	230	29	493	240	49	1072	745	70
1986-87	3045	1305	43	790	237	30	691	137	20	1564	931	60
1987-88	2869	829	29	903	222	25	420	-	-	1546	607	40

Source: United Consulting Group (UCG) [1989], p.125, table-5.4.

Note: ^aProcurement.

Under the monopoly procurement scheme, the suppliers of Basmati rice were allowed to sell in the open market a free sale bonus quota equivalent to 25% of the rice tendered to RECP. With the deregulation of the monopoly procurement scheme, private rice suppliers and dealers were allowed to sell their rice in the open market at best prevailing prices.

The Federal Government fixes separate procurement targets each year for Basmatii and Irri rice varieties. The procurement targets are adjusted from time to time, keeping in view the estimated export requirements, expected production, and carry over stocks and experiences of the preceding years.

A comparison of the levels of targeted and actual procurements each year is given in table-8.3. This shows that, on the whole the actual procurements have ranged between 94 and 104% of the targets during recent years. A comparative study of the position in respect of different varieties shows that compared to Basmatii, procurements have been nearer or in excess of the targets for Irri varieties.

TABLE - 8.3.

TARGET VERSUS ACTUAL PROCUREMENT OF RICE CLASSIFIED BY VARIETIES.
(Quantity in thousand tons).

Years	RICE TOTAL.			BASMATI.			IRRI SINDH.			IRRI PUNJAB.		
	TARGET	PROCMNT ^a	PROCMNT as % of Target	TARGET	PROCMNT	PROCMNT as % of Target.	TARGET	PROCMNT	PROCMNT as % of Target.	TARGET	PROCMNT	PROCMNT as % of Target.
1975-76	675	721	107	225	313	139	350	328	94	100	80	80
1976-77	750	644	86	250	198	79	400	312	78	100	134	134
1977-78	900	920	102	300	197	66	450	467	104	150	256	178
1978-79	1000	1244	124	300	399	193	500	527	105	200	328	159
1979-80	1250	1089	87	350	328	94	550	593	108	350	168	48
1980-81	1000	1024	102	300	320	107	600	639	107	100	65	65
1981-82	1155	1024	95	400	388	97	650	594	91	105	112	107
1982-83	1150	1226	107	300	337	112	700	744	106	150	145	97
1983-84	1100	1146	104	200	264	132	750	728	97	150	154	103
1984-85	1250	1225	98	300	267	98	750	753	100	200	205	103
1985-86	1250	1215	97	350	230	67	750	745	99	150	240	160
1986-87	1250	1305	104	350	237	68	750	931	124	150	137	91
1987-88	1350	889	66	250	222	98	935	667	65	165	-	-

Source: UCC, volume-1, [1989], p.129, table-5.6.

Note: ^aProcurement.

Rice is mostly transported from the procurement centres to the RECP godowns at Karachi, both by road and rail, where it is stocked for re-milling and shipment. The great advantage of road is the physical possibility of being able to provide a door to door facility, both at the origin and the destination point. The transportation modes for moving rice to Karachi are:

- a) Pakistan Railway.
- b) National Logistic Cell (NLC).
- c) Private Trucks.

The characteristics of each of the above means are given below:

8.2.1.1

Pakistan Railway

Railway arrangements are based on the registration of rice consignments at the loading stations. While registration and arrangements for railway wagons are being made, rice is stored temporarily in open space on the railway platforms. The duration of this storage is 24 to 36 hours. Pakistan Railway's capacity for rice transportation is reported to be 300 railway wagons a day, the capacity of one wagon being 32.1 tonnes. On this basis the total rice carrying capacity of Pakistan Railway, comes to 9630 tonnes. RECP could not utilise this low cost means of transport to the extent of 100% of its requirement because:

a) Storage facilities at railway stations are inadequate and, further, are not well protected from inclement weather.

b) Many of the rice suppliers are not located near the Rail Heads so the rice suppliers of these localities are reluctant to bring their stocks to Rail Heads because of the extra costs which has to be born by them.

c) As the bulk quantity of rice is procured during a limited period of about three months, December to February, the daily availability of railway wagons does not match the requirements.

8.2.1.2 National Logistic Cell (NLC).

NLC is a public sector organisation which is engaged in nationwide transportation of commodities. NLC Trucks are assigned by its headquarters at Gujranwala in Punjab and Khairpur in Sindh. The capacity of these trucks is given below:

<u>Model of Truck</u>	<u>Capacity per truck.</u>
	(in tonnes)
Mercedes Benz	22.3
Fiat	21.3
Hino	20.0
Bedford	16.0
Saviem	9.0

This mode of transport is mostly used for:

- i) Mills located more than 10 k.m from a railway station or
- ii) Rice which Pakistan Railway cannot transport.

8.2.1.3

Private Trucks.

Private trucks with the capacity of about 10 tonnes each are used for transporting rice from Sindh only. These trucks transport rice to Karachi after unloading the previous cargo from Karachi. The cost of carriage varies with the distance covered, capacity of each vehicle and the demand and supply situation. For instance, in times of greater import activity at Karachi, more goods are transported from Karachi to Sindh and Punjab areas and for returning quickly to Karachi even lower rates can be accepted. Millers mostly in Sindh prefer and use the private trucks and NLC services, because they provide door to door facilities. Whereas the railway does not offer easy access for the traders because supplying rice from the mills to the railway station, and the booking of the railway is time consuming and problematic. In Punjab, due to very long distances, it is preferred to utilise the railway services.

The quantity of rice transported by different means each year and their relative share through the different transportation modes are shown in tables-8.4 and 8.5.

TABLE - 8.4.

Transportation of Rice classified by Mode of Transport to Karachi from Punjab.
(Quantity in tonnes)

Years	Railway Wagon.		National Logistic Cell (NLC)		Total.	
	Quantity	Percentage	Quantity	Percentage	Quantity.	Percentage.
1980-81	315394	82	69836	18	385230	100
1981-82	398331	80	101110	20	499941	-
1982-83	372757	77	110194	23	482951	-
1983-84	326984	78	91895	22	418879	-
1984-85	382204	80	90345	20	472549	-
1985-86	404221	86	65253	14	469474	-
1986-87	320808	86	53981	14	374789	-
1987-88	187275	85	33973	15	221248	-

Source: Rice Export Operation Study in Pakistan, 1989, United Consulting Group (UCG), Lahore.

TABLE - 8.5.

Transportation of Rice classified by Mode of Transport to Karachi from Sindh.
(Quantity in tonnes)

Years	Railway Wagon.		National Logistic Cell (NLC)		Private Trucks.		Total.	
	Quantity	Percent	Quantity	Percentage	Quantity	Percent	Quantity.	Percent.
1980-81	52808	8	38782	6	547876	86	639466	100
1981-82	61998	10	82219	14	450375	76	594592	-
1982-83	75076	10	112903	15	556128	75	744107	-
1983-84	113146	16	103787	14	512012	70	728945	-
1984-85	148060	20	152325	20	452955	60	753340	-
1985-86	182106	24	112391	16	451199	60	745696	-
1986-87	432288	46	120789	14	378053	40	931130	-
1987-88	344898	56	102063	18	159738	26	606697	-

Source: Rice Export Operation Study in Pakistan, [1989, p.187] United Consulting Group (UCG), Lahore.

In the Punjab province of Pakistan, more than four-fifths of the rice procured by RECP is transported to Karachi by Railway Wagons. The Railway has been transporting between 315,000 to 404,000 tonnes annually, except for 1987-88 when only 187,000 tonnes were transported. Even in 1987-88 when the total quantity transported from the Punjab was 221,000 tonnes, railway's share was about 85%. It thus seems that apart from the availability of wagons, other factors accounted for the transportation of the remaining quantity by NLC Trucks.

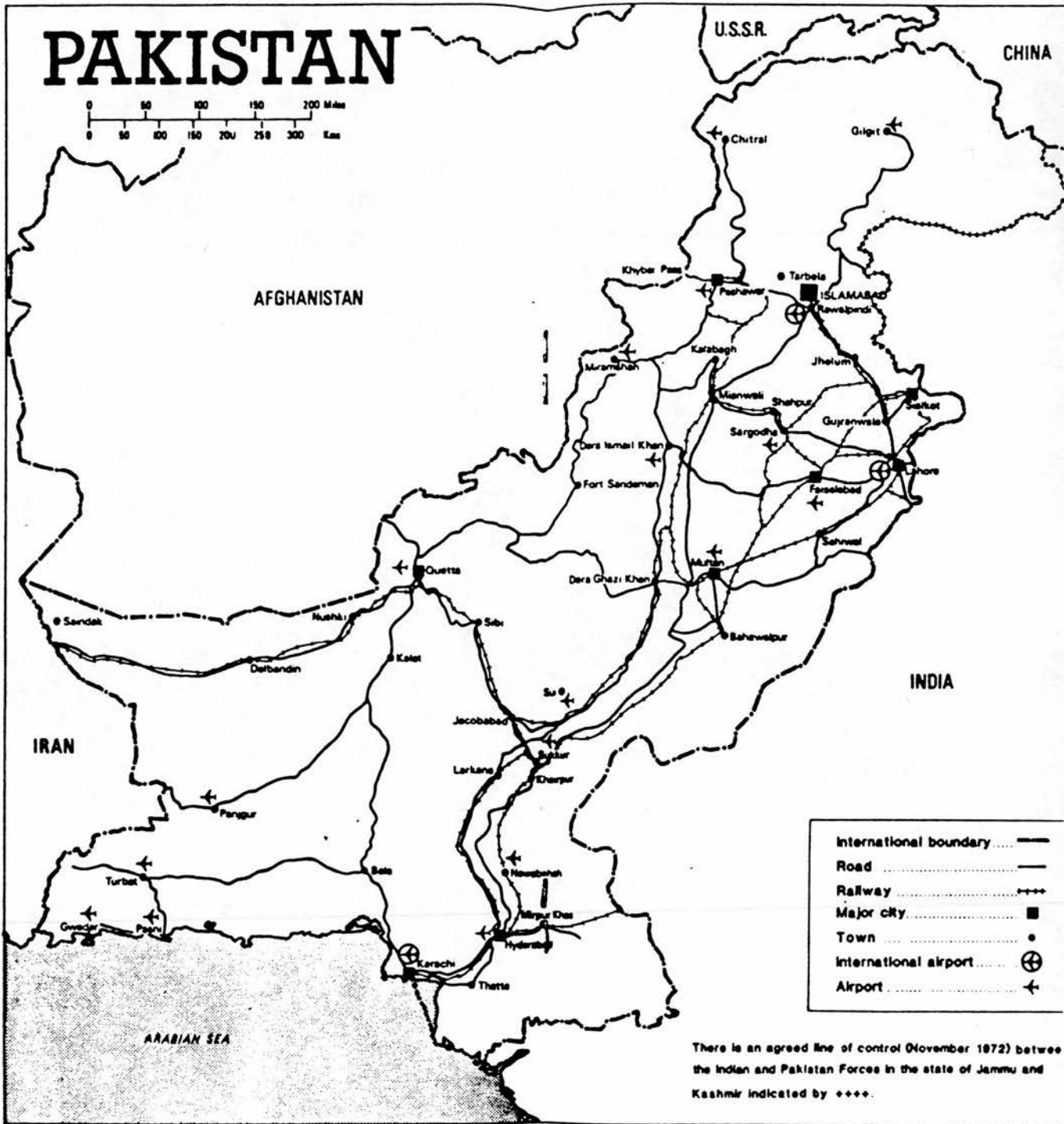
In the Sindh province of Pakistan, private trucks have been transporting the major share, varying from 60 to 86% of the total until 1985-86.

There has however been a significant change over the last two years when the railways have become the most important mode at the cost of the private trucks while the NLC has almost maintained its share. The increased share of railways was due to the complaint received from the Railway authorities with regard to the non-utilisation of the available Railway Wagons in Sindh.

The capacity of the railways for lifting rice from interior of Sindh was reported to be 400,000 tonnes. The cost of transportation by different modes from different areas is shown in table-8.6. This indicates that, the railway is the cheapest mode of rice transport.

The fig:-8.A shows that the railway route in Pakistan is not

Fig:- 8.A



Department of Industry, Central Drawing Office, No 2206, 878

widespread and there is a small railway infrastructure in the country which is not very suitable for transporting rice throughout the country from every part of the milling/processing points.

TABLE-8.6

COMPARATIVE STATEMENT OF PER UNIT TRANSPORT COSTS BY DIFFERENT MODES FROM MAJOR PROCUREMENT CENTRES TO KARACHI GODOWNS 1987-88.

(Rs: per tonne)

MAIN PROCUREMENT CENTRES.	Railway.	NLC.	PRIVATE TRUCKS	RAILWAY COST AS % OF NLC COST.
Shekhupura,	280.93	373.44	-	75
Gujranwala,	277.65	400.32	-	70
Sialkot,	280.93	403.84	-	70
Jacobabad,	157.92	170.00	179.00	93
Larkana,	137.27	170.00	179.00	81
Sukkur.	143.17	170.00	179.00	84

Source: UCG [1989] Rice Export Operation Study in Pakistan, (p.193) ,lahore.

8.3 Paddy/Rice grading and Inspection.

If the lots of rice are sent directly to the RECP mills and godowns at Karachi, the loaded trucks will be weighed, the consignments will be unloaded at the respective enclosures for inspection and sampling. Trucks are weighed for fare and allowed to go out.

Appeals are possible only for consignments tendered under protest and analysis is carried out by the Super Inspection Team of Central Laboratory and covers all items of refraction. This is done after payment of the usual inspection fee. But it is widely believed that there is a very poor system of grading by RECP. Very few private exporters have proper grading facilities, but it is alleged that they are discouraged because while selling to RECP, they do not get the quality certificate without bribes.

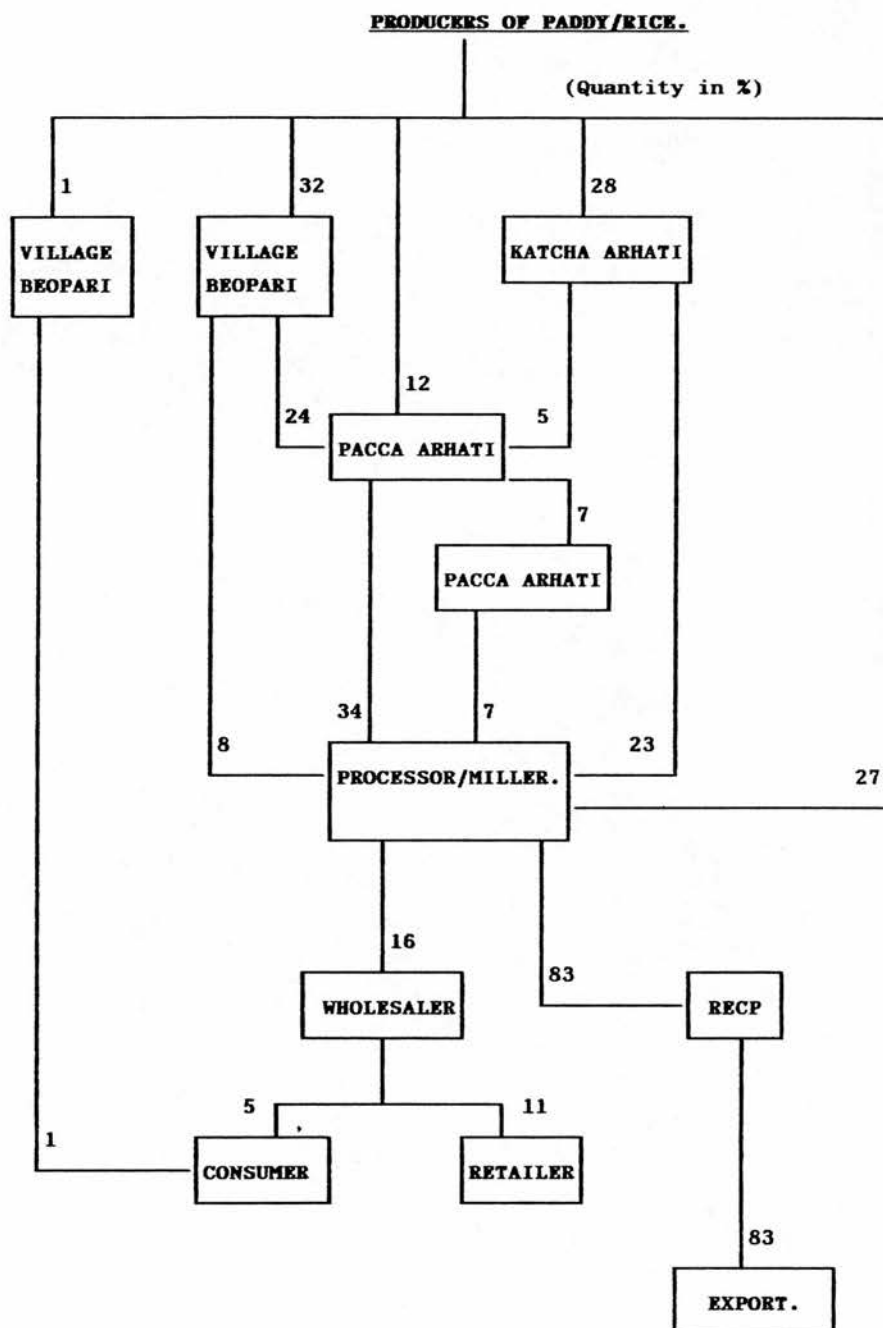
Payment to the seller is made through the designated Commercial Banks as the lot is initially accepted after deduction on the basis of quality. According to the millers, the price they receive by RECP (fixed by the Government) for the sale of rice is not an incentive, so, the millers sell high quality rice in domestic market at higher prices and sell low quality rice to the RECP.

8.4. Paddy/Rice Marketing Channels and Cost.

Paddy procurement is mostly made by the private sector through the village shopkeepers, traders, commission agents, and millers. One study [Schermerhorn, 1990, p.30] confirmed that the producers of paddy often prefer to sell their product through dealers which fetches them a better price rather than selling directly to the mills. The millers mostly purchase their paddy requirement through the local markets, instead of direct purchases from producers. They sell their rice after milling in the domestic market freely, and to the RECP at fixed prices. The marketing channels of paddy rice for Irri and Basmatii are shown in fig:-8.B, C, and D. In these figures it seems that, in Sindh province, paddy producers sell their paddy to various buyers and one producer sells paddy to an unspecified number of purchasers which means that the flow of merchandise does not concentrate on one specific route. In Punjab province, however, most paddy is distributed through a specific route: through the authorised rice dealers, the market, and to rice dealers.

FIGURE - 8.B.

SCHMATIC DIAGRAM SHOWING MARKETING CHANNELS OF BASMATI PADDY/RICE IN PUNJAB.

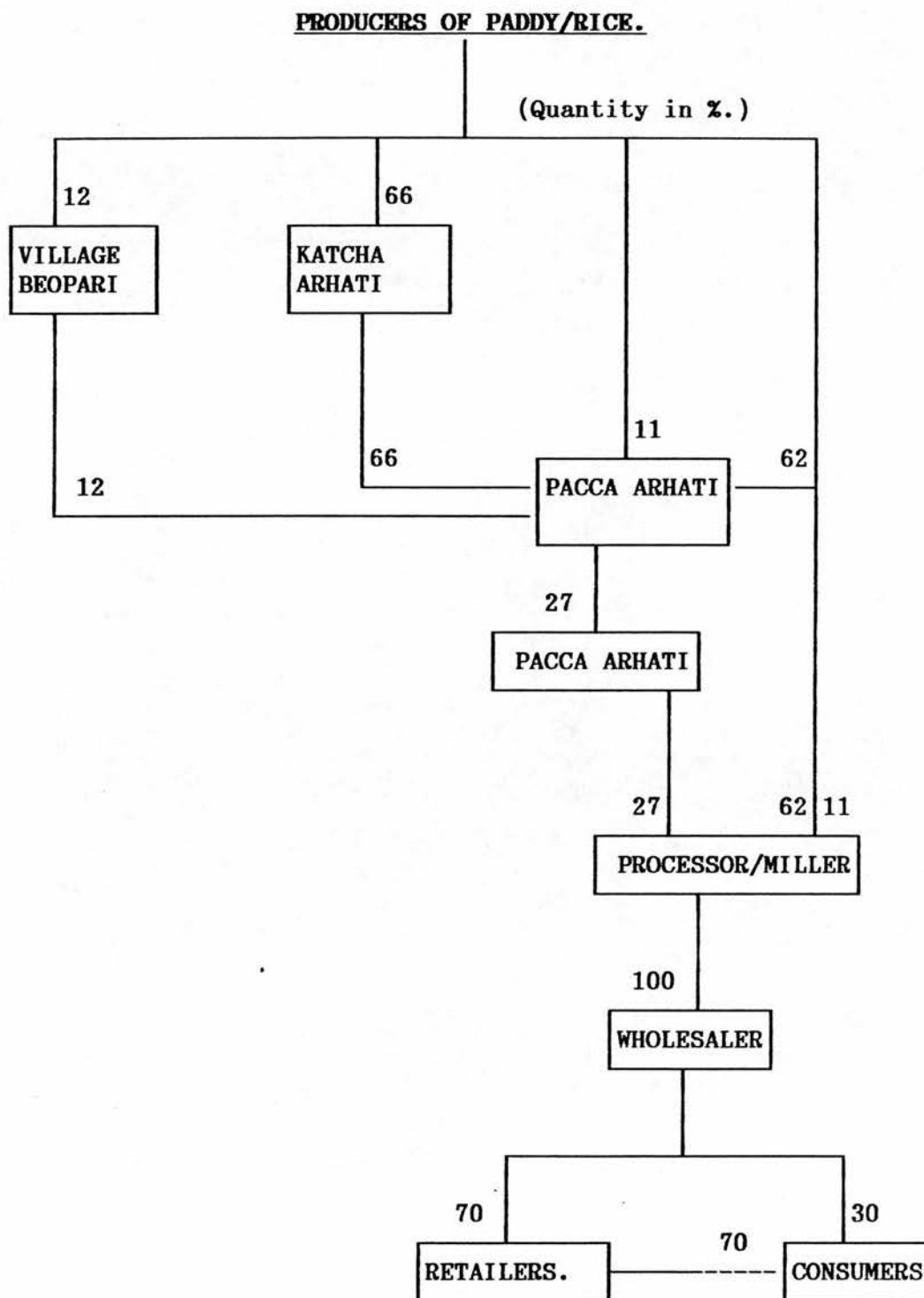


Source: UCG [1990, p.195] 'Marketing Margins of Selected Crops in the Context of Farming Systems and Ecological Zones', Lahore, Government of Pakistan, Islamabad.

Note: The private sector was allowed to export rice in a small packages, which was very small quantity. For export they purchased from RECP.

Figure - 8.C

SCHEMATIC DIAGRAM SHOWING MARKETING CHANNELS OF IRRI PADDY/RICE IN PUNJAB.

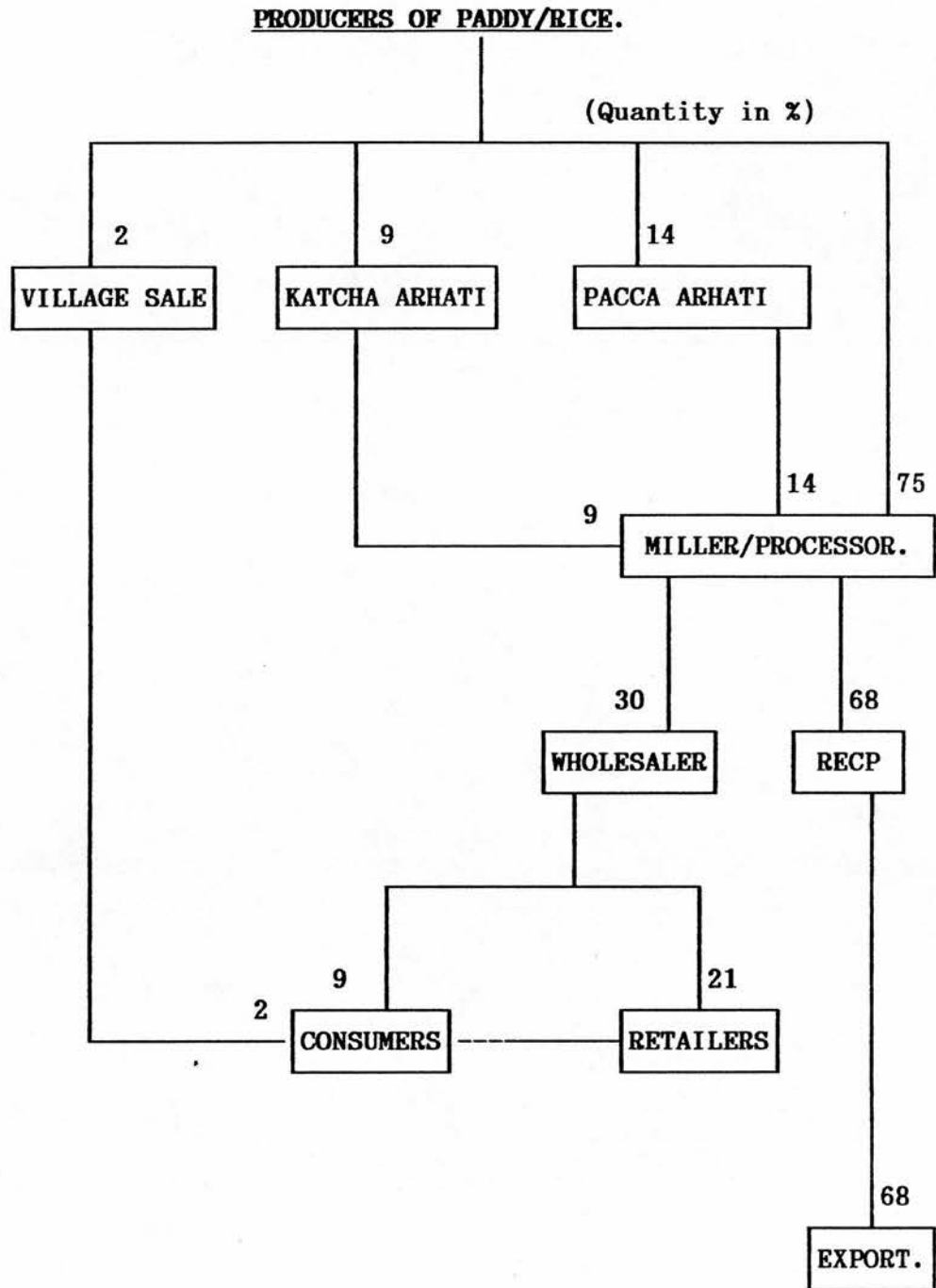


Source: UCG (1990, p.195) 'Marketing Margins of Selected Crops in the Context of Farming Systems and Ecological Zones', Lahore.

Note: The Irri paddy/rice is not procured from punjab by the RECP for export.

Figure - 8.D

SCHEMATIC DIAGRAM SHOWING MARKETING CHANNELS OF IRRI PADDY/RICE IN SINDH.



Source: UCG (1990, p.195) 'Marketing Margins of Selected Crops in the Context of Farming Systems and Ecological Zones', Lahore.

The procurement price of Basmati paddy/rice and gross profit on them for millers is shown in table-8.7. It seems that the gross profit for Basmati rice millers is higher in comparison to the gross profit for Irri rice millers. This is mainly because of high processing costs.

TABLE - 8.7.

GROSS MARGIN/PROFIT IN BASMATI AND IRRI RICE (FOR TRADERS FROM PRODUCER TO MILLER).
(price in Rs: per 40 kg).

YEARS	BASMATI VARIETY.			IRRI VARIETY.		
	PADDY PROCUREMENT PRICE.	RICE PROCUREMENT PRICE.	GROSS MARGIN FOR RICE MILLERS IN Rs PER 40 KGS OF BASMATI PADDY*	PADDY PROCUREMENT PRICE.	RICE PROCUREMENT PRICE.	GROSS MARGINS FOR IRRI RICE MILLERS (IN Rs. PER 40 KGS OF PADDY)*
1982-83	88	154	(154x.65-88) = 12.10	53	89	(89x.65-53) = 4.85
1983-84	90	160	(160x.65-90) = 14.00	55	92	(92x.65-55) = 4.80
1984-85	90	160	= = = 14.00	55	92	(92x.65-55) = 4.80
1985-86	83	175	(175x.65-83) = 30.75	57	95	(95x.65-57) = 4.75
1986-87	102	206	(206x.65-102) = 31.90	57	98	(98x.65-57) = 6.70
1987-88	130	250	(250x.65-130) = 32.50	59	99	(99x.65-59) = 5.35
1988-89	135	268	(268x.65-135) = 39.20	65	111	(111x.65-65) = 7.15

Source: UCG, vol-1, [1989] 'Rice Export Operation Study', Lahore, Government of Pakistan, Islamabad.

*Note: - According to the FAO standard, one unit of paddy gives .65 unit of milled rice.

- Gross margin/profit for miller is calculated as under:

For example, a miller buys one unit (40 kgs) of paddy say in Rs: 88.00, and he will get .65 unit of milled rice from it. The price of one unit (40 kgs) of rice for example is Rs: 154, it means that he will get (154x.65) Rs:100.1 for .65 unit of converted rice from one unit paddy. Therefore, the gross margin of profit for him/miller will be (Rs 100.1 as a price for converted rice - Rs 88 as a procurement price for one unit of paddy, which will be equivalent to Rs 12.10 as a gross profit margin.

The rice marketing cost at different marketing sectors is given in table-8.8. It shows that the net margins or profits for various dealers, starting from farm-gate to retailers with in domestic market (excluding the RECP), absorb about 70% of the gross margins. Processing cost is the next important item accounting for 15.98% of the total margin for Basmati rice and 10.34% for Irri rice. Transport is the third most important cost for both the varieties.

TABLE - 8.8

AVERAGE PERCENTAGE SHARES OF MARKETING SERVICES IN GROSS MARGINS.

MARKETING SERVICES.	BASMATI RICE.	IRRI RICE (PUNJAB & SINDH).
LABOUR	2.25	2.91
STORAGE	0.80	0.82
TRANSPORT	4.93	9.30
PACKING	0.28	0.94
RENT	1.38	1.52
TAXES	0.27	0.53
CREDIT COST	0.06	0.17
PROCESSING COST	15.98	10.34
NET MARGINS (PROFITS) ^a	70.40	69.86
MISCELLANEOUS	3.63	4.31
TOTAL	100.00	100.00

^aIt includes the profits of all dealers, starting from farm-gate to the Retailers.
 Source: UCG (Pvt, Ltd; Lahore) [1990] p.202-3, table-4.30-31. 'Marketing Margins of Selected Crops in the Context of Farming Systems and Ecological Zones' , Vol-1, Government of Pakistan, Ministry of Food and Agriculture, Islamabad.

One study [J. Lynton Evans, 1987, p.30] concluded that the total marketing costs for Basmatii rice down to wholesale level in Karachi, within the private sector are estimated to be Rs: 39-40 per 40 kg and for Irri from Larkana (Sindh) Rs: 19-20 per 40 kg. Whereas the marketing cost including the re-milling cost incurred by RECP is estimated to be Rs: 57 per 40 kg for Basmatii and Rs: 38 for 40 kgs of Sindh Irri. Here it seems that the difference in costs is sufficiently large. It seems that RECP is working ineffectively because of the high marketing cost.

Out of net margins/profits, the major portion goes to the retailers, wholesalers, and processors in case of Basmatii rice. Whereas in the case of Irri rice in Punjab and Sindh, the major portion of the net margins/profits goes to the retailers, wholesalers, and processors, because of storage costs and keeping the stock for the whole year (table-8.9).

TABLE - 8.9.

NET MARGINS/PROFITS FOR VARIOUS RICE DEALERS OF IRRI & BASMATI IN SINDH & PUNJAB.

(Rs: Per 40 kg.)

PADDY/RICE DEALERS.	BASMATI PUNJAB	IRRI PUNJAB.	IRRI SINDH
VILLAGE BEOPARIS	3.70	4.14	--*
KATCHA ARHATI	7.18	2.36	8.83
PACCA ARHATI	2.50	2.50	2.66
PROCESSORS	16.46	5.39	4.99
WHOLE SELLERS	27.00	13.00	13.94
RETAILERS	32.00	18.00	21.76

Source: UCG (PVT, LTD;) [1990] 'Marketing Margins of selected crops in the context of farming System and Ecological Zones', Vol-II, p.A-64-69. Government of Pakistan, Ministry of Food and Agriculture, Islamabad.

*The author disagrees, because according to the author's personal experience there is the existence of village Beoparies/Shopkeepers in Sindh, but the original source shows their non existence.

8.5 Role of RECP in Handling Rice.

8.5.1 Rice Handling by the RECP at its godowns.

Handling of rice by RECP actually begins when stock arrives at its godowns. From the time of its arrival at the godowns up to unloading at the port alongside ship, all handling of rice and its transportation is carried out by 'handling agents' appointed on contract by RECP. All handling is done manually by labour provided by the 'handling agent'. For this purpose contracts are entered into with the agents on the basis of the lower quotation obtained through the public tenders from amongst the prequalified handling contractors.

All handling is by manual methods. The workers use a dog-hook (pointed toggle) to puncture the bag and pull it, immediately

taking hold of it with the other hand. This is not only costly but very harmful, because the use of hooks for carrying or moving rice sacks results in substantial waste. The reasons usually given for using the old manual 'hooking' system is to employ more labour and help curb unemployment, though it is not included in the objectives of RECP.

Secondly, it is argued by the authorities concerned that to change the entire system would be very costly, although no estimate of the cost of such a system is given by the RECP and no such proposal has even been under consideration. The usual reason generally reported is corruption as the manual system and hiring of labour on contract for the job gives more opportunities to show inflated contract cost (which is never audited) to make money for the people in-charge of the handling of rice [UCG, volume-1, 1989].

This sort of rice handling system using hooks creates higher losses. For safety purposes, a double bagging system is being used which is still not safe and very expensive. It is understood that the RECP procured a complete mechanical handling plant for the movement and stacking of rice bags about 15 years ago, but later was stacked away in the stores for the reasons best known to the RECP management. All other countries, including USA, Thailand and even Egypt use a mechanised approach [UCG, Vol-1, 1989].

On the other hand, the author was reliably informed about the past frauds and corruptions occurring in RECP by the 'handling agents'. It was also informed that the same agents involved in frauds are

appointed again for handling rice.

8.5.2 Rice Handling Cost.

It has been observed in many studies that the handling costs of rice at the RECP godowns are higher. The annual handling costs and their proportion of the total sales are given in table-8.10.

TABLE - 8.10.

ANNUAL HANDLING COSTS OF RICE AND THEIR SHARE IN TOTAL SALES.
(Rs: 000)

Years.	Handling Cost.	Sales.	Handling Cost as % to sales.
1982-83	62,108	3,720,500	1.67
1983-84	95,754	5,762,860	1.66
1984-85	106,895	4,645,867	2.30
1985-86	158,866	5,809,333	2.73
1986-87	111,081	4,807,129	2.31

Source: UCG, vol-1 [1989] 'Rice Export Operation Study', p.222.

The handling cost per tonne based on total sales (export and local sales) is given in table-8.11.

TABLE-8.11.

AVERAGE HANDLING COSTS PER TONNE OF RICE SOLD.

YEARS.	HANDLING COST. (000 Rs:)	QUANTITY SOLD. (tonnes.)	HANDLING COST. (tone/Rs:)	TREND ANALYSIS. (in percentage)
1982-83	62,108	925,011	67.14	100
1983-84	95,754	1,294,417	73.97	110
1984-85	106,895	1,050,959	101.71	151
1985-86	158,866	1,343,688	118.28	176
1986-87	111,081	1,287,039	86.30	129

Source: UCG, vol-1 [1989] 'Rice Export Operation Study', p.224.

The handling costs have increased at a higher pace than any other cost component. The reason for the increase in yearly handling costs is the rapid increase in the accepted tendered rates over the scheduled rates and poor control over the operations of handling agents. On the other hand, the reasons for the lower costs for 1986-87 were reportedly to be mainly because of the stopping of higher rates for over-time work [UCG, vol-1, 1989].

The same study [Ibid, P.225] confirms that many handling operations can be eliminated by systematic planning. Another study [Shermerhorn, 1990, p.45] also confirms that the handling costs can be reduced by at least 50% through proper management of the handling activities and effective control.

8.5.3 Rice Storage at RECP godowns (KARACHI).

Presently RECP has a total built up capacity of 848,000 metric tonnes in Karachi. Out of this capacity some godowns are utilised for storage bags, empty cartons and packets, insecticide and other necessary material for the preparation of stock for export. A few godowns have also been converted into cleaning and packing plants. Consequently, only 80 to 85% of total built up capacity, that is, 700,000 metric tonnes is available for use as rice storage. The arrival position of procured rice at different godowns during 1986-87 and 1987-88 is shown in table-8.12.

TABLE-8.12.

The arrival position of procured rice at RECP godowns in Karachi.

Godowns.	1986-87	1987-88
Qasim Godown.	945,178	633,763
Landhi.	275,572	138,661
TPX.	126,471	75,761
Total.	1,347,221	848,188

Source: UCG, (pvt, ltd) [1989] 'Rice export operation study', vol-1, p.196, Islamabad.

Besides the RECP's own godowns, private godowns had to be hired.

The capacity utilised from the hired godowns and the rent paid during the last two years is shown in table-8.13.

TABLE - 8.13.

CAPACITY OF THE HIRED GODOWNS AND THE RENT PAID.

YEARS.	CAPACITY HIRED (Tonnes).	RENT PAID. (Thousand Rupees).
1986-87	155,394	15,101
1987-88	93,901	9,084

Source: UCG, (pvt, ltd) [1989] 'Rice export operation study', vol-1, p.197, Islamabad.

Since there was not sufficient storage space available in the RECP and hired godowns, the following quantities had to be stored in the open under the cover of tarpaulins [table-8.14].

TABLE - 8.14

RICE STORED IN THE OPEN.

YEAR	QUANTITY (METRIC TONNES).
1986-87	184,500
1987-88	155,000

Source: UCG, vol-1 [1989] 'Rice export Operation Study, p-196, Islamabad.

In the absence of adequate storage facilities, both owned and hired, storage requirements are managed through:

a) Stacking of large quantities in open space, exposed to natural hazards including rain, frost, wind and the attacks of birds, etc.

b) Stacking of rice bags in godowns in a congested manner, not allowing the required space between stacks and the walls, and stacking up to ceilings. These practices create problems for easy counting and for fumigation.

A statement about the levels of opening, closing and average stock for each year since 1977-78 is given in the table-8.15. It appears that RECP has been carrying forward huge stocks each year, varying from 508,000 to 967,000 tonnes. The annual average closing stock was 609,000 tonnes for the five year period ending 1981-82 against an annual average of 852,000 tonnes for the subsequent five year period. It thus shows that on average, the quantities of incoming stock have been greater than the outgoing stocks in most of the years.

TABLE - 8.15.

AVERAGE STOCK OF RICE HELD BY RECP OVER LAST TEN YEARS.
(quantity in 000 tonnes).

YEARS.	OPENING STOCK.			CLOSING STOCK.			AVERAGE STOCK.		
	BASMATI	OTHERS	TOTAL	BASMATI	OTHERS	TOTAL	BASMATI	OTHERS	TOTAL.
1977-78	138	215	353	126	382	508	132	299	431
1978-79	126	382	508	342	417	759	234	400	634
1979-80	342	417	759	400	374	774	371	396	767
1980-81	400	374	774	276	253	529	338	314	652
1981-82	276	253	529	323	276	599	300	265	564
1982-83	323	276	599	433	502	935	378	389	767
1983-84	433	502	935	280	511	791	357	507	863
1984-85	280	511	791	267	700	967	274	606	879
1985-86	276	700	967	211	628	839	239	664	903
1986-87	211	628	839	298	565	863	255	597	851

Source: UCC, vol-1, 1989, p.198, 'Rice Export Operation Study', Government of Pakistan, Islamabad.

The levels of carryover stocks do not materially influence the procurement targets fixed each year. A comparison of the annual procurement levels with the closing stocks is indicated in table-8.16, fig:8.16-A and B. It shows that the ratio of closing stocks to the annual procurements has ranged between a minimum of 53% in 1977-78 to a maximum of 79% in 1984-85. Obviously, pure commercial considerations would never justify the level of stocks maintained by RECP. It has also been alleged that some stock kept with RECP in open space or for a longer time improperly, suffers deterioration, hence not exported. The same stock plus the quality rice is auctioned sometimes in the name of deteriorated stock at low prices on paper only.

TABLE - 8.16.

RELATIONSHIP OF CLOSING STOCK TO RICE PROCUREMENT.

(quantity in 000 tonnes).

YEARS.	RICE PROCURED.			CLOSING STOCK.			% OF CLOSING STOCK TO PROCUREMENT		
	BASMATI	OTHERS	TOTAL	BASMATI	OTHERS	TOTAL	BASMATI	OTHERS	TOTAL.
1977-78	211	755	966	126	382	508	59.72	50.60	52.59
1978-79	406	868	1274	342	417	759	84.24	48.04	59.58
1979-80	397	756	1153	400	374	774	100.76	49.47	67.13
1980-81	321	715	1036	276	253	529	85.98	35.38	51.06
1981-82	398	715	1113	323	276	599	81.16	38.60	53.82
1982-83	356	904	1260	433	502	935	121.63	55.53	74.21
1983-84	264	890	1154	280	511	791	106.06	57.42	68.54
1984-85	269	962	1231	267	700	967	99.26	72.77	78.55
1985-86	231	987	1218	211	628	839	91.34	63.63	68.88
1986-87	237	1076	1313	298	565	863	125.74	52.51	65.73
Average of last 5 years.	271	964	1235	298	581	879	109.73	60.30	71.16

Source: United Consulting Group (PVT Ltd.) [1989, p.200] 'Rice Export Operation Study', Government of Pakistan, Islamabad.

Fig:- 8.16.A

RELATIONSHIP OF BASMATI RICE CLOSING STOCK TO PROCUREMENT.

(quantity in 000 tonnes) .

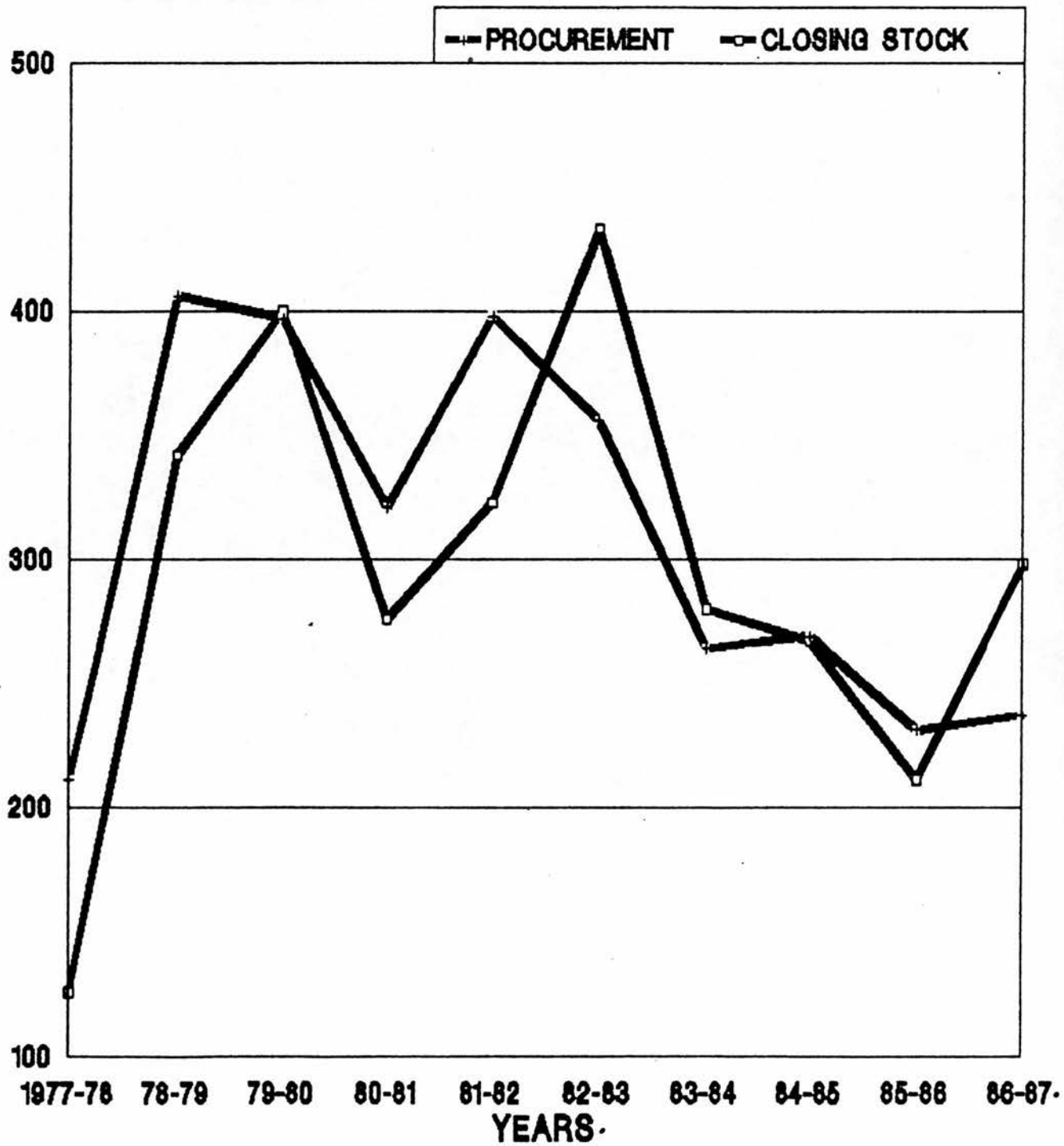
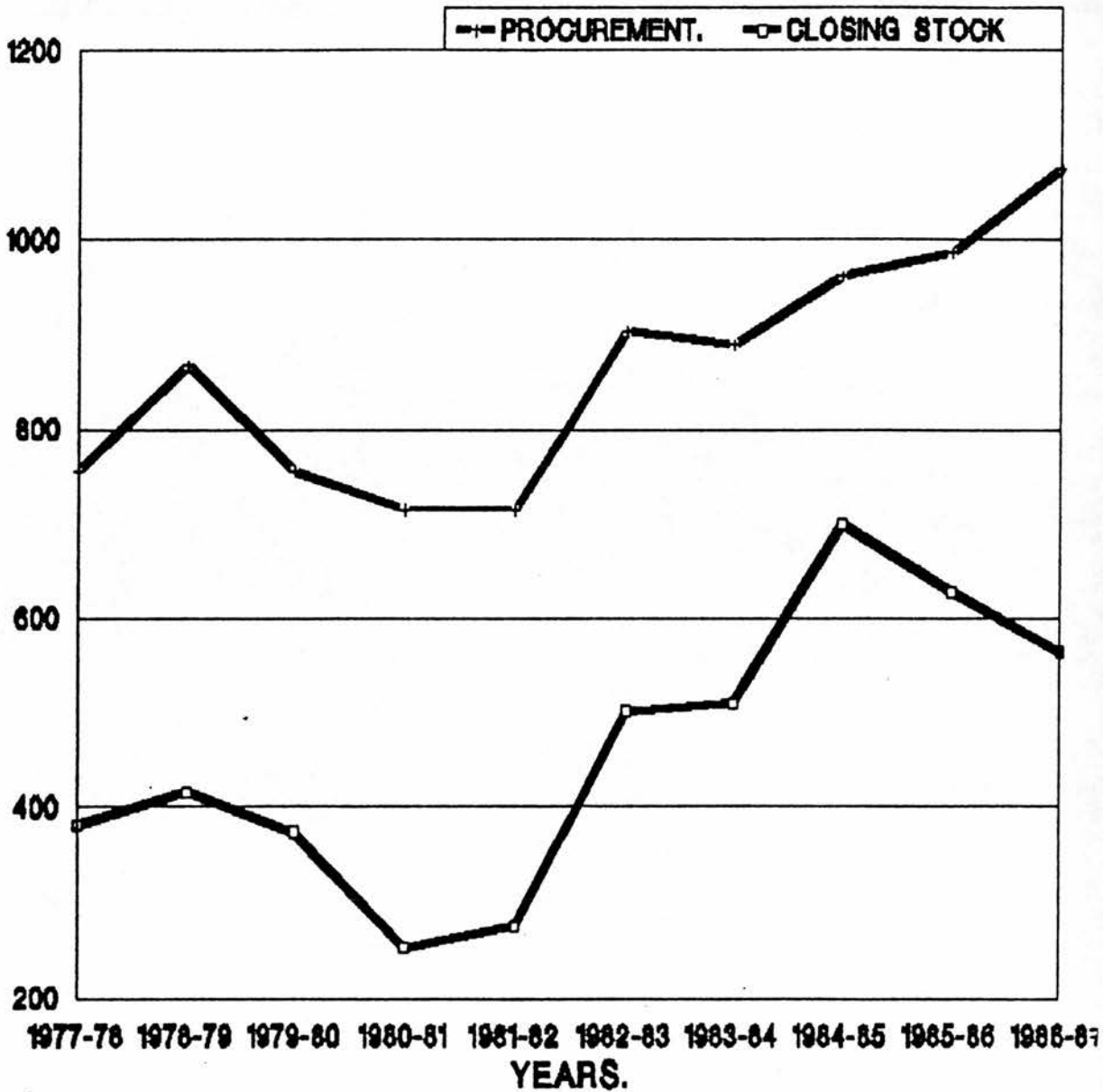


Fig: - 8.16.B

RELATIONSHIP OF CLOSING STOCK TO PROCUREMENT OF OTHER¹ RICE.

(quantity in 000 tonnes)



¹It includes irri and other traditional rice varieties, but the share of other traditional varieties is negligible.

8.5.4

Inventory Management and Control.

Inventory management and control is not adequate. In this regard, one study [UCG, 1989, P.211] confirmed that the physical verification of stocks has not been carried out by the RECP for the past number of years. This has been attributed to the inadequacy of the storage space. The closing stock worth Rs:3479 million carried in books over a period of 1982-87, constitute only book entries which have continued to remain unconfirmed by any physical verification of stocks on the ground. The perpetual inventory system of RECP is very weak. Although a register in this regard showing receipt, issue and balance of rice and other items is maintained, it is not posted on a daily basis and transactions of many previous months are not registered.

8.5.5

RECP's Godown Security.

For the security of rice stocks at RECP godowns, the corporation employs more than three hundred security staff at its godowns who report to 'Manager.Security'. The 'Manager Security' is under the line authority of the respective 'Area Officer' of the godowns. Looking at the responsibilities of the 'Manager Security' and the amounts involved in the stocks of RECP's godowns, this arrangement does not seem to serve the purpose.

Security is a staff rather than a line function. So independence is essential to the effectiveness of the security procedures and programmes. The organisational status of the Chief Security Officer

and the support accorded to him by management are major determinants of the range and value of the services which management will obtain from the security officer. Under the present organisational set up, where the Security Officer is under the direct control of 'Area Officer', there exists every possibility of malpractice. Hence, the status of Security Officer should be upgraded to the level of General Manager Security, and he should be made directly responsible to the Chairman [UCG, vol-1, 1989].

8.5.6 Issuance of Rice to Mills.

Rice is being issued from RECP godowns to mills or mills to godowns on the basis of a goods movement note. This document is not prepared carefully, for example, it is issued after the completion of the movement of rice and is not signed by the competent authority [UCG, 1989, VOL-1, P.213].

8.5.7 Re-Milling of Rice by RECP.

Sheller type units supply to RECP about 90% of the rice sold in market. This output contains many impurities besides variations in quality characteristics which do not meet international standards. On the other hand all the grades of the particular variety are mixed at godowns and sold on the basis of the buyers requirements. RECP thus has to undertake in its own plants located at Karachi, re-milling and polishing of the procured rice. This involves an additional cost in handling, milling and storing operations.

RECP inherited a milling capacity of 317,000 tonnes per annum. After its inception, the Corporation imported six new modern automatic plants from Germany and Japan. In addition, two locally manufactured plants were installed. The capacity was expanded by 500,000 tons, thus increasing the total available cleaning and processing capacity to 817,000 tonnes per annum [table-8.17].

TABLE-8.17.

MILLING CAPACITY AND THEIR UTILISATION.

(quantity in tonnes).

Year.	Milling Capacity.	Quantity Processed,	Capacity Utilisation in %.
1983-84	871,000	587,606	71.9
1984-85	817,000	363,635	45.1
1985-86	817,000	759,995	93.0
1986-87	817,000	816,919	99.0

Source: UCG, vol-1 [1989] 'Rice export Operation Study, P-234, Islamabad.

Initially only Basmatii rice was processed by the RECP at Karachi and these plants were set up for this purpose only. Keeping in view the foreign requirements, RECP has to process other varieties also for which the available capacity is not adequate.

On the other hand, the RECP's cleaning and grading facilities are located within their Qasim and Landhi godowns. These consist of 14 cleaning and grading plants. All these plants are more than 15 years old with some units having been installed as much as 30 years ago. This author was reliably informed that a foreign team of engineers who recently visited RECP with regard to repairing the existing plants, were told that the existing plants are outdated. This is confirmed by one study [Schermerhorn, 1990, p.45] that all the RECP's 14 cleaning and grading plants show inefficient

operations due to old machinery, non availability of spare parts and absence of maintenance schedules. Because of improper processing, polishing and packaging of rice by RECP, it is often re-milled a third time by the importers, mainly in Europe, which will be discussed later on in chapter 11.

8.5.8 Packing Plants for one Kg Packets.

An automatic packing plant for filling rice in one kilo packs, imported from Italy, is in commission to meet the demand of the buyers for packet rice. This plant is insufficient to meet the requirements of packeted rice due to its limited installed capacity of ten million packets per annum. Besides this, RECP has to meet the requirements being received for the export of rice in cellophane and cloth bags [UCG, 1989, P.237].

CONCLUSION.

This chapter started by looking at the procurement policies of rice applied by the Government of Pakistan and analysed the role of RECP in handling the rice. It was found that the domestic market for rice is partly liberalised and the export market has remained under the monopoly of public sector (RECP).

RECP which procures rice solely for export, carries over huge stocks every year. The quantity of incoming stock is mostly greater than the out going stock. The ratio of closing stock to the annual

procurements has ranged between a minimum of 53% to a maximum 80%. Pure commercial considerations would never justify the levels of stocks maintained by RECP.

Generally in RECP, a number of shortcomings in the control and management of handling operations have been observed. These include inadequate control over operations to bridge the gap between sales, purchases and milling operations; inadequate control and accountability of handling cost; inadequate stock control over exportable rice and the absence of checks on the quality of rice issued against work orders. These inadequacies tend to have harmful effects on the functional, managerial and operational structure of the RECP organisation.

The above problems are not uncommon in Government (public sector) corporations. There are many and varied reasons why many public agencies perform in such a manner. Among these reasons are: automatic coverage of losses by the public treasury; multiple objectives; inability of the agency or corporation to gain additional funding to upgrade equipment and facilities due to a tight financial conditions of the government in general; lack of performance incentives; and appointment of managerial personnel without consideration of expertise required for the position, that is, appointment may occur for political reasons.

The next chapter deals with the nature and characteristics of Pakistan's rice exports and export policies.

PAKISTAN RICE EXPORT POLICIES AND ITS EXPORT.

The main objective of this chapter is to review the rice export policies in Pakistan and to examine Pakistan's rice export.

The chapter is organised as follows: Section 9.1 contains the rice export policies in Pakistan and section 9.2 deals with Pakistan's rice export. Finally, section 9.3 consists of the rice export price determination in Pakistan.

9.1 Rice Export Policies in Pakistan.

The overall trade policy in Pakistan is controlled by the Ministry of Commerce. As far as rice is concerned, the Rice Board coordinates all the different issues and sets the general rice policy. The Board meets twice a year and its agenda covers all matters relating to rice.

The Rice Board consists of the following:

- Minister of Commerce - Federal, Chairman.
- Minister/ Secretary of Agriculture - Federal, Member.
- Secretary Finance - Federal, =
- Provincial Agricultural Secretaries, =
- Chairman Agricultural Price Commission, =
- Chairman Rice Export Corporation, =
- Rice Commissioner, =

- Rice Technologists, =
- Growers, Nominated By the Government, =
- Directors of the Rice Research Institute, =

Government policies in Pakistan relating to rice export are divided into two distinct periods -- before 1987-88 when Government had a complete monopoly on rice exports and after 1987-88 when private sector entered the rice export trade.

9.1.1 Pakistan Rice Export Policies Prior to 1987-88.

Since Pakistan's early period, Rice has become more liberal gradually, in four phases. When Pakistan started to export rice on a very small scale since 1958, the rice export arrangements were made by the Pakistan Rice Board, the secretariat of which was located in the Export Promotion Bureau under the Ministry of Commerce. The internal arrangements for procurements, cleaning, storage, and shipping were under the control of 'Director General of Food', Under the 'Ministry of Food and Agriculture'. Thus, a dual public sector system of control for export existed. This dual system resulted in problems of coordination and inefficiencies [Schermerhorn, 1990].

In 1974 the Rice Export Corporation (RECP) was set up to undertake the entire process of rice exporting. Rice was procured by the RECP until 1985-86 under a 'Monopoly Procurement Scheme' whereby compulsory procurement of rice at support prices was required.

In 1985-86 the policy was revised such that rice was 'voluntarily' procured under the support price. Because of this policy, the domestic market of rice was partly liberalised and influenced by the government's domestic floor price. Under the 'voluntary' procurement policy, the procurement centres and the support price still existed, but sales to these centres were voluntary. Rice received by the RECP was strictly for export. Supplying the domestic market was undertaken by the private sector under certain restrictions imposed by the Government, to ensure that RECP was able to secure adequate quantities of rice to meet the export requirements. In practice, the Food Department still acted as an agent of the RECP to procure and dispatch paddy to the RECP's storage facilities in Karachi after milling. The procurement was also accomplished by the rice millers/rice dealers appointed by the Food Department, or in some cases by the Pakistan Storage and Services Corporation limited (PASSCO).

A major change has been initiated during the past 15 years (since the mid 1970s) in this procurement procedure, where the RECP no longer uses the services of Food Department to procure paddy. Now the RECP procures milled rice on its own from the private millers, and on a very small scale by its subsidiaries. As RECP operates as an agent of the Government, hence it receives a commission on handling the rice and it is not responsible for any loss or profit on rice export. The costs incurred on the procurement and preparation of rice for export are directly charged to the Government, and the profit/loss on the export of rice goes to the Government treasury.

9.1.2 Pakistan Rice Export Policies after 1987-88.

Beginning in 1987-88 the private sector was allowed conditionally to export Basmati rice only. The initial special procedures applying to the private sector export of rice were as follows:

Export of Basmatii rice by the private sector was allowed subject to the conditions that:

- (i) Basmati rice is exported in packets of 1-20 kgs with brand names;
- (ii) The exporters are registered with the Superior Rice (Basmatii) Dealers Association, Punjab;
- (iii) The brand names will be registered with the Registrar, Trade Marks, Government of Pakistan;
- (iv) The exporters may obtain rice either from the Rice Export Corporation of Pakistan (RECP) at the rate the Corporation is exporting in bulk, or they may use their own stocks after depositing the difference in price between the bulk export of rice by RECP and the Government fixed procurement price; and such exporters shall be subject to RECP's inspection and quality control procedures.

In addition, a Rs: 5000/per metric tonne export tax was imposed on the export of Basmatii rice. For example in 1987-88 the average export price of Basmatii rice was Rs: 12000 per mt and the export

tax was Rs: 5000, it means that the export tax was 42% of the export value. The initial regulation essentially qualifies as non-tariff barriers to the private sector in the export of rice. These barriers, plus the export tax were soon recognised as effective in almost totally restricting private sector rice exports. The result was that only 1243 tonnes or 0.6% of total rice export were exported by the private sector during 1987-88. Consequently, the following improvements have occurred in the initial regulations:

(i) The export tax of Rs. 5000/mt was reduced to Rs. 4000 in 1988/89.

(ii) Private rice exporters are no longer required to deposit with RECP, the differential in price between the bulk export of rice by RECP and the Government procurement price. They are required to sell as a minimum price, the RECP export bulk price plus an additional U.S \$50 per mt for 1-2 kg packages, and an additional US \$25 per mt for 3-25 kg packages. The bulk price is the price negotiated by RECP with the Gulf Cooperative Council. Because the major market for Basmatii rice is in the Gulf, the Government does not want to bother with the fixing of prices for each individual country separately.

(iii) Private exporters must have a license to export which is obtained by registering with the 'Chief Controller of Exports and Imports'. The cost is minimal. However, there is restriction or complications for the issue of license, because very few people are interested due to the heavy export taxes).

(iv) Rice Exporters are no longer required to register with the Superior Rice Dealers Association, Punjab.

(v) Private sector Basmati rice exports continue to be subjected to RECP's inspection and quality control procedures.

9.1.3 Rice Export Policy for Private Sector in 1990.

According to the circular/letter S.R.O. No: 400-(I)90, dated May 7 1990, Government of Pakistan, Ministry of Commerce, export of Basmatii rice by the private sector is allowed in packets with brand names or in bulk subject to the conditions that:

(i) The exporters are registered with the respective Chamber of Commerce and Industry.

(ii) The brand names will be registered with the Registrar, Trade Marks, Government of Pakistan.

(iii) The exporters may obtain rice either from RECP or may use their own stock.

(iv) The buyers shall appoint internationally reputed Inspectors or RECP for inspections and.

(v) The contracts (for rice export) shall be subject to the approval and registration by the Export Promotion Bureau.

Recently, (in 1992), following amendments have made by the Ministry of Commerce:

(a) the export of Basmatii rice was allowed by the private sector in bulk as well as in the small packet form.

(b) From August 1990, all the varieties of rice (Basmatii and Irri) were allowed to be exported by the private sector.

(c) The export duty on all rice varieties was abolished on 10th October 1990.

(d) It was also decided to exempt the import of rice milling machinery and equipment from 'Custom Duty' and 'Iqra Tax'.

(e) The Government has also granted to the private sector liberal credit facilities, industrial loans, working capital and loans for building warehouses and storage facilities. The existing rate of 1% retention of rice sales receipts in foreign exchange has been raised to 5% to cover sales promotion and market development.

As a result of these incentives, the private sector has achieved good results in the short span of a year, 1991, as shown in table-9.1. However it is too early to comment on the implementation of the recent liberalised policy and the future role of the private sector. During field work interviews in Pakistan, the private sector was confident that when the liberalisation takes place, they would sell to the West and Middle East.

TABLE - 9.1

Basmati and Other Rice Export by the Private sector.

YEARS.	BASMATI EXPORT.			OTHER RICE EXPORT.		
	TOTAL EXPORT (000) TONNES.	PRIVATE EXPORT.	PRIVATE EXPORT % OF TOTAL.	TOTAL EXPORT (000) TONNES.	PRIVATE EXPORT.	PRIVATE EXPORT % OF TOTAL.
1987-88	188,000	1243	0.66	988.4	zero	-
1988-89	221,000	5000	2.26	626.3	zero	-
1989-90	228,000	30611	13.42	-	zero	-
1.7.90 to 30.6.91	-	166579 [‡]	-	-	27730 [‡]	-

Source: RECP's Export Section in Karachi, (during field work).

[‡]Figures are taken from the Ministry of Commerce Notification, 1991.

- Figures not available.

9.2

PAKISTAN'S RICE EXPORT.

Rice is a major item of Pakistan's exports, accounting for about 10% of the total world exports in recent years. A statement showing rice exports from Pakistan, classified by varieties and share of rice exports in total exports over the last ten years is given in table-9.2. Indices of value, quantity and unit value of exports of Basmatii and Irri varieties of rice are also included in the table.

TABLE - 9.2

PAKISTAN RICE EXPORT BY VALUE, AND INDICES BY VALUE AND VOLUME.
(Value in U.S. million \$)

Years.	Total Exports	Index.	Rice Export (value in U.S million \$).			Share of Rice Export to Total Exports (percentage)			Indices of Exports.			
			Basmati	Irri	Total.	Basmati.	Irri	Total.	Value.	Quantity.	Value	Quantity
1977-78	1311.2	100	109.1	134.1	243.2	8.32	10.23	18.55	100.1	100.0	100.0	100.0
1978-79	1709.6	130	135.4	206.0	341.4	7.92	12.05	19.97	124.1	74.8	153.6	143.5
1979-80	2364.7	180	225.5	196.7	422.2	9.54	8.32	17.85	206.7	130.2	146.7	132.9
1980-81	2957.5	226	290.3	275.5	565.8	9.82	9.32	19.13	266.1	169.4	205.4	143.5
1981-82	2464.3	188	183.5	203.7	387.2	7.45	8.27	15.71	168.2	108.3	151.9	118.6
1982-83	2695.0	206	174.4	140.8	315.2	6.47	5.22	11.69	135.1	98.3	105.0	114.8
1983-84	2768.0	211	244.3	178.2	422.5	8.82	6.44	15.26	223.9	167.8	132.9	147.8
1984-85	2491.2	190	109.6	112.5	222.1	4.40	4.52	8.92	100.5	71.9	83.9	93.8
1985-86	3069.8	234	173.4	168.9	342.3	5.65	5.50	11.15	158.9	107.9	125.9	181.6
1986-87	3681.4	281	133.7	161.0	294.7	3.63	4.37	8.00	122.5	77.7	120.1	181.2
1987-88	4410.0	336	98.0	125.8	223.8	2.22	2.85	5.07	133.9	82.6	144.0	172.1

Source: UCG [1989], 'Rice Export Operation Study', Vol-1, table-3.9, p.68,

This table shows that the share of rice in the total value of exports has been persistently declining over the period. From an average of about 17% for the five year period ending 1982-83, it declined to an average of about 10% in the subsequent five year period ending 1987-88.

The total value of all exports from Pakistan in terms of US dollars rose by 336% from the year 1977-78 to 1987-88, with 1977-78 as base year. The increase in the value of Basmatii and Irri rice export was only 34 and 44% respectively for the same period.

With regard to the export of the Basmatii rice, the author was reliably informed that there is no coordination between the 'Ministry of Commerce' and the 'Ministry of Agriculture'. Because, the new high yielding varieties of Basmatii rice introduced by the 'Pakistan Agriculture Research Council' are not very popular unlike

the old ones, in the international market. But, the RECP under the instructions of the Ministry of Commerce procures Basmatii rice without any distinction. Hence the new unpopular Basmatii rice producers are encouraged to produce.

However, the overall exports of Basmatii rice by the RECP have always yielded a net return to the RECP. The ratio of net return to FOB cost varied between 43 to 99% during the three years ending 1986-87, as shown in table-9.3.

TABLE - 9.3

AVERAGE RETURN ON RICE EXPORT.

(Rs: per metric tonne).

	1986-87		1985-86		1984-85	
	Basmati	Others	Basmati	Others	Basmati	Others
Average Export price.	12479	2723	11130	2567	9634	3027
F.O.B cost.	6240	3450	5990	3590	6740	3650
Profit/loss	6189	(727)	5140	(1023)	2894	(623)
profit loss as % of FOB cost.	99	(21)	57	(29)	43	(21)

Source: UCG, 1989, Vol-1, table 11.12, p.304.

In the case of Irri rice, net losses have been suffered in recent years to the extent of about one-fifth to one-fourth of the FOB cost. The losses are passed on to the national exchequer in the form of reduced profits of RECP on overall performance. Table-9.4 indicates the position of the profit and loss of the RECP through the exporting of Basmatii and Irri rice varieties.

TABLE - 9.4

PROFIT AND LOSS FROM PUBLIC (RECP) EXPORT OF RICE.

(in million Rupees).

Years	BASMATI RICE.	IRRI RICE.
1976-77	105	- 48
1977-78	258	144
1978-79	681	392
1979-80	1000	289
1980-81	1171	707
1981-82	744	510
1982-83	735	- 68
1983-84	1078	-502
1984-85	558	-152
1985-86	1250	-907
1986-87	1081	-991

Source: Schermerhorn, Richard [1990, p.38], 'Rice Export Marketing Study', EAN/USAID Project, Islamabad.

9.2.1 Share of Rice Export in total output.

Table-9.5 shows the rice export as a percentage of annual output by varieties. Indices have also been computed with 1975-76 as base.

It seems that the annual variations in exports do not appear to be correlated with the output [fig:-9.5.A and B]. The percentage share of exports to total output has thus varied haphazardly, with a slight downward trend in the case of Basmatii rice and a marked upward trend for Irri rice.

Fig: - 9.5.A

BASMATI RICE PRODUCTION AND EXPORT (000 TONNES).

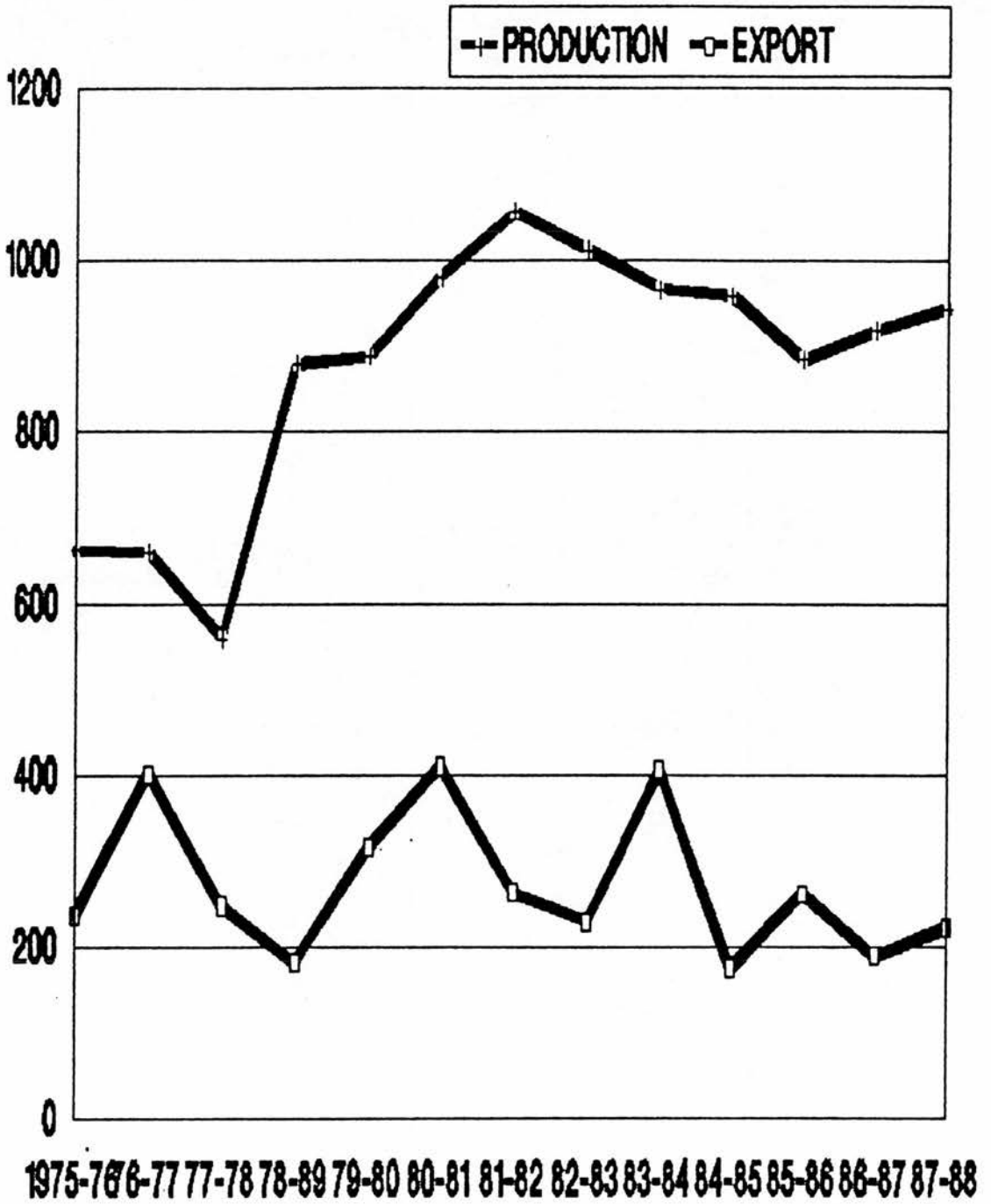
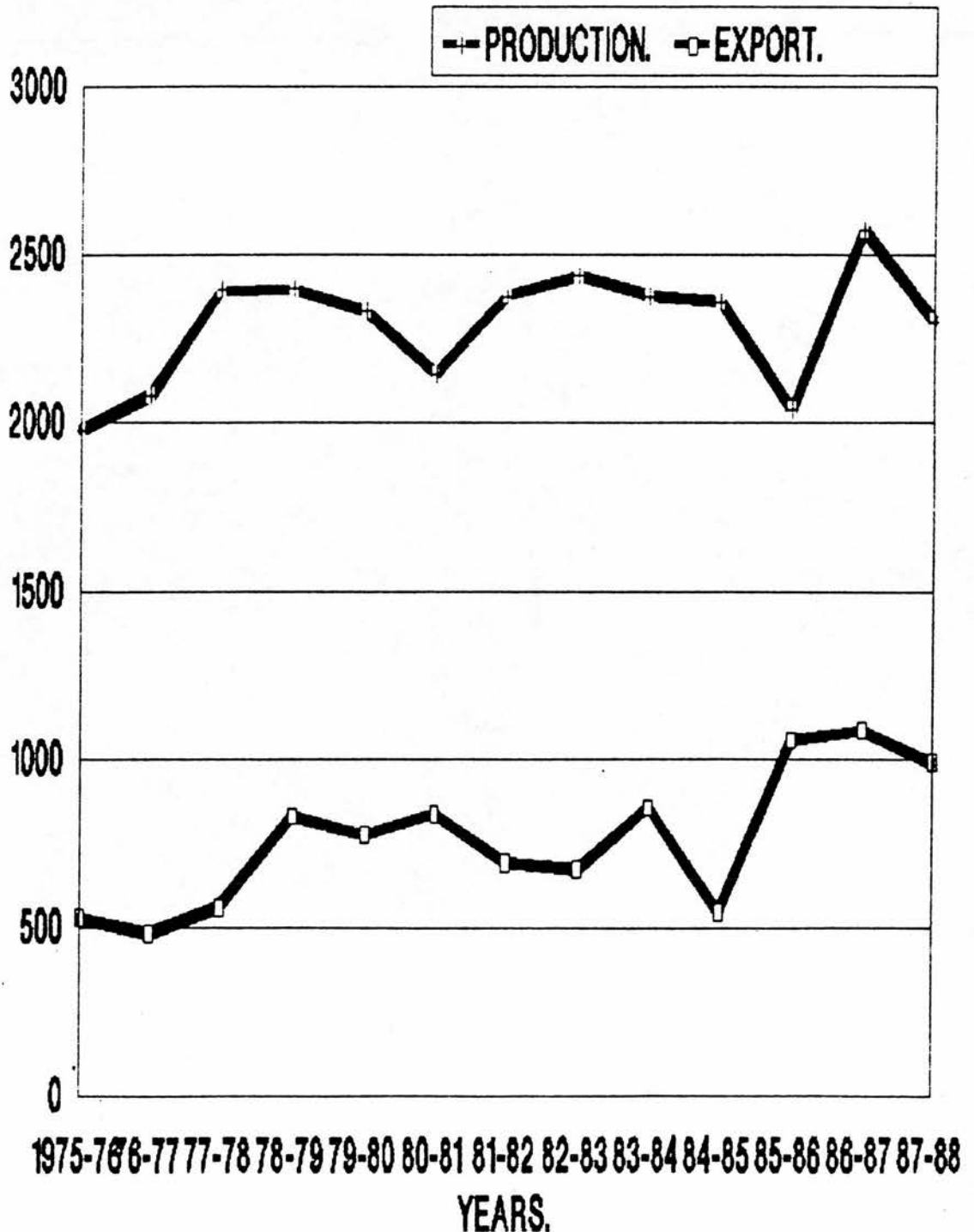


Fig:- 9.5.B

¹
OTHER RICE PRODUCTION AND EXPORT.

(000 TONNES).



¹It includes irri and other traditional rice varieties, but the share of other traditional varieties is negligible.

TABLE - 9.5

SHARE OF RICE EXPORTS IN TOTAL PRODUCTION OF RICE BY VARIETIES IN PAKISTAN.

(000 Tonnes).

	BASMATI.			OTHER VARIETIES ^a .			TOTAL RICE.		
	PRODUCTION.		% of Export to Prod;	PRODUCTION.		% of Exports to Prod.	PRODUCTION.		% of Exports to Product.
	Qty.	Index.		Qty.	Index.		Qty.	Index.	
1975-76	662	100	37	1975	100	27	2617	100	29
1976-77	660	103	61	2078	105	23	2738	105	32
1977-78	560	87	44	2390	121	23	2950	113	27
1978-79	878	137	21	2394	121	35	3272	125	31
1979-80	887	138	36	2329	118	33	3216	123	34
1980-81	980	153	42	2143	109	39	3123	119	40
1981-82	1055	164	25	2375	120	29	3430	131	28
1982-83	1010	157	23	2434	123	28	3445	132	26
1983-84	965	150	42	2374	120	36	3340	126	38
1984-85	958	149	18	2357	119	23	3315	127	22
1985-86	883	137	30	2036	103	52	2919	112	45
1986-87	917	143	21	2569	130	42	3486	133	36
1987-88	943	147	23	2298	116	43	3241	124	37

^aIt means Irri rice plus a very tiny portion of other traditional varieties.

Sources: UCG [1989], 'Rice Export Operation Study', Vol-1, table-3.11, p.71; Agricultural Statistics of Pakistan, Government of Pakistan.

In the case of Irri rice, the share of exports in the total output has varied between 42 to 52% in recent years. The export levels show a significant increase since 1985-86. Thus the annual average share of exports in the total increased from 33% for the five year period ending 1982-83 to 40% in the subsequent five year period. The exports in 1987-88 were 88% higher as compared to the base year as against an increase of only 16% in the total output.

The export of Basmatii rice has shown a sluggish performance. Taking the entire period since 1975-76, exports exceeded 400,000 tonnes during only two years -- 1980-81 and 1983-84, the export level in other years being mostly about one half of these quantities. The

export of 188,000 tonnes during 1986-87 was among the lowest levels attained during any of the years. The actual exports during 1986-87 and 1987-88 were in fact lower by 21 and 7% respectively from the base year 1975-76. The annual average share of Basmatii exports in the total output declined from 29% in the five year period ending 1982-83 to 27% in the subsequent five year period. The exports in 1987-88 were lower by 7% compared to the base year as against an increase of 47% in total output.

The export of rice as whole, significantly increased mainly because of the upward trend noticed for Irri rice. The annual average exports in the total output for all rice thus increased from 32% for the five year period ending 1982-83 to 36% for the subsequent five year period. The exports in 1987-88 represented an increase of 58% over the base year as against an appreciation of 24% in total output.

9.2.2 Marketing Channels of Rice Export.

9.2.2.1 Basmati Rice Export.

The Rice Export Corporation of Pakistan (Government Export Agent) which had a monopoly, exported virtually all the Basmatii rice under Government to Government contracts mostly to the Middle East countries. Only a tiny portion of Basmatii exports have been made by the private sector since 1987-88. The sale of Basmatii rice to Gulf countries is on the basis of the agreement with the Council of Gulf Countries, in respect of price and import quantities.

For the sale of Irri rice, the following strategies were adopted:

i) large quantities were sold through tenders floated regularly at intervals of 4 to 6 weeks. Highest bids were generally accepted .

ii) sales were struck to parties desiring the purchase of any specific quantity outside the tender. Such sales were usually concluded at prices at least US \$10 per tonne above the price obtained in the last tender.

iii) direct negotiation with prospective buyers during periods of large accumulated stocks.

iv) sales on a Government to Government basis by negotiation with importing countries.

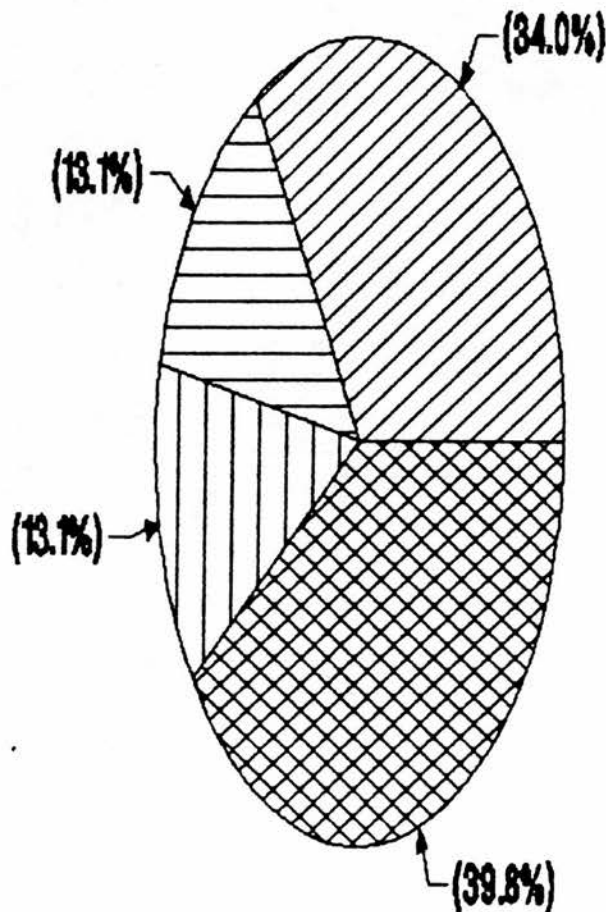
The relative shares of various marketing channels in the total export of Irri rice are shown in fig:-9.6.A (table-9.6). It shows that the sales through Government to Government negotiation are the most important channels accounting for almost one-half of the total sales. Sales through inviting tenders are the second most important channel, its share in the total, varying from about one-third to two-fifths in different years since 1984-85.

Fig:- 9.6.A

AV: (1984-88) SHARE OF DIFF: CHANNELS IN THE EXPORT OF IRRI RICE.

(quantity in %)

- ☐ THROUGH TENDERS.
- ▨ NEGOTIATIONS WITH PRIVATE TRADERS.
- ▤ AT FIXED PRICE WITH PRIVATE PARTIES.
- ▩ GOVT: TO GOVT: THROUGH NEGOTIATIONS.



9.2.3

Directions of Rice Trade.

9.2.3.1

Basmati Rice.

Pakistan exported Basmatii rice to as many as 31 countries during 1987-88 in quantities ranging from only 2 tonnes each to South Korea, and France to 91,624 tonnes to S. Arabia. Since 1975-76, a total of 58 countries have imported Basmatii rice during different years. A number of other countries have also been obtaining Pakistani Basmatii rice indirectly through third countries or through smuggling [U.C.G, 1989, Vol-1, p.74].

Taking the recent six year period, very few countries have been regularly importing Basmatii rice from Pakistan since 1983-84. The actual exports to these countries and the relative share of these 'regular buyers' in the total annual exports are shown in table-9.7.

It appears that the relative share in annual exports to the regular buyers in the Middle East has ranged between a minimum of 92% of total export in 1988-89 to a maximum of 98% in 1983-84. It seems that Pakistan's market for Basmatii rice lies primarily in the Middle East. This percentage has been largely consistent over the past few years. Saudi Arabia has been the largest importer of Pakistan Basmati rice over the past few years.

TABLE - 9.7

BASMATI RICE EXPORTS TO MIDDLE EAST.

(Quantity in metric tonnes and value in 000 Rs.)

IMPORTING COUNTRIES.	1983-84		1984-85		1985-86		1986-87		1987-88		1988-89	
	Qty;	Value.	Qty;	Value.	Qty;	Value.	Qty;	Value.	Qty;	Value.	Qty;	Value.
Abu Dhabi	17120	136752	4147	44114	32078	361229	200	3185	21500	279053	11854	175903
Bahrain	15180	122972	10162	107460	10208	123584	10973	142234	16023	200418	188	2461
Bahai	23040	202904	31604	293806	22275	267416	15738	212250	19221	255470	68069	915459
Iran	159696	1287259	--	--	--	--	--	--	--	--	42540	596279
Kuwait	48420	288631	19466	167216	29441	319750	23057	275223	44540	567221	22467	303274
Qatar	15271	124779	200	2683	9420	110004	7880	99486	8394	108919	19192	253130
S. Arabia	87322	698448	54683	514073	110908	1120633	97839	1149253	87339	1097004	40238	532874
S.of Oman	33234	267772	49026	467821	38733	407976	22611	279074	13600	170124	5498	73587
Others	6646	57404	4772	51365	7442	91145	9356	125064	11208	150113	17910	180949
Total	495929	3286921	174860	1648348	260533	2881737	187654	2285771	221825	2828322	227956	3033916
Top eight importing countries as % of Total.	98.4	98.3	97.3	96.9	79.1	96.7	95.8	94.0	94.9	94.7	92.1	94.0

Sources: Foreign Trade Statistics of Pakistan, Exports April-June, 1985, 1987 and 1989; Richard Schermerhorn, 1990, 'Rice Export Marketing Study', p.22, table-13.

This situation changed drastically in 1988-89 when Saudi Arabia's share fell to 18%. This was partially due to Iran coming in to market for the first time since 1983-84 and a significant increase in purchases by Dubai. The absolute volume of imports of Basmati rice by Saudi Arabia fell by one-half of the volume of the previous year. The share of Saudi Arabia in the total Basmati exports during the last five years was 36%. The next important buyers are: Sultanate of Oman, Kuwait, Dubai, Abu Dhabi, and Bahrain [table-9.8].

TABLE - 9.8
REGULAR BUYERS OF BASMATI RICE FOR THE LAST FIVE YEARS.
(quantity in metric tonnes).

COUNTRIES.	1983-84	1984-85	1985-86	1986-87	1987-88	TOTAL	% OF TOTAL EXPORTS.
Saudi Arabia	87222	5644	115360	101134	91624	451784	36.16
Kuwait	48466	19406	29515	20242	41517	159146	12.7
Iran	159696	-	-	-	-	159696	12.7
S.Of Oman	33234	49026	38733	22611	13600	157204	12.6
Dubai	23559	31468	19845	10409	16111	101392	8.1
Abu Dhabi	16540	4075	32060	3046	22769	78490	6.3
Bahrain	15148	10162	10155	10656	16040	62161	5.0
Qatar	15271	76	8537	8171	8394	40449	3.2
Singapore	1345	566	1810	1917	1179	6817	0.5
U.K	981	166	1937	1780	1920	6784	0.5
Malaysia	1000	700	500	1000	2000	5200	0.4
Mauritius	843	638	772	1410	1233	4896	0.4
Djibouti	529	700	635	843	903	3610	0.3
Australia	379	577	595	575	591	2717	0.2
U.S.A	234	38	119	60	170	621	0.05
Canada	5	24	161	38	89	317	0.03
France	57	55	84	81	2	279	0.02
Sudan	94	20	39	19	96	268	0.02
Denmark	23	18	36	30	40	147	0.01
Germany	1	5	29	37	11	83	0.006
Italy	7	8	11	12	13	51	0.004
Bangladesh	3	5	4	3	5	20	0.002
Total:	404637	174177	260937	184074	218307	1242134	--
Total Exports.	405927	174177	260937	187829	220395	1249094	100
% of total Exports.	96.60	100.00	100.00	98.00	99.00	99.44	

Source: - UCG, vol-1, 1989, table 3.13;

Note: 1. In the original source, the export of Basmati rice to the Sultanate of Oman and Iran has been ignored.
2. The total Exports of Basmati rice mentioned in this table, slightly differs from other sources, because the data covers different dates of the year, for example, June to July, January to December etc.

Taking the recent five year period ending 1987-88, as much as 60% of Pakistan's Basmatii rice exports were accounted for by these six countries. Such a high degree of concentration of export outlets does not auger well for the future as prospects of Basmatii exports are intimately tied up to demand conditions in these local markets only. There are already signs of penetration by other competitors in these markets which may pose serious problems for Pakistan's Basmatii exports. RECP, the former monopoly exporter of Basmatii rice from Pakistan has thus completely failed to tap other regional markets.

One study [UCG, 1989, p.77] concludes that Iran and Iraq have been important buyers of Basmatii rice in the past. The consumer preference there is still reported to be in favour of Pakistani Basmatii. These two countries can thus be considered as potential markets for Pakistan.

There is also a demand of Basmatii rice in EEC, but one study [Choudhary, 1978] concludes that the following factors largely explain Pakistan's poor performance in the EEC market:

i. The EEC market is an extremely quality conscious market and no sub-standard products are likely to find room there. Although Pakistan exports high quality Basmatii rice, the EEC prefers, clean white packed rice of the scented varieties. Moreover, the quality of Pakistani rice leaves much to be desired.

ii. Pakistan faced a stiff competition from the main EEC suppliers

of long grain rice such as USA, Thailand, India, China, Argentina and Surinam. The hardest competition comes from USA and India.

iii. National Tariffs on rice imports from the 'third countries'.

iv. The EC12 provides preferential -- most favoured nations -- treatment (MFN) because of the association status with EEC, to rice imports from African Caribbean and Pacific (ACP) countries through higher relative import quotas, lower import levies, and grants for the improvement of the rice industry in ACP countries. This is confirmed by one study [Warren, et, al., 1990] that about 90% of the EC rice imports under this (MFN) arrangement comes from Surinam only.

9.2.3.2

Irri Rice Varieties.

The Pakistan Irri rice varieties are exported all over the world. The main competitors of Pakistan being: Thailand, USA, and China. A total of 107 countries have imported Irri rice from Pakistan during different years since 1975-76, and in 1987-88 it was exported to only 42 countries. Only 10 of the 107 countries have imported rice from Pakistan regularly, for at least 10 years out of the 13 year period since 1975-76. The international market in this respect has been highly volatile due to changes in the requirements of the importing countries each year, influenced by fluctuations in local outputs, self sufficiency schemes, local agriculture policies, export policies by the developed countries, imports from other countries against credit and aid, and foreign exchange availability

[UCG, vol-1,1989, p.78].

As shown in table-9.9, the annual exports to the main and 'regular buyers' of Irri rice has ranged between 186,166 tonnes in 1984-85 to 871,940 tonnes in 1986-87. Compared with the total annual exports, the relative share of the regular buyers has ranged between a minimum of 34% in 1984-85 to a maximum of 80% in 1986-87. Taking the five year period as a whole, about 64% of the total exports of Irri rice were accounted for by only nine regular buyers.

TABLE - 9.9

EXPORT TO REGULAR BUYERS DURING LAST FIVE YEARS OF OTHER RICE VARIETIES.
(Quantity in metric tonnes).

COUNTRIES.	1983-84	1984-85	1985-86	1986-87	1987-88	TOTAL.	% OF TOTAL EXPORTS.
Sri Lanka.	1200	100	96681	73319	136542	307842	6.8
Turkey.	30000	30500	334	14363	28869	104066	2.3
Bangladesh.	4912	2272	11659	145842	254458	419143	9.3
Senegal.	25097	20000	33356	127699	57165	263317	5.8
Ivory Coast.	178041	7134	115267	151428	30135	482005	10.6
Cameron.	136867	86282	140926	86844	43038	493957	10.9
Iran.	96034	15000	162987	244377	48595	566993	12.5
Dubai.	3533	950	7240	10467	7629	29189	0.7
Togo.	38265	23928	115042	17601	16550	211386	4.7
Total Exports to Regular buyers.	513949	186166	683492	871940	622981	2878528	--
Total Exports of last 05 Years.	853809	544627	1056062	1082699	988566	4525763	--
% of total Export (Irri rice).	60.2	34.2	64.7	80.5	63.0	63.6	--

Source:- UCG, vol-1, [1989] 'Rice Export Operation Study', p.80.

On the whole, the market for Pakistan's Irri rice varieties is much more diverse. The regional classification of direction of trade, given in table-9.10; fig:-9.10-A shows that the exports of Irri rice are more widely distributed among various regions. The African countries have accounted for 52% of exports on average between 1975-76 to 1978-88 and the Asian countries have been absorbing about one-fourth of Irri rice exports from Pakistan for the same period.

TABLE - 9.10

STATEMENT SHOWING REGION-WISE EXPORT OF PAKISTAN'S IRRI RICE.
(Percentage of rice quantity exported.)

YEARS.	ASIA.	N.EAST.	EUROPE.	S.AMERICA.	AFRICA.	PRIVATE PARTIES [†]	TOTAL.
1975-76	43	5	19	1	33	0	100
1976-77	48	1	5	0	46	0	-
1977-78	39	4	9	2	45	0	-
1978-79	20	12	2	2	63	0	-
1979-80	23	8	3	19	46	0	-
1980-81	12	2	7	15	64	0	-
1981-82	26	8	2	10	55	0	-
1982-83	8	7	2	15	88	0	-
1983-84	14	12	11	5	58	0	-
1984-85	5	4	8	0	83	0	-
1985-86	13	17	0	20	50	0	-
1986-87	20	25	1	9	42	3	-
1987-88	43	6	10	0	33	8	-

13 YEARS							
AVERAGE.	23	10	6	8	52	.85	-

Source: UCG, VOL-1, [1989] 'Rice Export Operation Study', p.145.

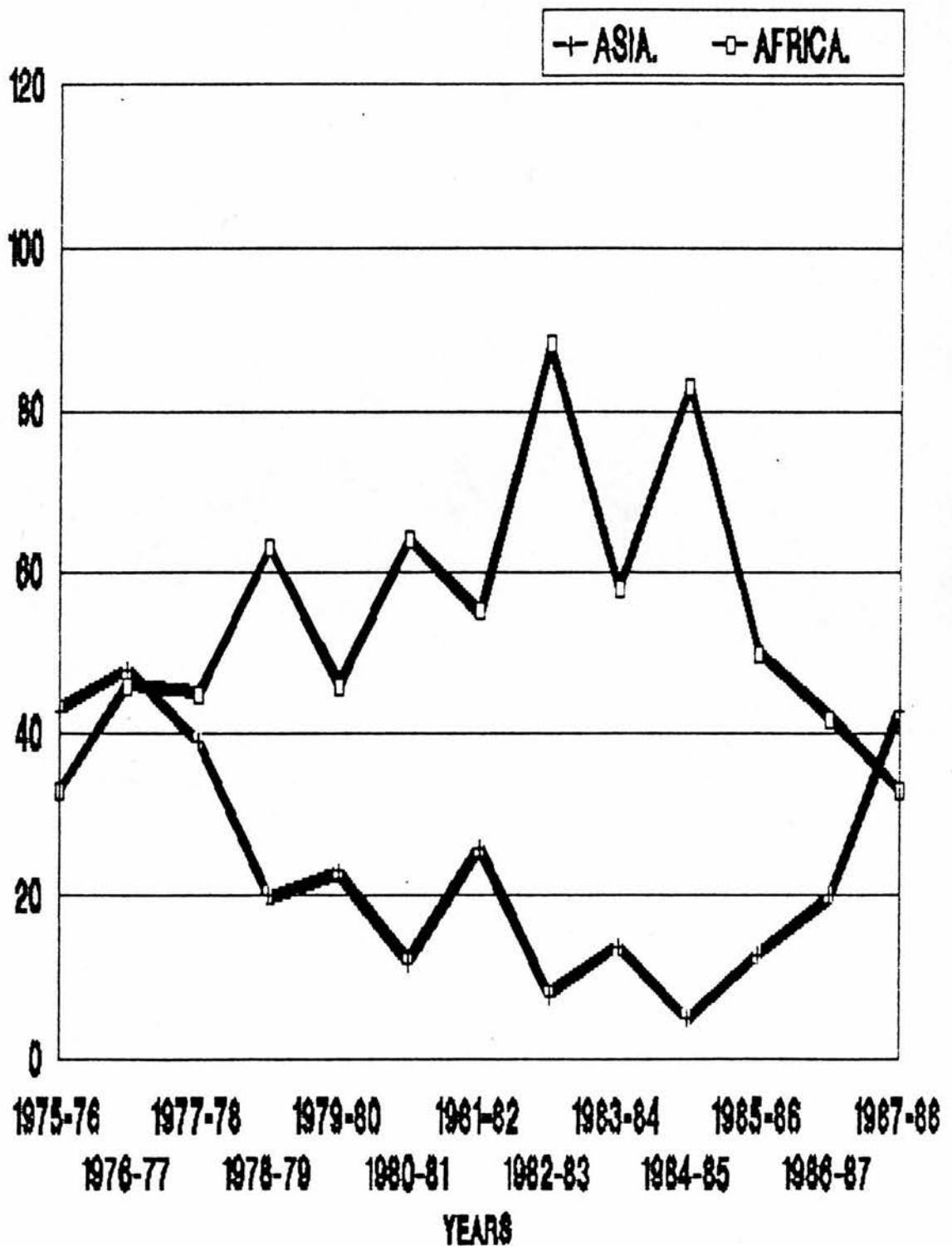
[†]Private sector were not allowed to export directly from Pakistan, but it works as an agent of foreign firms.

Keeping in mind the yearly exports to Asia and Africa, it seems that there are widespread fluctuations in the quantities exported. This is mainly because of two factors -- weather conditions, and the concessional export or food aid by the developed countries. According to the RECP officials, as quoted in UCG [vol-1, 1989, p.81] "Brazil and Mexico in Latin America may also be considered as

Fig: -9.10-A.

RICE (OTHER/IRRI) EXPORT FROM PAKISTAN TO MAIN REGIONS.

(Quantity of rice exported in %).



principal markets for Irri rice but we have not been able to breakthrough in Mexico because of our high prices. Prosperous regions in Asia, Africa, and Latin America like Iran, Algeria, Libya, Syria, Turkey, Malaysia offer good prospectus for Irri varieties of higher grades with 5-10% broken only".

Under Barter arrangements Yugoslavia, Bulgaria, Rumania, and Poland are also important buyers of high grades of Irri rice'. But it can be seen in the above table that these countries are not regular and main buyers of Pakistani Irri rice. It means that RECP is not benefiting from these markets to a great extent.

To know the import and distribution system of Pakistani rice in the U.K, the author distributed the questionnaires [shown in appendix 9-A, and 9-B] to 47 grain importing and distributing companies and only 15 companies replied. It was found that only two companies import Basmatii rice directly from RECP/Pakistan through private parties, who contact the RECP on behalf of them. Further, it was found that the rice imported from Pakistan was not as good as Indian rice in terms of processing quality, hence they were milled again in U.K.

9.3 Export Price Determination for Pakistani Rice.

9.3.1 Irri rice.

There is no international rice exchange in the world where rice can be traded in, as with other commodities. The prices for various

grades of Thai rice which are listed by the Thai Board of Trade, are generally taken as (the benchmark) reference price. According to RECP authorities, these are only indicative in so far as the actual deals made by Thai authorities are at lower than the notified prices. They claim to allow discounts from 3 to 5% over notified prices in Government to Government sales. However, private Thai exporters are generally reported to be selling rice at much below the notified prices, even at 15-20% below notified prices [UCG, 1989, Vol-1].

According to the RECP authorities, Thai rice enjoys an edge over rice of comparable grades in various consuming countries. This is because of the processed quality and the private sector's competitive edge in finding new markets. If Thai rice which is 35% broken is sold at a particular price, the buyer would offer US \$5 to 7 less for Pakistan rice of the same grade. In simple words, prices of Irri rice are roughly determined, keeping in view the prices of similar grades of rice of Thai origin .

9.3.2

Basmati Rice.

The export price of Basmatii rice is fixed each year in consultation with the Gulf Cooperation Council (GCC) countries who are the main importers of Basmatii rice. Pakistani Basmatii rice is sold to other regions, also at the same price [UCG, 1989, vol-II, p.331]. There is no particular formula or criteria for fixing the export prices. But the same study [Ibid, p.250] further confirms that the prices are roughly determined depending in part on the competition from

other countries like India, and Thailand, demand for Basmatii rice and the prices of oil in Gulf countries.

Pakistan's Basmatii rice price for 1988-89 was fixed at US \$675 to 700 per tonne, whereas India was presently reported to be offering Basmatii of comparable grade to 'Pak-10' variety at prices ranging between US \$650 - 680 per tonne. Indian traders were also offering sales on credit and undertaking other aggressive promotional campaigns [UCG, 1989, vol-1, 303].

The price of Basmatii rice was higher in 1978-79 mainly due to the increase in oil prices. In 1982, the price was fixed at US \$700 per metric tonne (p/mt) which was reduced to US \$600 pmt in 1983-84, in view of the falling international rice prices. The price was raised to US \$665 pmt in 1985, to US \$700 pmt in 1986 and to US \$750 pmt during 1987. In the late years, however, a discount of up to 3.35% was allowed to the buyers of 20000 tonnes or more.

The price for 1987-88 crop was fixed at US \$700. The price for 1988-89 crop was fixed on February 19, 1989, at a meeting in Riyadh, between RECP representatives and the Rice Purchase Committee of GCC Secretariat at the following level:

- a) US \$675 pmt for sales of 1000 tonnes or above.
- b) US \$700 pmt for sales of less than 1000 tonnes.

The fluctuations and the main unfavourable factors for Basmatii rice prices were reported to be the following [UCG, vol-1, 1989]:

a) The population pattern in the Middle East has undergone remarkable changes due to the repatriation of a large number of Pakistanis and increasing employment of citizens of countries like the Philippines, Bangladesh, and North Korea, who are ready to work on low wages. These people have a greater preference for other varieties of rice imported from Thailand and USA.

b) The fall in oil prices has adversely affected the demand for Basmatii rice and the Gulf countries are now reluctant to pay high prices.

c) Thailand has developed fragrant rice resembling Pakistani Basmatii and is trying to market the same under the garb of Basmatii.

d) Indian traders are reported to be offering sales on credit and undertaking aggressive publicity campaigns for promotion of sales of Indian Basmatii rice.

9.3.3

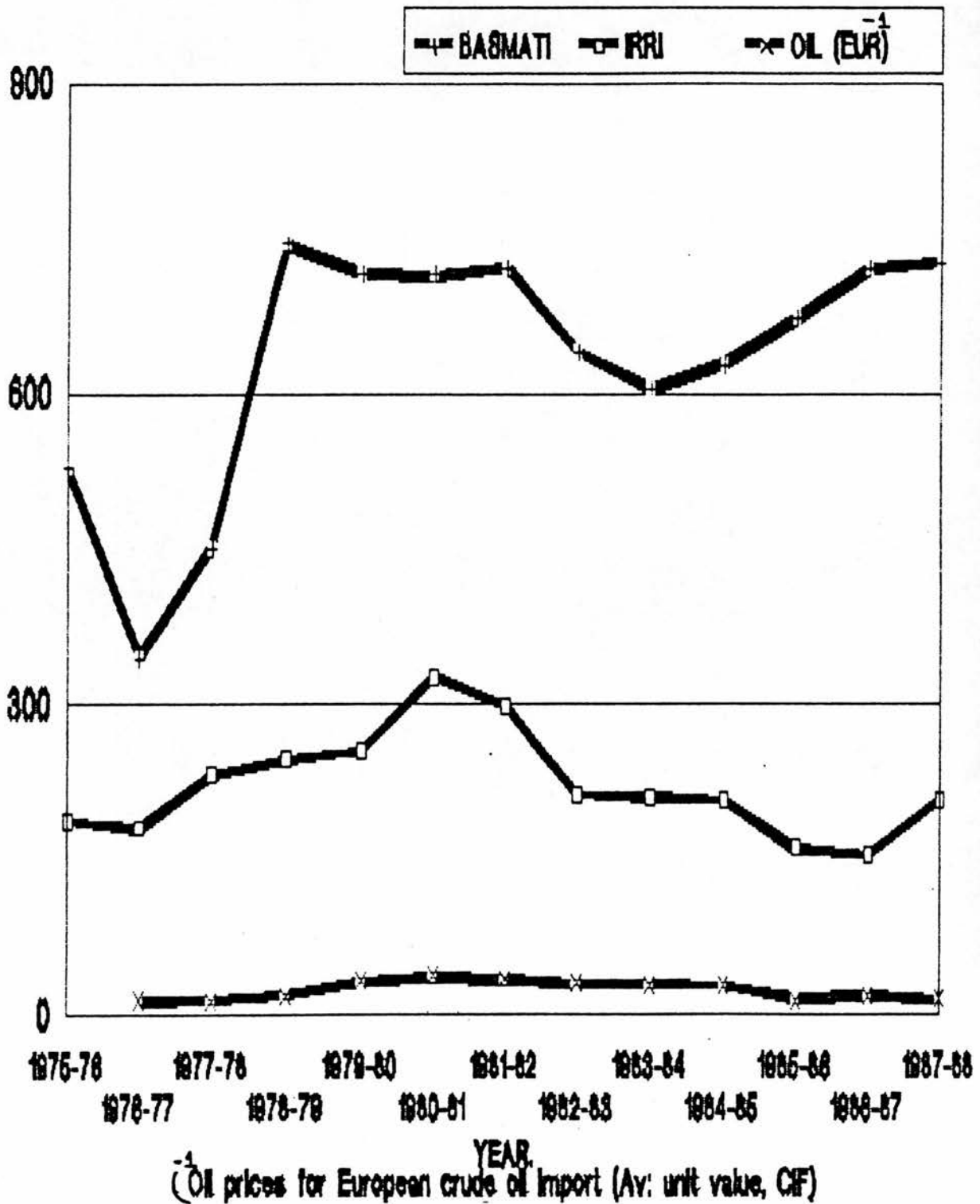
Unit Price of Rice Export.

The average unit prices in terms of US dollars for Basmatii and Irri rice, since 1975-76 are given in fig:-9.11.A (table-9.11). It appears that the proportional increase in the unit prices of Basmatii rice has been higher than that of Irri rice. The trend analysis shows that average prices in 1987-88 were higher by 39% for Basmatii and by 10% for Irri rice as compared to the base year 1975-76. Prices of Basmatii increased because of the monopoly of production by just two countries -- India and Pakistan. Whereas,

Fig:- 9.11.A

AVERAGE OIL AND RICE (BASMATI &IRRI) PRICES (FOB).

(Rice prices in US\$/Tonne and Crude Oil Prices in US\$/bb).
 (Oil prices for European crude oil import (Av: unit value, CIF)



the slow increase in price of Irri rice is mainly because of low quality rice and world competition and protectionism which will be discussed in chapter 10.

Conclusion.

This chapter started by looking at the nature and characteristics of Pakistan's rice exports and export policies. It was found that in Pakistan rice was exported under the monopoly of the RECP, and the private sector has been allowed since 1986-87 to export Basmatii rice under certain conditions.

Restricting private exporters to dealing with Basmatii rice only, limits their ability to offer "package" deals to potential buyers and creates an inflexible pricing situation that results in less opportunities to develop new customers. Restricting private exporters from exporting small packs of rice, limits their ability to supply bulk orders to buyers. Requiring private sector sales of Basmatii rice to be priced at not less than the negotiated GCC bulk price, places some limitations on the private exporters ability to compete effectively with the increasingly stiff competition from private traders in India and Thailand. Subjecting private sector rice exports to inspection and quality control by the RECP, places limitations on the private sector because it is against the normal practice of the international trade system to have one exporter (RECP) responsible for the quality control of other exporters.

In this study, we conclude that the RECP, on the whole is

relatively inefficient which results in high cost operations that, in turn, places rice exports in a continuously cost increasing situation'. This situation obviously makes it more difficult to compete on the world market. This situation is especially critical for Pakistani rice as it faces new suppliers of rice, both Basmati from India and Thailand and Irri type rice from Thailand, U.S.A, China, and more recently from Vietnam. Improved marketing efficiency is a must if it is to continue to function in the rice export market.

The next chapter will deal with the agricultural policies and rice trade of the developed countries and the prospects for agriculture trade liberalisation in the world in general.

PART - III

CHAPTER - 10

WORLD RICE TRADE AND AGRICULTURAL POLICIES IN GENERAL.

The main object of this chapter is to briefly describe in general the world rice trade and agricultural policies by the developed countries and also to examine the prospects for agriculture trade liberalisation.

The chapter is organised as follows: Section 10.1 deals with the world rice trade; and the agriculture trade distortion policies are summarised in section 10.2. In section 10.3 prospects for agricultural trade liberalisation have been summarised.

10.1 World Rice Varieties and their Price Differences.

Rice is a highly differentiated product and its market is segmented and imperfect. Partly as a result of the wide differentiation in product and a lack of market integration, there are significant differences among the exporters in average value and quality traded. There is no average price of rice as there is for wheat. However, the international prices generally quoted are for Thailand, the largest exporter, and the USA.

Rather than a single price being evident in the world market, the observation is that there are a number of specific prices according to rice types, qualities and the country of origin (table-10.1) [Timmer and Falcon, 1975].

TABLE - 10.1

AVERAGE EXPORT PRICES OF SELECTED TYPES AND QUALITIES OF RICE.

(US \$ per ton)

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Thailand long grain											
100% white (FOB)	380	268	286	382	354	449	489	299	290	262	227
Thailand broken Al-											
super (FOB)	244	176	183	224	198	252	250	198	194	212	172
Thailand brokens 30-											
35% (fob).	n.a	n.a	233	339	297	387	408	242	240	233	197
Thailand parboiled											
(fob).	279	230	272	367	312	391	431	269	270	258	221
USA long grain (fas)	420	318	309	416	409	435	503	385	391	403	361
USA parboiled (fas)	459	311	342	441	477	510	573	470	471	489	496
USA medium grain											
(fas).	385	242	274	297	291	348	448	364	209	333	328
USA short grain											
(fas).	376	257	273	324	345	468	581	517	562	543	429
Pakistani Basmati,	524	354	451	743	715	713	721	639	604	628	678
(FAQ).											
Pakistani Irri,(FAQ).	187	180	232	247	255	326	298	212	210	207	160

Sources: UCG, 1989, vol-1, p.73, table-3.12; Board of Trade Bulletin, Thailand and USA.

In terms of demand for the various types of rice, there are large regional varieties; for example, most of Africa's rice imports in the last decade were low quality -- with more broken -- long grain. In contrast, imports to the Middle East are predominantly long grain and high quality; and in the Far East, long grain has been the dominant type imported for most years. There is a much smaller market for short grain, 'Japonica' varieties, grown widely in East Asia like Japan, Korea, Taiwan, and China.

Low quality, par-boiled rice is produced and consumed largely in South Asia. High quality, par-boiled rice is produced by major exporters, such as Thailand, United States, and shipped to Africa and Middle East. Par-boiled rice accounts for about 10% of trade. Glutinous rice is consumed as a staple food in the territory stretching from the Shan areas of northern Burma to the north and north eastern Thailand, Laos, and the mountainous areas of Vietnam. It is also consumed in small quantities in sweets, snacks, and desert dishes, usually on festive occasions, in many countries in East and Southeast Asia. Only a very small portion of glutinous rice enters world trade.

Basmati rice -- long-grain, scented or aromatic varieties -- are grown largely in Pakistan and in India only, and the volume traded is limited to about 300,000 to 400,000 metric tonnes annually.

10.1.2 World Rice Production.

The annual world rice production in recent years is estimated to

have been in excess of 450 million tonnes -- approximately 300 million tonnes of milled rice. A high proportion of this production is concentrated in Asia, which in 1985 accounted for about 92% of a world total of 460 million tonnes (Fig:-10.2.A and table-10.2).

In table-10.2 [see appendix - tables], it is mentioned that among the group of Asian rice producing countries, China alone produced about 37% of the world total in 1985. Rice production, in contrast to other food grains such as wheat, is primarily located in Third World countries. Taken together these countries accounted for around 94% of global rice output between 1981 and 1985 compared to 6% produced by the industrial countries like U.S.A, Japan, EEC, and Australia [Nick Amin, 1987]. Developments in world rice production during the 1970s are centrally related to the spread of high yielding varieties (HYVs), first introduced in many Asian countries in the 1960s.

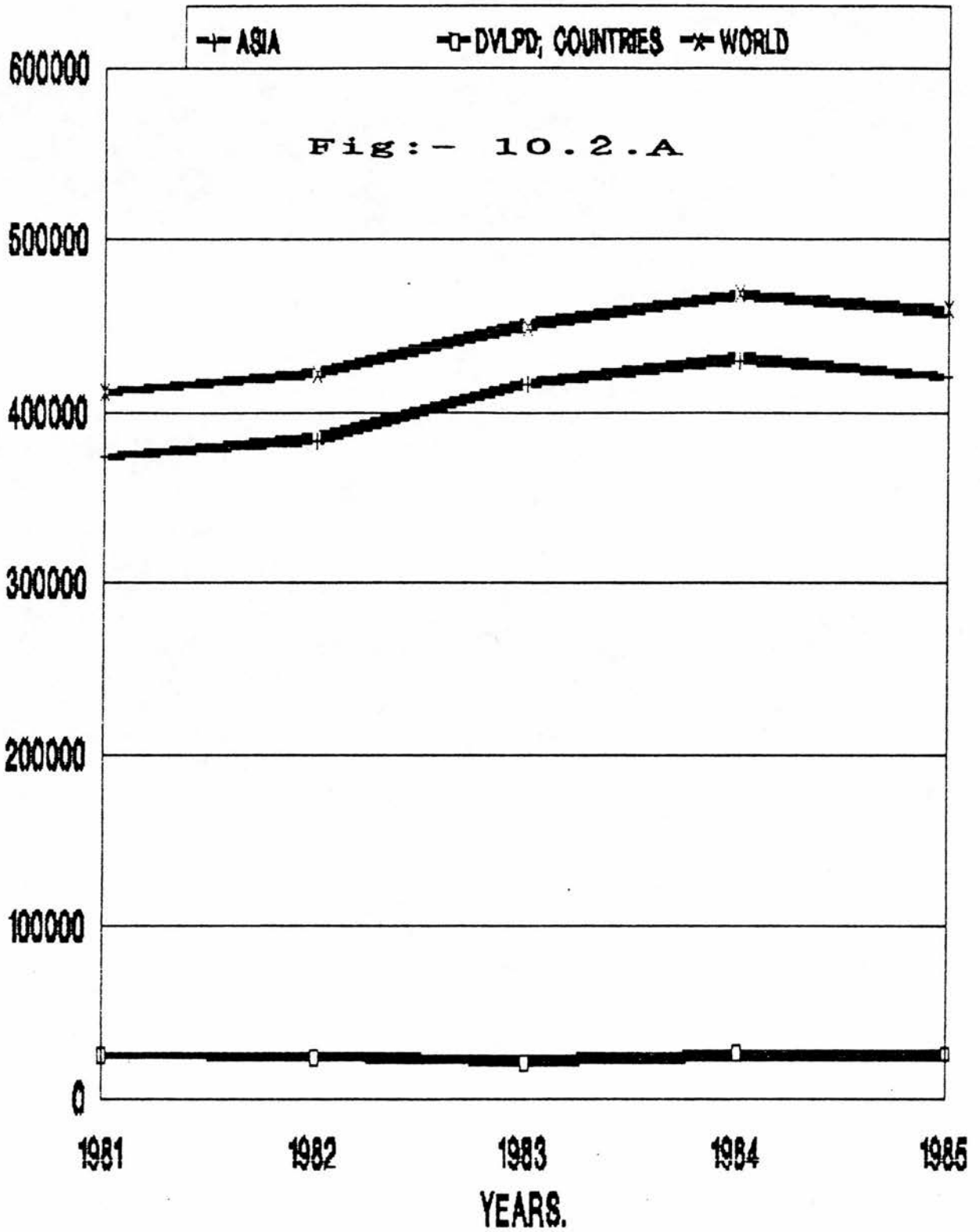
10.1.3

World Rice Trade.

The developing countries including China, who are the major producers of rice are mainly consuming rice within the country and a small portion of it is exported. On a global basis, the share of trade as a proportion of world rice output is estimated at around 4% only (fig:-10.3-A and table-10.3). Although the volume of world rice trade increased from 6.47 to 11.4 million tonnes during 1965-88, it never exceeded more than 4.2% of the total. It seems that the international rice market is very thin in terms of the small volume of trade relative to the production. Thus, the effect of

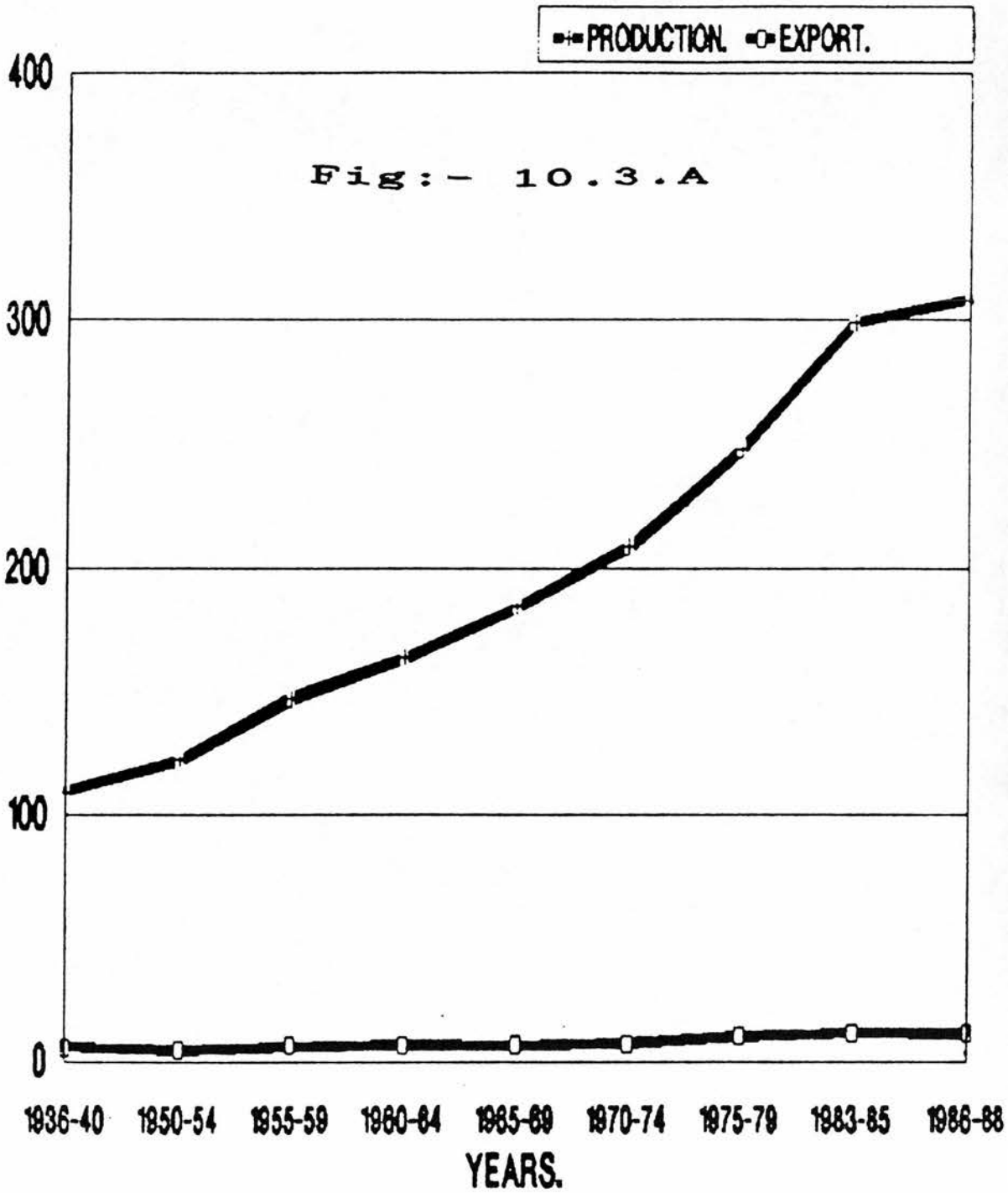
PADDY PRODUCTION IN PRINCIPAL COUNTRIES/REGIONS.

(000 TONNES).



AVERAGE WORLD RICE PRODUCTION AND EXPORT.

(Million metric tonnes).



year-to-year fluctuations in production is likely to be reflected in substantial price volatility.

10.1.3.1

Trends of World Rice Trade.

Asian rice producing countries have continued to play a dominant role in the world rice trade since early times. Within Asia, the pattern of trade has changed markedly: Vietnam and Burma lost their position as major exporters, and China and Japan shifted from an import to an export position. Thailand succeeded in maintaining a dominant role not only in Asia but in the world. Its share of rice exports in world never fell below 20%. Although Burmese exports exceeded those of Thailand for more than a decade after World War II, but Burmese domestic policies, particularly the maintenance of domestic rice prices well below world market level, led to a gradual collapse of rice exports in the late 1960s and early 1970s [Nick Amin, 1987].

In the post war period, three other countries have emerged as leading exporters of rice - the United States, China, and Pakistan. The five major exporting countries as a group, that is, Burma, China, Pakistan, Thailand, and the USA have, on average accounted for about 70% of the world exports since World War II [Randolph, Barker, et,al., 1985].

Thailand, till 1987 has contributed about one third of the total rice trade. USA, China, and Pakistan were the next major exporters, accounting for 19, 10, and 10% of the total exports respectively

during 1985-87. Thailand's position in maintaining itself as the world's largest exporter of rice has been primarily due to the cumulative effects of a number of policy initiatives that have been taken since 1981 to encourage and expand export sales. The more recent measures have been aimed at reducing in Government control and intervention in rice production and trade. With increased liberalisation, domestic prices of rice, both at farmer and consumer levels, now move in line with international rice price movements. The most important developments in production policies have been: the expansion of measures to assist farmers in withholding market supplies during the harvest season so as to provide greater stability of prices and thus avoiding sharp declines, and the increased involvement of local private traders in these farm programmes [UCG, vol-1, 1989].

Major developments in trade policies include: complete elimination of export tax, progressive reduction in direct Government procurement and export, the extension of low interest rate loans in support of private rice exports, and the overall continuation of broad moves towards liberalising trade, with the policy changes, the volume of rice exports has expanded. Thailand's export share of the world market has risen progressively from under 25% at the beginning of the 1980's, before the process of liberalisation started, to over 40% in 1988 [table-10.4]. After an initial sharp increase in export volume between 1980-84, export volumes have been maintained at relatively high levels. As a consequence, rice has continued to generate a significant proportion of Thailand's total agricultural export earnings [Ibid].

TABLE - 10.4.

RICE TRADE OF RICE EXPORTING COUNTRIES & THEIR SHARE OF WORLD MARKET.

REGION/COUNTRY.	Average Annual Net Exports, (1000 mt.)					Percent of World Exports.				
	1961-63	1969-71	1976-78	1978-80	1983-85	1961-63	1969-71	1976-78	1978-80	1983-85
Asia:	4177	4790	4601	5977	7370	46.0	61.6	48.5	57.3	69.9
Burma,	1682	694	474	546	682	25.8	8.9	5.0	5.2	6.5
China,	554	1415	1260	1151	1047	8.5	18.2	13.3	11.0	9.9
Japan,	-179	593	-5	395	83	-2.7	7.6	-0.0	3.8	0.8
Kampuchea,	249	90	13	-127	-140	3.8	1.2	0.1	-1.2	-1.3
Korea D. Republic,	7	82	257	310	215	0.1	1.1	2.7	3.0	2.0
Nepal,	173	245	113	65	22	2.7	3.2	1.2	0.6	0.2
Pakistan,	217	426	808	1012	1106	3.3	5.5	8.5	9.7	10.5
Taiwan,	52	24	124	302	264	0.8	0.3	1.3	2.9	2.5
Thailand.	1422	1221	1558	2323	4091	21.8	15.7	16.4	22.3	38.8
Central & South-										
America:	229	380	716	130	76	3.5	4.9	7.5	1.2	0.8
Argentina & Uruguay,	41	150	243	233	293	0.6	1.9	2.6	2.2	2.8
Bolivia, Costa Rica,										
Nicaragua & Panama.	-19	9	43	47	-11	-1.0	0.1	0.4	0.5	-0.1
Brazil,	65	105	207	-299	-289	-1.0	1.3	2.2	-2.9	-2.7
Columbia,	-12	7	52	25	39	-0.2	0.1	0.5	0.2	0.4
Ecuador & Venezuela,	17	25	7	-16	-13	0.2	0.3	0.1	0.1	-0.1
Guyana & Surinam,	106	91	144	174	164	1.6	1.1	1.5	1.5	1.5
Mexico,	31	-7	20	-34	-107	0.5	-0.1	0.2	-0.3	-1.0
European Exporters:	212	495	298	385	382	3.2	6.4	3.1	3.7	3.6
Italy,	155	444	251	323	362	2.4	5.7	2.6	3.2	3.4
Spain,	57	51	47	53	20	0.9	0.7	0.5	0.5	0.2
Other Exporters:										
Australia,	52	132	271	352	328	0.8	1.7	2.9	3.4	3.1
Egypt,	242	647	157	139	35	3.7	8.3	1.7	1.3	0.3
United States.	1022	1634	2185	2500	2084	15.7	21.0	23.0	24.0	19.8
World Gross Exports.	6769	7880	9704	11237	11597	100.0	100.0	100.0	100.0	100.0

Source: Nick Amin, [1987], 'Characteristics of International Rice Market', table-6, p.36.

Note: Pakistan excludes East Pakistan or Bangladesh.

Evidence [table 10.4] on export levels of individual countries over the 25 years clearly show the wide periodic fluctuations coupled with the changing market shares for a number of important exporters. In this context Egypt presents an interesting case, its average exports in 1969-71 were 8.3% the fifth largest share of the world export market, by the eighties its market share was less than half a percent (0.3%).

Areas outside Asia, like U.S.A, EEC and Australia are gaining an increasing market share. Although the share of rice output of the developed countries such as U.S.A., EEC, Japan, and Australia, in the world total output is relatively small -- approximately 6%, their role in world trade is highly significant [Nick Amin, 1987].

The penetration of the international rice export market by the industrialised countries except Australia has been largely achieved through export subsidisation. The subsidy has the effect of increasing competition in the global rice market. The developed countries thus have been able to increase their share of world trade as they can export at prices having no relation with the local cost of production. Hence, the lower price of their rice has made it more attractive for several countries in South America, Africa, and the Middle East. The result is that the market share of third world countries in world exports has steadily declined from 90% prior to World War II to 60% in recent years [table -10.5].

TABLE - 10.5

RICE EXPORTS FROM SELECTED COUNTRIES.

(000 mt MILLED RICE).

Country.	1934-36	1954-56	1959-61	1964-66	1969-71	1974-76	1978-80	% annual growth 1959-61 to 78-80
Burma	3118	1656	1668	1281	664	345	535	-5.6
China	13	671	1049	892	930	2648	1483	3.8
Pakistan	-	141	87	157	324	619	959	11.6
Thailand	1558	1266	1290	1763	1221	1289	2383	2.9
ASIA	8892	4087	3778	4981	4445	5456	6826	2.0
U.S.A	41	662	791	1410	1712	1990	2546	5.0
Others ^a	607	834	869	1140	1610	1542	2046	4.7
WORLD.	9540	5583	5439	7531	7767	8988	11418	4.0
Asia as % of world.	93	73	69	66	57	61	60	-
5 leading Exporters as % of World.	50	79	68	73	62	77	70	-

Source: Randolph Barker, [1985] 'Rice Economy of Asia', table-13.14, p.189.

^aAll other rice export, excluding Asia and the U.S.A.

Looking at the trend in rice import, there has been a marked shift in the import pattern over the last 25 years, which in the main signify a movement away from Asia's dominance in the market [table-10.6; Fig:-10.6.A)] Against this, demand for imported rice increased in both Africa and the Middle East and in each case, the share of imports tripled between the sixties and the eighties. Among most of the Asian importing countries, rising levels of domestic production have been responsible for declining imports. High yielding varieties, coupled with policies promoting self sufficiency have contributed to this process [Nick Amin, 1987].

10.4 Agriculture and Trade Distortion Policies by Developed Countries in General.

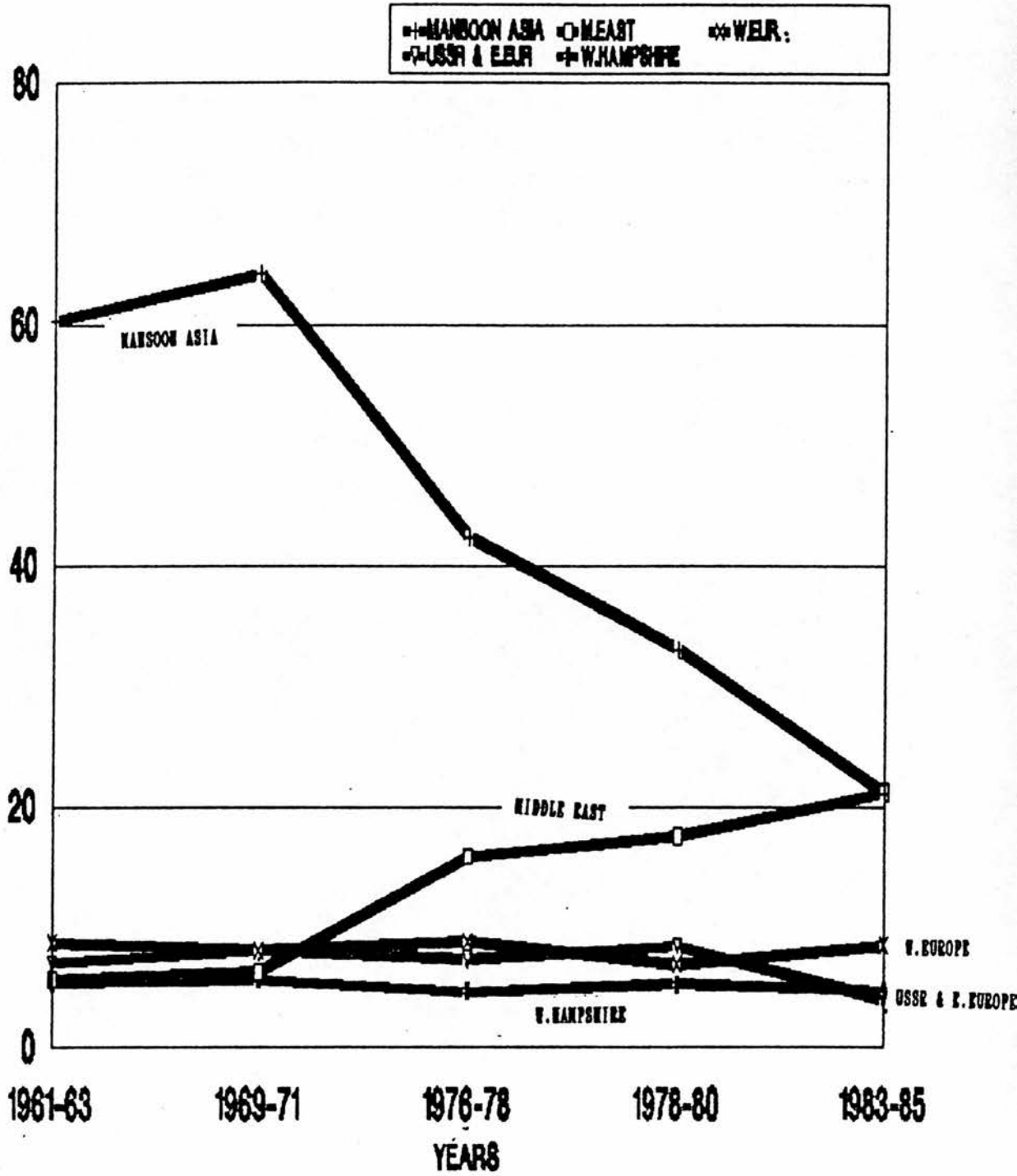
With few exceptions, almost all countries intervene in their agricultural markets creating growing imbalances in world supply and demand, shifting world trade patterns, and distorting world agricultural prices.

Protectionist policy depresses the world market prices and reduces the volume of international trade. The main loser are the low-cost exporting countries, which find their foreign exchange earnings and their overall welfare reduced. However, the high cost countries which protect their agriculture lose too, since such policies lead to an inefficient use of their resources [Knudsen and Nash, 1990].

"Protectionism is a grave threat to world economic growth" [Commonwealth Heads of Governments, 1975].

Fig:- 10.6.A

AVERAGE RICE IMPORT BY MAJOR REGIONS AS A % OF WORLD IMPORT.



Finger and Olechowaki [1987, p.37] asserts that 'trade restrictions are disproportionately imposed against the exports of developing countries and are disproportionately imposed by the developing countries. They suffer on both the accounts - probably more on the latter than on the former'. Further they [Ibid, p.58] says that, 'an open international trading system is in the interest of each nation and the major part of the costs of any nation's trade restrictions are borne by that nation itself'. He makes an analogy of 'world and a country' with a 'team and a member of the team'. In this regard he says that, 'if a member of a team shoots himself in the foot, the effectiveness of the whole team is reduced considerably. 'Today's players shoot themselves a lot, and those less skilled even more so than others, because Governments intervene in trade to protect the economic interests of particular group. The cost of trade restrictions are almost always greater than their benefits, and that these costs are borne primarily by the citizens of the country which imposes the restrictions'.

One of the few propositions on which almost all economists seem to be in agreement, concerns the undesirability of the trade restrictions which are applied by the EEC and other industrial countries to imports from the developing world. Restrictions impose economic costs on the industrial countries themselves, and they limit the opportunities of developing countries to prosper through greater participation in international trade.

One study [Cable Vincent, 1987, p.309] found that if all barriers were removed in the industrial countries, LDC's manufactured

exports would be 30% higher by 1985 than the trend figure.

Voldes Zietz [1980] as quoted in the same study [Ibid, p.310], shows that agricultural exports from developing countries could increase at least by 11% if agricultural trade barriers were cut by only 50%, but the net gains to LDCs as a whole -- US \$400 million -- is considerably less than the gains to exporters (\$1 billion).

Anderson and Tyres [1983] in their study, as quoted in Vincent Cable [1987, p.314], show that the community's [EEC] grain and meat policies depress the world prices by around 15%, increase world price instability by 30 to 100% and reduce welfare substantially both in the community and the producing countries.

Looking at the Common Agriculture Policy (CAP) as a whole, Burniaux and Wealbroeck [1985] as quoted in the same study [Ibid]], calculated that real incomes in developing countries as a whole would be almost 3% higher in 1995, if the CAP evolved along its present path. From the trade point of view, it is interesting to see that the terms of trade are improving under the EC trade liberalisation for almost all LDC's.

What would happen if the USA removed all its programmes [liberalise] unilaterally? According to Tyres and Anderson [1986] as quoted in Sanderson [1989], the trade effects would be much less than in the case of EC liberalisation. This, of course, is due to the fact that the reduction of price incentives to producers would be approximately offset by the elimination of acreage restraints.

Only in dairy products would there be a significant (5%) improvement in world prices. Wheat and rice exports would decline; exports of pork and poultry would increase slightly. USA producer prices would drop by half in the dairy sector, by 28% in sugar, by 23% in rice, and by 14% in wheat.

Another study [UNCTAD, 1986] calculates the gains to 20 developing countries from the complete liberalisation of all Tariff and selected 'Non-Tariff Barriers' (NTBs) in the EEC, Japan, and the USA. It showed that there is an estimated gain to LDCs in export earnings from liberalisation on an MFN basis of US \$29.5 billion -- an increase of 12%. It seems that their removal would contribute a significant gain to developing countries export.

10.4.1 World Rice Trade Distortions.

Few commodities are so heavily influenced by Government policies, as the international market for rice. This is because the key players in the rice markets are governments rather than producers and consumers. The widespread use of concessional sales, Government to Government contracts, State trading agencies, and import and export barriers means that, world prices have little direct relevance for production and consumption decisions in most countries [Walter P. Falcon and Eric A. Monke, 1979-80].

In the case of rice, as quoted in the same study [Ibid] the FAO, Intergovernmental Group on rice, at its annual session in March 1987, expressed concern over the depressed world rice market

situation. It was noted that the increased use of export aids in some countries had rendered small exporting countries uncompetitive on world markets, even when they had comparative advantages in growing rice. Rice exports were at their lowest levels in many years. It was further concluded that low world prices had caused many exporting countries to cut back on production. The group was also concerned with the adverse effects that low world prices had in importing countries.

While recognising that low prices were welcomed by those countries which were not trying to increase their rate of self sufficiency, many other importing countries found that cheap imports had acted as a disincentive to their domestic production programme.

The same study [Ibid] has also looked into the effects on the volatility of world market prices and found that protectionist policies significantly increase world market price instability, by as much as 100% or more. This is because protection of domestic agricultural markets in developed countries reduces the size of the market volume which could buffer fluctuations on world agricultural commodity markets due to present policies, and are particularly harmful for developing countries.

The policies impinging on world rice markets can be categorised as either trade restrictions or trade incentives. Both types of trade policies tend to distort world rice trade and price levels away from what they would be under free trade. The major obstacle in expansion and growth of world rice trade is the tariff¹ and non-

tariff² barriers imposed by developed and developing countries. There are hardly any countries which do not impose any restrictions, whatsoever, on their exports or imports of rice.

One study [FAO, 1983] concludes that barriers to rice trade, have a number of undesirable consequences. Inside the country, tariff and non-tariff barriers to imports tend to raise domestic prices and unless subsidies are given, which most developing countries can ill afford, the price to the consumer is raised and consumption is reduced. In countries where rice is staple food, the effect on the consumer price is of particular concern. Barriers to imports can also misallocate the domestic resources by encouraging the production of a product in which the country is relatively inefficient. The widespread adoption of such barriers also has negative effects on world trade. The volume of trade is reduced and, in certain circumstances some exporters are forced to reduce production. Competition for the remaining market is intensified, with increased resort to export subsidies and other export aids which very few developing countries can afford. In such a situation developing exporting countries suffer the most from the reduction in their export revenues as they rely heavily on rice as a source of foreign exchange.

The same study [Ibid] regarding 86 rice trading countries and the EEC examining rice trade barriers, showed the trade control measures to be widely prevalent. On import measures, it was found that in all 16 net exporting countries some form of control was in operation to limit imports. For the remaining 70 countries and the

EEC, 30 had no tariffs on rice while 40 applied them; though most had relatively low levels - less than 15%. However, the majority of countries with low tariff levels had non-tariff barriers to control import levels. In total, there were 50 countries in which States restricted imports either by issuing licences to private traders, by setting annual quotas, or through direct engagement in trade. Thus, of the 50 countries with non-tariff barriers in place, 30 used import licences, 5 set quotas and 25 had state monopoly trading to limit trade.

With regard to export measures, the same study [Ibid] found considerable evidence of State regulation which in some countries acted as a restraint on exports. The purpose of export control measures was either to raise revenues through taxes or to stabilise domestic markets through quantity controls. In other developed countries, however, the State subsidised rice exports in order to encourage exports, particularly in times of low international prices.

Another FAO study [FAO, 1988] of about 98 countries including EEC, also showed that the trade control measures are widely prevalent.

One recent study [Cramer, et,al., 1990] as quoted in Warren R.Grant, et, al., [1990, p.iii] concludes that world rice trade is 48% lower as a result of rice policy distortions, than would be the case under free trade. The study estimates that policy interventions have reduced world exports of high quality 'Indica' rice by 15%, low quality 'Indica' by 39% and 'Japonica' by 83%. The

study also concludes that the respective prices of high quality and low quality 'Indica' and of 'Japonica' rice are 25%, 5% and 61%, lower than would occur under free trade.

10.5. Prospects for Agricultural Trade Liberalisation.

10.5.1 Recent Developments and Prospects for Liberalisation.

Several proposals in the past have been considered by the GATT, advocating reduced support to agriculture and the liberalisation of agricultural trade, but no fruitful results have been achieved.

Nowadays there is a greater recognition of the high and rising costs of protective barriers and domestic policies affecting agricultural trade products. Recently, liberalising world trade in agricultural products has been receiving greater attention in the multilateral trade negotiations (MTNs) under the auspices of the General Agreement on Tariffs and Trade (GATT) than was the case of previous rounds.

Recently, the European Community Ministers surprised the world on May 21, 1992 and clinched an unprecedented agreement to begin reforming the Common Agriculture Policy (CAP). This promised deal matters not just for the EC's consumers and taxpayers, who have to pay the cost of the CAP's distorted prices and subsidies, but for people everywhere [The Economist, May 23 1992]. After three days of almost continuous negotiation, the ministers agreed to move away from spending £23 billion a year on fixing the community's food prices, paying instead for more direct financial assistance for

farmers.

The benchmarks set at the GATT talks for the reform of European farming was the plan suggested by Arthur Dunkel, the agency's (GATT) director-general, last year. For cereals, where Europe and America have been furthest apart, the Dunkel plan called for cuts of 20% in the value of the CAP's production subsidies, of 36% in the value of its export subsidies, and of 24% in the volume of its subsidised exports. The new plan easily does the first two, but fails to do the third. The reason for that failure is simple. Europe aims to replace some subsidies to producers with direct payments. The effect of this switch on the EC's output of cereals will depend on precisely how the payments work. The new regime would still distort the trade, but less than the present one. And it would make the costs of the CAP more visible, which prepares the way for further reforms later ['The Economist', May 23-29, 1992].

Nevertheless, as a result of the deal, grain prices will be cut by 29% and farmers will be obliged to take 15% of land used for cereal production out of use. Farmers will be paid 45 ecu (£31.50) per tonne of grain as long as they adhere to the 15% rule. There will also be production ceilings for the land still farmed. Beef prices will be cut by 15% and butter by 5%.

As reported by Maxwell Fordyce [The Scotsman, Daily, May 22, 1992] the net effects of the new reformed CAP will be to bring EC cereal prices much closer to the theoretical world price and, possibly, persuade the U.S to settle the world trade talks, the General

Agreement on Tariffs and Trade, which have lumbered on almost five-and-a-half years, stuck on rows over subsidies.

As far as the case of rice is concerned, according to Cramer, et, al., [1990], the complete and immediate elimination of non-tariff barriers is not likely to result from current negotiations in GATT, the next trade liberalisation process of world rice markets would involve as a first step the transformation of all non-tariff barriers into their equivalents, that is, 'tariffication'. The next step would be a gradual reduction in tariff levels over time. The advantage of tariffication is that not only a greater world trade volume can be achieved but also volatility in world markets can be substantially reduced.

10.5.2. Pakistan's Position Towards the Uruguay Round.

Pakistan is an important player in several world commodity markets, such as cotton, rice and wheat. It has substantially increased the quantity and quality of its cotton output in the past 5 years, so it will most likely remain a major exporter. In Pakistan, rice exports are state regulated. Exports of coarse rice, while generating foreign exchange, often incur losses for the RECP, although these are offset by profits on Basmatii rice. Pakistan is marginally self-sufficient in wheat, its staple food, periodically importing substantial amounts.

At present, Pakistan's reported posture towards the negotiations in the current GATT round is based largely on its traditional exports

of textiles and cotton [Ender, Gary, 1990]. This is not surprising, because the textile industry has long formed the core of the manufacturing sector and is a major employer. Moreover, cotton and cotton products account for about one-third of all Pakistan's exports.

The same study [Ibid, p.12] concludes that there may be three different possible scenarios for GATT negotiation achievements and Pakistan will reap the benefit under whatever path the agricultural trade liberalisation might take. The three different possible scenarios for GATT negotiation achievements are described as follows:

- i. reduction in support only when aggregate support to agricultural producers is positive.
- ii. reduction in positive support for each commodity or policy where it occurs.
- iii. complete liberalisation, involving elimination of all instances of positive and negative support.

CONCLUSION.

This chapter began by looking at the agricultural policies of the developed countries and the world rice trade in general. It was found that the developed countries', mainly USA., EEC and Japan's agricultural policy has negative effects on world trade. The result

is that the volume of trade is reduced, price is decreased, in certain circumstances some exporters are forced to reduce production, and competition for the remaining market is intensified, with increased resort to export subsidies and other export aids. In such a market, the developing countries who are dependent on rice as a source of foreign exchange, suffer the most.

Nowadays, there is a greater recognition of the high and rising costs of protective barriers and domestic policies of the developed countries. With the initiatives of the U.S Government, the EEC has moved towards liberalisation and has liberalised the agricultural markets partially. But it is too early to comment, on the path of agricultural trade liberalisation. Nevertheless, whatever path the agricultural trade liberalisation will take, Pakistan will reap the benefit of it.

In next chapter the author will turn to a general conclusion of the study and major recommendations.

Foot Notes.

¹ It is a tax or duty imposed on the import or exports.

² It includes the following:

- a) State trading, (Direct Government control).
- b) Quantitative restrictions (quotas and embargoes).
- c) Licensing.
- d) Health and sanitary regulations.
- e) Export Restitution/refund/subsidy/ and aid.
- f) Variable levies.

CONCLUSIONS AND RECOMMENDATIONS.

Introduction.

In this chapter, the whole study is summarised. The preferred policies for Pakistan's rice marketing and the suggested methods for their implementation are specified, with the aim of improving the marketing of rice in Pakistan, which is the main focus of this thesis.

The principal objectives of this dissertation were: to identify the weaknesses of Pakistan's rice marketing; to identify the specific rice export impediments; to explore ways of improving the existing rice marketing in Pakistan; and to generate lessons for LDCs' agricultural marketing efforts.

This thesis has examined paddy and rice marketing in Pakistan with special reference to whether or not it should be liberalised. In the first section of this chapter, there is summary of main findings. The conclusions and recommendations of the study are summarised in section two. Lessons for LDCs' from Pakistan's rice marketing experience are presented in section three. Finally, suggestions and recommendations, and areas for further research, are given in sections four and five respectively.

11. 1.

Summary of the Main Findings.

11.1.1 Agricultural Policies in Developing Countries in General.

As highlighted in chapter II of this study, the predominance of the agricultural sector in many developing countries' economies, is often one of the main characteristics. This is because agriculture is not only one of the largest contributors to the national income but also the major source of employment and foreign exchange earnings. It is also the provider of grain for food especially for the growing urban population and for the generation of surplus profits to finance the development effort.

Governments have distorted agricultural prices and historically intervened in the agricultural price determination and marketing through state agencies. Usually prices are set to meet political objectives. Typically producers are heavily taxed and the consumers - industries and the urban people - subsidised [World Bank Report 1986, and Knudsen and Nash 1990].

Protecting industry at the cost of agriculture has resulted in substantial discrimination against agriculture - a point that Barrington Moore emphasises when he says: "*just what does modernisation/industrialisation mean to peasants beyond the simple and brutal fact that sooner or later they are its victims?*" [see Moore, quoted in Bates 1981, p.7]. "*As part of the modernisation process, the peasantry is compelled to surrender its resources to the upper class, to the states, and to the industrial sector*"

[Bates 1981, p.7].

In agriculture, farm prices are often suppressed to provide subsidised food or raw material to the consumers. To compensate the producers, for their suppressed prices, they are offered input subsidies. The conflict of policies involved in pursuing both suppressed crop prices and subsidised farm inputs has resulted in a large waste of resources, instead of helping the producers and poor consumers [Knudsen and Nash 1990; World Bank Report 1986].

As far state marketing agencies, one study [Maddock, 1987, p.296] points out that these have been net consumers of resources rather than income generators.

Perhaps more important, because of their inflexibly, state owned organisations find it hard to handle the sheer complexity of the markets. They can not adapt readily to changing market conditions. State organisations simply do not respond flexibly, because it is usually politically difficult for them to quickly shed labour and take other cost cutting measures in a timely manner [Knudsen and Nash, 1990, p.59, and World Bank Report, 1986, p.86].

Knudsen and Nash [Ibid, p.58] argue that as far as corruption is concerned, estimates are hard to come by. But to give some idea of its seriousness, reports from Senegal indicate that the government has admitted fraudulent losses of the major state marketing agency ONCAD of an amount equivalent to 44% of the public sector investment budget. In addition to the direct siphoning-off of

funds, [Bryceson, 1985; Ni Caswell, 1985] leakage of supplies purchased by the state marketing agencies into the higher priced parallel market are common [Hopecraft, 1987]. But even disregarding the wide scale fraud, parastatals often fulfil their mission inefficiently [Idachaba, 1985].

11.1.2. Agricultural Policies in Pakistan.

Like other developing countries, successive Pakistani Governments have intervened in the agriculture sector and implemented a very complex set of pricing, subsidy and tax policies. The pattern of Government intervention takes many different forms: through direct price intervention, direct subsidies and taxes. By indirect intervention through: control over exchange rates - overvalued currencies, indirect taxes and subsidies. The most important types of direct intervention include: the government's monopoly on international trade and the regulation of domestic sales of agricultural products like wheat, Basmati rice, flour and sugar to the urban people at cheaper rates through the network of ration shops in cities only [see chapter-vi].

One study [Hamid, et, al., 1990, pp.104-106] found that in the rationing system, the costs to the Pakistan government for operating this system were much greater than the benefits to the consumers. Further they say that considerable corruption and waste in the system had been widely accepted for a long time.

Hamid,et,al., [1990, p128] in their study conclude that government

has attempted to balance three major considerations in its agricultural price intervention; (i) maximising foreign exchange earnings to support balance of payments, (ii) the political consideration of keeping food prices low for urban consumers and (iii) the government's own revenue needs. However, given that the three are inter-related, pursuing one soon led to problems with another, so that it has been a difficult balancing act. This management task is all the more complex given that there are four major crop prices - cotton, rice, wheat and sugar-cane - to be administered, each with its own set of conflicts. This is best exemplified in the case of cotton where growers, traders and ginneries bring to bear conflicting interests in influencing the policy, particularly on domestically elected governments. Lobbying is in the open. Given the opportunities for corruption that intervention presents in an increasingly complex crop management system, the trend to reduce differences between domestic and border prices must be a healthy one and should be encouraged.

It is estimated that in Pakistan's agriculture sector, producers were taxed and prices distorted, resulting in a net transfer of resources out of agriculture [Qureshi, 1987, p.168; Commission Report, 1988, p.529].

Because of distortions in agricultural prices in which farm-gate and domestic prices were set below international prices, smuggling was encouraged. For example, Hamid, et, al. [1990, p.106] confirm that smuggling of wheat from Pakistan was widespread. Although no hard evidence is available beyond newspaper reports, interviews

with government officials indicate that smuggling of rice and sugar has also been on a wide scale to Afghanistan, Iran and India.

Thus distortions in producer prices resulted in significant costs to the economy in terms of foregone output, export losses, and foreign exchange losses because of lower exports [Hamid, et, al., 1990, p.60].

11.1.3 Rice Marketing in General.

There is a wide difference in the varieties of rice sold in the world market. There is no 'central' or spot marketing for rice, compared to, say, the London daily prices or the New York world market price for sugar, wheat and maize. For rice, the weekly Bangkok FOB prices are notified as the reference price [Siamwala and Haykin, 1983, p.34].

One study [Barker, et, al., 1985, p.191] confirms that the world rice market is highly unstable. Instability in the world rice market is reflected in short-run price fluctuations and more broadly in the uncertainty that traders face in negotiating contracts. Weather is a major cause of fluctuations in supply, and technological change appears to have contributed to variability in production in the long run. The thinness of the market - in the sense that only 4-5% of the total world rice production is traded - is another contributing factor to instability. Government policies have also been destabilising.

11.1.3.1

Pakistan Rice Marketing Developments.

Two main rice varieties are produced in Pakistan - Basmati - a high quality rice and - Irri - a low quality rice.

Since 1972, there has been an increase in the exportable surplus of Pakistani rice, because of two reasons. First, as a result of the loss of a significant portion of the Bangladesh market when it was separated from Pakistan to become an independent state. Second, the increase in production because of the introduction of high yielding Irri rice varieties.

Irri rice is a low quality rice, primarily grown for domestic consumption. About 60% of the total produced is consumed locally. The surplus is exported at low prices on which RECP incurs losses.

The increase in oil prices in 1973 led to rapid growth in the demand for Basmati rice in the Middle East. This period also coincided with the world wide commodity boom, and the export price of rice more than doubled in 1973-74 compared to 1972-73.

The Government of Pakistan saw an opportunity for generating revenue, therefore rice trade was declared a state monopoly and the RECP was established for the job. Since then, in setting the procurement price of rice, particularly of the Basmati, revenue considerations have been dominant in government thinking [see table-9.4]. Thus, between 1977-78 and 1986-87, the annual average surplus from Basmati rice exporting accounted for 0.94% of the

total budget and 1.55% of national revenue, [table-11.1].

With special reference to rice marketing in Pakistan which is our focus here, the following bottlenecks were identified as affecting the efficiency of rice marketing:

11.1.3.2 Rice Processing and Milling.

Processing and milling of paddy in Pakistan is controlled by the private sector, yet rice mills are mostly outdated and particularly inefficient in processing exportable quality rice. Our respondents confirmed that the private sector is reluctant to invest in modern milling equipment in the absence of an adequate price incentive for processing quality rice.

Quality control is poor. It is widely believed that RECP officials are persuaded to accept low quality rice through bribes [Hamid, et, al., 1990, p.115] and/or political influence. The private sector is not allowed to export freely, so there is no exterior outlet for them. Thus they have no direct incentive to invest in modern mills and process quality rice. The net result is that the broken ratio of rice processed is high¹ [JICA, P.III-17, 1986] and there is a net loss of revenue to the nation as a consequence. The milled rice procured by RECP even needs to be re-milled by the RECP in Karachi before shipment for export.

The RECP mills are modern by Pakistan standards, but are outdated by international standards², [JICA, 1986; and Field Work interviews

by the author in Pakistan]. Because of improper processing, polishing and packing of rice by RECP, it is often re-milled a third time by importers, mainly in Europe, [U.K interviews]. There is inevitably considerable wastage because of milling again and again.

11.1.3.3 Rice Milling By-products.

As far as rice milling by-products - husk, bran, and broken - are concerned, it was found that Pakistan is not getting the potential benefits from by-products of rice milling [UCG, volume 1, p.173, 1989]. The husk is used as fuel for brick making; bran is used as animal feed; and the broken rice is sold in the domestic as well as in the international market at low prices.

The manufacture of husk board and activated carbon are two potential uses of husk; and the manufacture of edible oils is a potential use of bran but is still in the experimental stage in Pakistan. This edible oil could be produced as an import substitute for soyabean oil and palm oil³ [UCG, volume-1, 1989]. Better use of rice by-products could, if feasible, create new employment opportunities in rural areas, and in the case of edible oil reduce the need for foreign exchange. This is a topic for further research.

11.1.3.4 Rice Transportation and storage.

Rice is mostly transported by road - through private trucks and

NLC⁴ - and rail to Karachi, where it is stocked for re-milling before export. The advantage of road transportation especially from Sindh, is the possibility of being able to provide a door to door facility, at the start and the destination points.

There has been a significant change since 1985-86, as railways have become the most important mode of transport. The increased share of rail-freight is because of complaints received from railway authorities about the non-utilisation of the available railway wagons in Sindh.

However, the RECP cannot use railways to meet all of its freight requirements for three reasons. First, storage facilities at railway stations are inadequate and are not well protected from the inclement weather. Second, many of the rice suppliers are not located near the line of rail, so in these localities they hesitate to bring their stocks because of the extra cost which has to be born by them. Finally, the daily availability of railway wagons does not match requirements.

There are no proper storage facilities at RECP godowns, either owned by the RECP or hired. Storage management of stacked rice bags in godowns is poor often resulting in congestion. This results in inadequate space between stacks, walls and ceilings. This creates problems for stock taking and for fumigation [UCG, volume 1, p.197, 1989].

In Pakistan, rice is exported under the monopoly of RECP. The private sector has been allowed to export Basmatii rice under certain conditions. These are: exporting only Basmatii rice in small packs, requiring private exporters not to sell less than the negotiated Gulf Cooperation Council (GCC) price, and subjecting private sector rice exports to inspection and quality control by RECP.

Restricting private exporters to dealing with only Basmatii rice limits their ability to offer 'package' deals to potential buyers and also limits their ability to supply bulk orders to buyers.

Requiring private sector sales of Basmatii rice to be priced at not less than the negotiated Gulf Cooperation Council bulk price places some limitations on the private exporters' ability to compete effectively with the increasingly stiff competition from India and Thailand.

Subjecting private sector rice exports to inspection and quality control by the RECP, places limitations on the private sector because of cumbersome bureaucratic attitudes and the petty jealousy of RECP officials. It is not, of course, normal practice in international trade system to have one exporter - RECP - responsible for the quality control of other exporters.

The RECP exports virtually all Basmati rice by government to

government contracts under the supervision of Ministry of Commerce. Most of the rice goes to the Middle-East because of high demand due to the popularity of Basmati rice there. The sale of Basmati rice by the RECP to Gulf states is on the basis of an agreement with the Gulf Cooperation Council (GCC), in respect of price and import quantities. Only a tiny portion of Basmati rice exports are accounted for by the private sector in spite of liberalisation because of the near monopoly of the RECP.

The situation today is critical for Pakistani exports as it competes with new suppliers of rice, -- Basmati from India and Thailand, and Irri-type rice from Thailand, USA, China, and more recently from Vietnam. On the other hand, the importing countries' self-sufficiency rate is improving. Improved rice marketing is a must if Pakistan is to maintain its market share in the rice export market.

Recently (since 1991), government has decided to liberalise rice exports [Government of Pakistan, Ministry of Commerce, 1991]. Clearly it is too early to make an assessment about the impact on the volume of exports or the direction of trade by the private sector. However, during fieldwork interviews in Pakistan, respondents were very confident that when liberalisation took place they would successfully sell to the West and Middle East.

11.1.3.5.1 Export Channels for Irri Rice.

Irri rice is exported through government to government sales

negotiation with importing countries, through tenders floated regularly at intervals of four to six weeks, and direct negotiation with prospective buyers during periods of large accumulated stocks. Sometimes sales are also struck by parties outside the tender system. Such sales were usually concluded at prices at least U.S \$10 per tonne above the price obtained in the most recent tender.

Sales through government to government negotiations were the most important channel accounting for 39% of the total sales on average between 1984 to 1988. Sales through tenders were the second most important channel accounting for 35%. The remaining 26% was sold through direct negotiations with prospective buyers [UCG, volume-1, 1989].

As the major portion of rice is exported under government to government contract, the Ministry of Commerce could play a leading role in facilitating the private sector's takeover of exporting. For example, the Ministry of Commerce is permitted to export rice through private channels by special arrangement. For instance export orders coming through the Ministry could be channelled through private outlets for execution. This of course still raises the question of how to ensure competition for export orders amongst would be private exporters.

The regional classification of direction of trade, shows that exports of Irri rice are more widely dispersed among various regions. African countries have accounted for 52% of exports on average between 1975-76 and 1987-88 and Asian countries about a

quarter of exports of Irri [UCG, volume-1, p.78, 1989].

11.1.3.6

Problems in the RECP.

Rice marketing is partly liberalised at the domestic level. Internal distribution is liberal but the domestic price is influenced by government floor prices. The export market has been an RECP monopoly between 1974 to 1986 but is currently in the process of being liberalised. Various problems have been identified in the RECP's organisation and operations. From time to time, steps have been taken to try and eliminate these problems. The United Consulting Group [UCG, volume 1, 1989] drew the following conclusions from its assessments of the RECP:

a. Paddy rice was procured by the RECP under the 'monopoly and compulsory procurement scheme' from its inception in 1974 until 1986.

The voluntary scheme, introduced in 1986-87, was expected to eliminate a number of malpractice involved in the monopoly scheme. The malpractices were: mismanagement, corruption, smuggling, and the low prices offered to the producers [UCG, volume 1, 1989]. Today, government procurement centres still exist but delivery to and sales are voluntary, and a free market operates for domestic sales.

The quality of the rice procured by the RECP is tested visually on the basis of the prescribed sampling procedure. Basic

specifications tested include ratio of head rice, broken, unmilled, damaged, paddy, foreign matter and the mixture of other varieties. It is alleged that corruption is still widespread in procurement and RECP officials accept lower quality rice when bribed or political influence is exerted.

It was confirmed by one study [Hamid, et, al., 1990, p.115] that an important source of corruption in the rice procurement system indeed arises at the quality control stage. The authors were told that if there was competition in exporting, the RECP would be caught out for its rice would be seen to fetch a lower price. It would then be forced to take action to improve quality control.

b. Although the RECP procures annually for export, its inventory control is inefficient. It carries over huge stocks each year. The ratio of closing stock to annual procurement has ranged from a minimum of 53% in 1977-78 to a maximum of 79% in 1984-85 [Ibid, p.197]. Rice procured is also sometimes stored in open spaces and exposed to natural hazards including: rain, frost, wind and attacks from birds, because of insufficient storage facilities.

Obviously pure commercial considerations could never justify the level of stocks maintained by RECP. Some of the stock kept with the RECP in the open or for long periods deteriorates, and is not acceptable for export. This same stock is auctioned in the domestic market as 'deteriorated material', at low prices. It is widely believed that there is racketeering in the selection of 'deteriorated' stock whereby some good rice finds its way into the auction.

c. The handling of rice at RECP godowns is carried out by agents appointed by the RECP on one year renewable contracts. All handling is by manual methods. Workers use a dog-hook (pointed toggle) to puncture the bag and pull it, taking hold of it with the other hand. This is not only labour intensive but very harmful, because the use of hooks for carrying or moving rice sacks results in substantial spillage.

No other major rice exporting country uses this method [Ibid, p.221]. All other rice exporters including the USA, Thailand and India use mechanical methods and a 'no-hook system' to lift, store and ship bags. The mechanical approach does not require costly double jute bags used in Pakistan. It was reported that RECP purchased a complete mechanical handling plant for the movement and stacking of rice bags some 15 years ago, but it has never been used for reasons best known to the RECP authorities [Ibid, p.218].

d. The perpetual inventory management system of the RECP is very weak, in the sense that although a register is kept that shows receipts, issue and balance of rice and other items, it is not posted on a daily basis. Furthermore, transactions of previous months have been found missing. For example, the UCG [Ibid] concluded that closing stock of rice worth Rs: 3479 million carried in the RECP's books for many years constituted only a book entry. It had not been confirmed by physical verification. Rice movements from RECP godowns to mills or mills to godowns was on the basis of a goods movement note. However this document was not prepared carefully. For example it was issued after the completion of the

movement of rice; and was not apparently signed by a competent authority [Ibid, p.210].

e. Many instances were reported of where people with inadequate and irrelevant experience being appointed to positions of authority in the RECP management structure. Officials come from the Civil Service on 'secondment',⁵ for a short tour of about two to three years. They have insufficient time to learn about the complexity of the rice market.

f. The RECP has always lacked a functionally viable management information system with procedures to collect, plan, analyse and manage the information needed to perform the operations of market intelligence gathering. Market intelligence activities are limited to receiving data from very few sources such as;. Weekly reports of prices from U.S Embassy in Islamabad, Associated Press of Pakistan's (APP) news reports about rice situation, and FAO market reports.

Further, the marketing manager who collects the information reports only to the General Manager Export-1, who is responsible for the sale of Irri rice. The other important market, for Basmatii rice, is totally neglected.

Overall the RECP was found to be ineffective, with widespread allegations of corruption and political influence in its decision making processes.

11.2.1 Agricultural Trade Policies and their Reforms.

With few exceptions, almost all countries intervene in their agricultural markets creating a growing imbalance in world supply and demand, shifting world trade patterns, and distorting world agricultural prices.

Protectionist policies as applied by the developed countries, depress world market prices and reduce the volume of international trade. The main losers are the low-cost exporting countries, which find their foreign exchange earnings and their overall welfare reduced. However, the high cost countries which protect their agriculture lose too, since such policies lead to an inefficient use of their resources, [see chapter 10, section 10.4].

As far as world agricultural trade in the present economic climate is concerned, it is unlikely that individual developed or developing nation governments will have the fortitude to unilaterally reform agriculture support and trade programmes [Knudsen and Nash, 1990, p.91].

According to Finger and Olechowski [1987, p.58] 'trade restrictions are disproportionately imposed against the exports of developing countries and are disproportionately imposed by the developing countries. They suffer on both accounts - probably more on the latter than on the former'. Further he says that 'an open

international trading system is in the interest of each nation and the major part of the costs of any nation's trade restrictions are borne by that nation itself'. Finger makes an analogy of 'world and a country' with a team and a member of the team. In this regard he says that 'if a member of a team shoots himself in the foot, the effectiveness of the whole team is reduced. The effectiveness of the player who shoots himself is reduced considerably more'.

11.2.2 Agricultural Policies in Pakistan.

Returning to Bates' arguments for liberalisation [see chapter III], state intervention in Pakistan agriculture occurs through direct intervention in the agriculture sector and implementation of a very complex set of pricing, subsidy and tax policies. The pattern of intervention took many different forms: through direct price intervention, direct subsidies and taxes. The most important types of direct intervention included: the government's monopoly of international trade and regulation of domestic sales of agricultural products. Political appointments and nepotism are also thought to have had an adverse effect on efficiency. The suppressed prices, monopoly procurement and rationing system in Pakistan resulted in a widespread wastage, corruption and smuggling [Hamid, et, al., 1990, p.115; and see chapter 6].

Overall, intervention in the agriculture sector has distorted producer prices. The distortion in prices imposed significant costs on the economy of the country in terms of foregone outputs, export losses, and foreign exchange losses because of lower

exports. One study [Hamid et al., 1990, p.68] found that 'distortions in producer prices because of government intervention, impose significant costs on the economy in terms of foregone output. This ranged, on average, from between 5% for wheat and 23% for Basmati rice over a 24 year period (1961 to 1987). The corresponding long term output loss because of intervention ranged from 12% for wheat to 44% for cotton. Finally, foreign exchange earnings foregone because of lower exports or higher imports of all crops taken together, are substantial, ranging from 17% for short run direct to 148% for long run total earnings'.

According to Knudsen and Nash [1990, p.83], in developing countries the immense funding that has gone to subsidise fertilisers, farm credits and urban consumers, should have gone to developing infrastructure and providing education, health and other services for the poor. Instead it has been largely wasted and unfortunately is irrecoverable. This need not continue.

It is the author's belief that what is needed in Pakistan, is a reconsideration of the government's proper role in agriculture and consequential institutional changes. A solution to the problem requires withdrawal of the government from agricultural markets. The only case for intervention in our view, is in activities for which individuals do not absorb the full costs, that is where there are significant externalities, for example, research, environmental effects, food security, absence of a futures market. These issues will be discussed later.

In chapter III of the study, we examined the arguments for the liberalisation of agricultural markets as presented by Bates [1981, 1983, 1988] and arguments for government intervention, as put forward by Smith [1990, 1991]. In our empirical study of Pakistan, we attempted to examine to what extent their arguments hold up in the particular case of rice marketing.

First, it should be noted, that rice is not a homogeneous commodity. In Pakistan, there are two main rice varieties grown - Irri and Basmatii - with very different qualities, different markets, and different prices. The Government has partly recognised this by adopting a dual price policy. However, the price paid to Basmatii producers is low, about half of the average export price and would seem to confirm Bates' [1981, 83, 88] arguments for liberalisation. By contrast, Irri rice is procured by RECP at very close to the export price, which is near the cost of production. Since the producer price of Irri rice is close to the export prices, some minimum government involvement seems to be necessary to prevent price instability, protect food security and production instability as argued by Smith [1990, 1991].

The marketing policies for these two different varieties of rice are discussed in detail below:

(a) Basmati Rice.

Basmati rice is a top quality, high value product because of its

cooking characteristics. It is exported at premium prices and is consumed by relatively wealthy people. It is not a subsistence food crop. For Basmatii rice, the margin between the government controlled FOB price and the export price is between 50 to 100%, which produces a handsome return to the RECP and consequently to government revenues. With a world price which is 50 to 100% higher than the producer prices, it seems that Pakistan has enormous comparative advantage in Basmatii rice production. But, because of government intervention producers and processors do not get their full reward and therefore lack incentive to expand and improve production efficiently. The net result is that Pakistan is not capitalising on its foreign exchange earnings potential.

Though Pakistani Basmatii rice is a relatively expensive quality product and the market is strong, it is not branded. By contrast, its Indian competitor, 'Tilda', has gained a good reputation in the international market because of its superior milling, packaging, and branding⁶.

Pakistani Basmatii rice could be developed as a branded product with a special image comparable to those of 'Uncle Ben's' rice and Indian 'Tilda' rice. However, at the present time, there is no investment in market intelligence and export promotion measures.

Along with many RECP deficiencies summarised in the main findings, RECP is not in a position to export all rice procured for export. It sells on the basis of what is available. The RECP does no market research to find out what the true demand is in the market place,

so it has little idea of whether it satisfies consumers. By contrast, the latest development of rice in the U.S.A and other countries is driven by an assessment of consumer demand, for example, for ready made foods and microwaveable products such as par-boiled rice and rice mixed with vegetables.

Overall, the export of Pakistani Basmatii rice has shown sluggish performance [UCG, vol-1, 1989]. However, the potential of Basmatii rice is still considerable. Demand is buoyant in Middle Eastern countries and, in the West where the demand for authentic rice dishes such as Asian 'Pulao', 'Curry', 'Biryani', is increasing via the influence of 'Indian' restaurants. More investment needs to be made in promoting the export of Pakistani rice. In this regard there is an urgent need to develop alternative market outlets. Existing exporters of rice need to be informed of consumer demands and requirements, of how to enter export markets, and the rules and regulations they must follow in order to export from Pakistan. The government needs to increase participation in international food fairs and exhibitions as part of a systematic strategy designed to extend the market and brand name of Pakistani Basmatii rice.

(b) Irri Rice.

Irri rice is a low quality rice sold and exported at low prices. It is a staple food for the significant domestic population mainly in the lower income group. It is exported to relatively poor developing countries, principally in Africa. About 60 percent of Irri rice is consumed domestically. Prices paid to producers are

very close to export prices, which is near the cost of production.

The international market for Irri rice has become increasingly weak and subsidies have been required in most years since 1982-83⁷. It seems that, given the poor prospects for Irri rice exports, Pakistan can only retain its present share of rice exports if it concentrates on exporting better rice varieties.

The Pakistan Government has introduced new and better rice varieties such as 'KS-282' and 'DR-83', but has not actively encouraged producers to cultivate them. This is mainly because of lack of coordination between the Pakistan Agriculture Research Council (Ministry of Food and Agriculture) and the Ministry of Commerce⁸.

The new varieties reportedly fetch a premium over Irri rice because of their high protein content and higher yield than Irri; at 50 percent head rice, they possess better milling quality and a 50 percent higher protein content. Given existing land constraints, they are also suited to saline - sodic soils [Commission Report, 1988, p.138].

The support price of Irri rice cannot be reduced below the current level because the present price paid is so close to the real cost of production. As Irri rice feeds a majority of low income groups it is very difficult for the government to stop its production suddenly by withdrawing the support price. Some form of support price for Irri rice is necessary until new varieties can be

introduced. To engineer this change requires government intervention. Nevertheless, there is also plenty of room for improvement in the existing rice marketing system, especially in procurement, processing, inspection and export policies. In this regard the government has a key role to play in controlling existing irregularities and improving quality assurance.

In view of the very small profit margins available on Irri rice production at world market prices, the right strategy for Irri rice in our view is to concentrate resources on increasing yield which is amongst the lowest in the developed world [FAO, Production Year Books for different years; UCG, volume 1, 1989, p.60] and to actively promote the adoption of high quality rice varieties.

The question also arises as to why farmers should not switch from Irri rice to other crops such as sugar-cane or cotton. This topic is beyond the scope of this study, and is an area which requires further research. Clearly alternatives need to be seriously considered taking into account the suitability of soil, climate and infrastructural development. It is by no means obvious that Pakistan should continue to support the production of an exportable surplus of Irri rice amounting to 40 percent of national production.

11.2.3.1 The Rice Export Corporation of Pakistan (RECP).

From our review of the problems of the RECP, it seems resources are being misused on a substantial scale. In this regard there is an

urgent need to develop efficient market outlets to procure, process, and export rice. This obviously raises the question of whether the RECP perform a useful function. A complete divestment or liquidation of the agency is not possible at this time because, firstly, the agency acts as buyer of last resort at a pre-stated minimum price. Secondly, the future role of the private sector is uncertain. At best, the government of Pakistan needs to develop an active competition policy with regard to trade in agriculture produce otherwise there is a real risk of simply converting a public monopoly into a private one.

In conjunction with this move, the operation of the RECP require urgent improvement along the following lines:

i. Major malpractices occur in procurement, because there is no reliable laboratory for carrying out quality inspection at procurement centres. Quality is presently tested visually on the basis of a prescribed sampling procedure. In this regard, laboratories should be established to assess quality and avoid malpractice in procurement.

ii. It is recommended that the RECP should procure only exportable quality rice so that it will not be necessary to mill it again. Furthermore, the procured rice should not be mixed with inferior quality rice at godowns.

iii. Currently, handling of rice by the RECP is done manually, this sort of handling means higher losses and wastage. It is recommended

that mechanical handling be introduced. These already exist for the movement and stacking of rice bags, but are not used.

iv. RECP is given multiple and sometimes conflicting objectives by the Ministry of Commerce -- commercial and social -- yet it is a nominally independent administrator. The RECP was originally set up to export rice from Pakistan. In practice, it also acts as the government agency for implementing the official price support scheme for rice crops.

The RECP is required to undertake rice procurement operations on the basis of targets fixed by the Ministry of Commerce. These targets are based on expected export requirements, expected production and carry over stocks [UCG, volume 1, 1989].

In our view, the RECP should be given clearer objectives. The commercial functions of RECP should be separated from social policy objectives such as support price administration and buyer of last resort. It should also be given independent decision making authority. Separate fund should be created for social objectives, a point we will discuss in section 11.4.iv.

11.2.3.2. Activities in which government intervention is justified.

In the Pakistan rice production and marketing system, there are some activities which may still require a government role. For example, support prices for Irri rice and food security, monitoring mechanisms on foreign exchange transactions, tax revenue

collection, supply of credit to producers and millers, quality assurance, and the collection and dissemination of market information. This section briefly discusses these activities.

a). Implementation of a Support Price for Irri rice.

As far as the support price for Irri rice and food security are concerned, there is already an agency in existence called the 'Pakistan Agriculture Storage Corporation' [PASSCO] which started operating in 1974. This agency procures, if required, agricultural commodities such as wheat, paddy, pulses and potatoes, on behalf of the government in order to stabilise prices.

b). Monitoring Foreign Exchange.

Foreign exchange earning is a very important objective of every developing country in order to meet balance of payments and loan payment requirements. Therefore most countries monitor trade and foreign exchange earnings with other countries so as to monitor flow. In Pakistan there exist two main ways of foreign exchange monitoring; firstly, every contract for rice export is registered with the 'Export Promotion Bureau'; secondly, the 'State Bank of Pakistan' receives a letter of credit from the importers. In this way the government is able to determine whether there is a net inflow of foreign exchange.

c).

Generating Revenue.

Since the revenue imperative will continue to be a legitimate policy concern of government, other policy instruments in addition to the existing direct land tax, could also be used to generate revenues for financing development expenditure. This should exclude measures that indirectly tax agriculture may include: direct taxation on earned incomes and property taxes may be raised substantially. The overall objective should be to ensure tax neutrality between agriculture and other sectors of the Pakistan economy.

d).

Quality Assurance.

Quality assurance is important to strengthen the market for any product. The Government should therefore ensure that quality standards are adhered to by all exporters. The quality inspection function could be entrusted to an independent agency. One such agency might be the 'Department of Agriculture, Livestock, Marketing and Grading', which already exists and works under the 'Ministry of Food Agriculture and Co-operatives'. This Department already has responsibility for grading many agricultural exports.

e).

Credit.

Among other problems facing rice production in Pakistan, are: outdated mills, and instability in the world rice market. In order to facilitate the upgrading of rice mills and to smooth price

fluctuations, credit facilities should be provided to producers and millers at market rates against the pledge of produce.

f). Market information and Research.

The importance of exports for a developing country like Pakistan needs no overemphasis. The country is facing stiff and increasing competition. Pakistan's rice exports have declined both in terms of their share of Pakistan's total exports as well as in terms of their share in total world rice trade. At the same time, countries such as Thailand and U.S.A have increased their share of the world market.

In order to compete in the world market and to expand exports, research and market studies are essential to identify consumers' needs and preferences. This would help to identify the product attributes that consumers like most - for example, packaging and milling quality. Therefore, successful rice marketing in Pakistan requires adequate, accurate and timely information about the international rice trade, and the demand and supply situation. This function could be shared between the existing 'Export Promotion Bureau' and the private sector.

11.2.3.3 Concluding, the author believes that the trend towards liberalisation and privatisation is relevant to the agriculture production and marketing processes of countries such as Pakistan. Our recommendation that Basmati rice marketing should be liberalised notwithstanding, there is still a need for minimal

state intervention in some activities.

The population expects the government to provide or ensure food security for the mass of the population. Therefore, it is expedient for the government to provide a support price for Irri rice - the staple food for the masses. Of course, in general, the state needs to collect taxes for running the administration and there is no particular reason why agriculture should be exempt. Above all, in a world still dogged by agricultural market instability and protectionism, the facilitating role of the Pakistan Government cannot be denied or avoided. Therefore, only partial support is given to the need for liberalisation.

Liberalisation is needed for Basmatii rice marketing but some minimum government involvement is needed for Irri rice. If the rice market, especially for Basmatii rice, is liberalised, efficiency can be improved to a great extent by getting rid of substantial physical constraints and wasteful methods through improved incentives and competition. Delivering political favours to friends and relatives would also be removed.

There is fierce competition from India and Thailand, and day by day, Pakistan's rice export market is being eroded. The greater portion of Pakistani Basmatii rice is exported to the Middle East. Such a high degree of concentration of export outlets does not auger well for the future, because there are signs of penetration by other competitors. In an increasingly competitive global market, the RECP must search for new markets and monitor consumer needs.

It must become proactive or withdraw and leave rice marketing to private interests. Under correct conditions and the appropriate policy environment a role for the private sector is now essential.

11.3 Lessons for LDCs from Pakistan's Rice Marketing experience.

Liberalisation tries to make the market and marketing process respond to price signals. Encouragement and involvement of the private sector is based on private players' profit motives and incentives, which call for both effectiveness and efficiency of operations, as well as responsibility and accountability for actions taken.

The following are the general lessons for LDCs from Pakistan's rice marketing experience.

It is not feasible to liberalise all activities in the agricultural sector. The literature points to severe limitations on the possibilities of liberalising agricultural markets. These limitations are: food security, price instability, and production instability -- the latter two largely as a result of climate variation, protectionism and distortions in the world agricultural market by Japan, EC, and the USA.

In view of the above factors, it seems that there is a strict limit to what the typical LDC national government can do in terms of creating price signals which reflect market conditions because the world market is distorted. In addition, it also has social welfare

obligations to its less advantaged majority who may starve in times of food crisis if food security is ignored.

However, it does not mean that the state has to control everything in the agriculture sector. The state should only involve itself in areas that are not amenable to market solution, like food security, stock-piling for famine, infrastructural development and environmental protection.

The evidence from Pakistan's rice marketing demonstrates the devastating consequences of having an inefficient and corrupt state-run bureaucracy. In particular, it leads to poor quality assurance, corruption in procurement, large wastage, and lack of commitment in promoting the product.

Our study demonstrates that in the case of Irri rice in Pakistan, there are serious and real constraints on government attempts to liberalise marketing because of the food security issue involved and world market distortions produced by the actions of developed countries. The state therefore needs to continue to play a role in Irri rice marketing. This is because Irri rice is the staple food for the majority of the population who earn very low incomes. Prices offered to producers are close to the export prices, though they are paid on the basis of the cost of production. In view of the food security problem, government involvement in the shape of offering a support price to producers is necessary.

In contrast to Irri rice, Basmatii is a top quality, high value-

added export product, consumed by rich people and utilised as a luxury food. For Basmatii rice, there is fortunately a high profit margin, which produces a handsome return, and Pakistan has a substantial comparative advantage in its production. However, this is being eroded by competitor nations' efficiency improvements through investment. As a result of government intervention and other policies, Pakistan is not reaping the full benefits of its Basmatii rice export potential. In our opinion, this situation and the substantial wastage by state agencies, requires that marketing of Basmatii rice could, and should be liberalised without further delay.

11.4

Main Suggestions and Recommendations.

Addressing our original problem as contained in chapter one, we are unable to fully support the argument for liberalisation. This is because it has been found necessary to differentiate policies according to type of rice and market. We recommend partial intervention in Irri rice and for full liberalisation in Basmatii rice. In order to improve rice marketing, further recommendations include:

i. The first and most important question is that of political patronage. Policy makers, notably the political elite, need to address the negative aspects of political clientelism especially corruption, as well as seek to influence public attitudes towards government, the State and public office and resources. No institutional reforms are likely to lead to a significant

improvement without people's attitudes first changing towards the public good. A change in the structure of incentives is most likely to make the necessary shift.

ii. Appropriate prices and institutional policy reforms that ultimately remove the tax burden on small farm holders and improve allocative efficiencies are called for. The marketing of Basmati rice should be free of restrictions. However, the provision of support price policies and efficient procurement arrangements on a voluntary basis is necessary for Irri rice because of food security.

iii. At the moment Pakistan produces two main rice varieties, Basmati and Irri. The prospects for Irri rice exports are not very promising because of its low quality. The international market for Irri rice is very weak and subsidies have been required in recent years. In this regard it is recommended to actively promote high quality rice, keeping in view mainly the soil and climatic conditions in Pakistan.

iv. To support the price of Irri rice, a price stabilisation fund could be established, and all surpluses from support operations could be credited to it, while deficits may be charged to it. The fund should have an individual crop account so that, as far as possible, surpluses derived from the crop may be used to support its price when the international price declines. Thus a portion of the amount realised from the profits of crop export should be credited to the fund. This fund could be controlled by the Ministry

of Commerce.

v. The Government should withdraw all input subsidies and indirect taxes and also ensure that there are efficient and effective methods for the collection and utilisation of the direct taxes. To avoid corruption while collecting taxes, the existing land tax collection system by government officials - for example 'Tapedars'⁹, who collect the tax personally - should be replaced by a system whereby payment is made directly into banks, and to the government treasury.

vi. The present predominant role of RECP as the major market outlet for rice should be minimised over time through effective liberalisation and encouragement of rice marketing by the private sector.

11.5

Areas for Further Research.

In the light of the problems and findings in the previous sections, and the urgent need to improve upon and find answers to Pakistan's complex agricultural and rice marketing problems, further research is necessary in order to provide operationally relevant advice on agriculture especially rice marketing policy.

(i) One recommendation from this thesis is a comprehensive study of the rural political process in Pakistan, so that the rural people may not be deprived of their economic rights. Political and economic systems of any country especially of the developing

countries run together. If the political system of a country is democratic and transparent, there is a greater likelihood that its economy could be sound. Hence, research needs to be undertaken on how improved rural institutions can be organised in Pakistan in order to improve the depth of democracy in the country.

(ii) Recently, the European Community Ministers announced liberalisation steps in the Common Agricultural Policy (CAP). The Ministers agreed to move away from spending £23 billion a year on fixing the community's food prices, paying instead for more direct financial assistance for farmers. This promised deal matters not just for the EC's consumers and taxpayers, who have to pay the cost of the CAP's distorted prices and subsidies but for people everywhere. A second recommendation for future research should concern the effects on rice producers and consumers in Pakistan, of the recent liberalisation steps taken by the EC12, with regard to agricultural policies. Another useful line of enquiry would concern the impact of global agricultural liberalisation on rice producers and consumers, and on Pakistan agricultural producers in particular.

(iii) Future research is recommended in order to discover, how the Irri rice crop could be switched over to other high quality rice or other crops, for the benefit of producers.

(iv) Several other important areas also need to be explored concerning Pakistani rice production and trade. The first is that although irrigation in Pakistan is the backbone of agriculture, it

is alleged and widely believed that the expenses incurred on it are misused; that there is widespread corruption. In this regard it needs further study on how the existing irrigation system in Pakistan can be improved and expenditures controlled.

(v) Existing rice mills in Pakistan are mostly outdated resulting in a damage to the quality of rice processed, and loss of export value. In this regard, a further study to discover how the existing milling capacity can be improved, or how the existing mills can be replaced by modern ones would be well worth Pakistan's development efforts.

(v) The other area to be researched is that of rice milling by-products especially husk and bran in Pakistan which are mostly misused and very little attention paid to them. A study to explore their potential use is needed.

Footnotes.

¹Japan International Cooperative Agency [JICA, 1986, p.III-17] concluded that there are types of rice mills in Pakistan Hullers, Shellers, and Modern Mills. On average 52% of the total rice is processed by Hullers, 43% by Shellers, and only 05% by modern mills. Though Shellers are old mills, Hullers (about 1500 in total number) which process a significant portion of total rice are extremely inefficient, giving total milling recovery of 60% only. The rice is milled unevenly and the percentage of broken grain is about 35% of the total.

²I was reliably informed during field work interviews in Pakistan that recently a team of Italian Engineers came for the maintenance of RECP rice mills. The mills purchased from Italy about 20 to 30 years ago are believed to be modern. But the team members were of the opinion that the existing RECP mills are old and outdated, [Interviews with the RECP officials of Pipri plants at Karachi].

³At present, 80 to 90% of Pakistan's edible oil requirements are imported.

⁴National Logistic Cell (NLC) is government owned road transport. It is one of the main source of road transport, engaged in nation wide transportation of commodities. The NLC trucks are assigned by its headquarters at Gujranwala in Punjab and Khairpur in Sindh.

⁵In Pakistan, persons from the Civil Service are frequently appointed on the secondment basis in any department or organisation.

⁶This information was given by the rice dealers, while conducting some informal interviews with them in Edinburgh.

⁷RECP earned profits on Irri Rice export up to 1982-83 but has incurred losses on its exports since 1982-83 mainly because of the low world prices; international competition; and corruption in RECP.

⁸Interview with an officials (Rice Coordinator) at Pakistan Agricultural Research Council, Islamabad, during field work in Pakistan.

⁹'Tapedars' are the lowest grade officers in the Revenue Department of Pakistan. Their responsibility it is to collect Land Taxes personally from land owners at cultivated land. They are authorised to declare any piece of land as uncultivated so it is alleged that even if the land is cultivated, they declare some as uncultivated on papers to earn illegal side income.

APPENDICES

APPENDIX - 1-A.

Data Collection Instrument.

Information required from Pakistan to attempt the evaluation of Pakistan Rice Marketing.

Area of Study.

- i. - Full account of Rice Marketing in Pakistan (from producer to consumer/shipment.)
- ii. - Determination of prices:
 - Who fix the prices?
 - How prices are fixed?
 - Procurement/Open domestic prices,
 - FOB prices,
 - World prices,
 - Subsidies for producer & consumers.
- iii.- What is the direction of change?
 - Is there any shifting of benefit from rural to urban areas?
 - Who is benefiting? producers, consumers, Government or the private sector?
- iv. - Is there proper participation of the private sector in Rice Marketing? If no, then:
 - to look at the reasons for the blockage of privatisation.
- v. - Is privatisation a solution in Rice Marketing?

Offices visited in Pakistan with regard to Data Collection.

1. Ministry of Commerce and Trade.
2. Ministry of Food and Agriculture.
3. Ministry of Finance.
4. Export Promotion Bureau.
5. Rice Export Corporation of Pakistan.
6. Private Exporters (about 10) in Karachi and Lahore.
7. State Bank of Pakistan.
8. Agriculture Development Bank of Pakistan.
9. Other Scheduled Banks in Pakistan.
10. Rice Board.
11. PASSCO.
12. Department of Food and Agriculture.
13. Millers and Agents (about 30).
14. Revenue Department.
15. Pakistan Agriculture Research Council.
16. Chief Controller of Export and Import.
17. Sindh Agriculture University Tando Jam.
18. S.A.Latif University, Khairpur, Sindh.
19. Quaid-i-Azam University Islamabad.
20. Pakistan Institute of Development Economics.
21. Applied Economics Research Centre, Karachi.
22. Chamber of Commerce and Trade Lahore.
23. United Consulting Group (UCG) Private Ltd; Lahore.
24. Agriculture Price Commission (APCOM) Islamabad.
25. Rice Commissioner Islamabad.
26. Economic Analysis Network (EAN) Project Islamabad.
27. World Bank office in Islamabad.
28. FAO office in Islamabad.
29. USAID offices in Pakistan.
30. Asian Development Bank office in Pakistan.

Semi-structured Questionnaire used for Data Collection.

1. The agricultural policies of Pakistan's Government in connection with the production and export of rice, for example: taxes and/or subsidies imposed on:

- Producers
- Consumers

2. How is the present Rice Marketing system working in Pakistan?

- Organisational Structure of rice marketing,
- Objectives of the present Rice Marketing system, for example:

- to promote the rice production,
- to promote the rice milling,
- to facilitate the consumers (subsidies) etc

3. Who fixes the prices at producer and milling level and how?

4. What are the prices of Rice/Paddy at the following levels?

- producers,
- millers,
- consumers,
- world prices

5. What is the cash-flow in relation to rice flow?

How crop production is financed?

- subsidies and loans to the farmers,
- terms and conditions of loans,
- subsidies to millers in terms of loans,
- terms and conditions of loan.
- subsidies for the consumers if any

6. Rice Stock by varieties in Pakistan:

- Quantity to be stocked for local emergency ?
- Storage capacity ?
- Storage charges ?
- For how long the rice is stocked ?

-iii-

7. Policy of stock turn over in local market:
 - How is the rice stock distributed to the consumers?
 - Are the stock expenses charged to the consumers?

8. Is there any control on the maintenance of rice quality in country? If yes:
 - What is the Rice grading procedure for domestic use and for export?

9. Number of Rice Exporting Agencies in public and private sector:
 - Number of National agencies?
 - Number of multinational agencies?
 - Their organisational structure?

10. What are the objectives of public sector exports?
 - to earn profits,
 - to earn foreign exchange,
 - to provide subsidies to producers and consumers,
 - stabilisation of prices etc.

11. Are there equal opportunities for public and private traders in terms of the following:
 - money, (loan facilities etc;)
 - machines (importing machines)
 - import/export tax, licenses,
 - information for Exporting,
 - shipping cost/facilities etc,

12. What are the criteria for the export licenses for the private exporters?

13. Can the private sector in Pakistan be more efficient than the public sector, specially in the exporting of rice?

14. What are the obstacles for the private sector specially in Pakistan Rice Marketing?

15. What are the contacts of exporting agencies in terms of rice exporting ?
- Government to Government?
 - Government to Private sector?
 - Private to Private sector?
 - Private to Government?
16. What are the methods of exporting rice from Pakistan? For example tenders etc.
17. Where does the profit of RECP go to? In RECP's own account or to the Government Treasury?
18. Do the earnings of private traders from rice exports come to Pakistan?
19. Is there any incentive for RECP to promote exports?
20. Are there any check and balance on RECP to export rice? e.g:
- proper prices,
 - proper quality,
 - proper time,
 - proper places etc.
21. What criteria are applied by the Government for evaluating the performance of:
- RECP,
 - Private Traders
22. What criteria ought to be used for measuring the performance of:
- RECP and Private Traders.
23. Is there any food security in the country at the time of food shortages?
24. Is rice being smuggled from Pakistan? if yes, where from and where to? How? Why? And about how much?

APPENDIX - 6-A

Exchange Rate Mechanism in Pakistan.^a

The official exchange rate as mentioned in the column 2 (EO) of table 6-A, was constant (fixed by the government of Pakistan) until 1971-72 and then fell sharply as a result of the devaluation of 1972. It then remained unchanged until January 1982 when Pakistan de-linked its currency from the U.S dollar and pegged it to a basket of currencies of trading partners. This allowed the exchange rate to fluctuate against the dollar. The result has been a gradual devaluation of the rupee in terms of the U.S dollar.

Another exchange rate is the purchasing power parity exchange rate (PPP) as mentioned in the column 2 of the same table. To calculate it, it is assumed that in 1972-73, when Pakistan had a small surplus on the trade balance, the official exchange rate was correct. For the all other years the PPP is obtained by adjusting the 1972-73 exchange for the difference in the rates of inflation in Pakistan and its major trading partners. For the former (inflation), the consumer price index in Pakistan and for the latter (trading partners) the U.S.A whole sale price index has been used. According to this exchange rate, the Rupee should have fallen against the dollar gradually and consistently since 1961 and in 1987 it should have been less than half of its value in 1961.

A comparison of the official exchange rate (EO) and the purchasing power parity exchange rate (PPP) gives a measure of the over-valuation of the rupee during this period (column-4 of table-6.A). It shows that in the FY 1961, rupee was overvalued by 46% and this increased to 55% by FY 1972, when the over-valuation was eliminated by the devaluation.

As the rupee was revalued the next year and inflation in Pakistan was much higher than in the U.S.A, the over-valuation re-emerged and it continued to increase till the de-linking of the rupee in FY 1982. Since then the rupee has been steadily devalued in real terms and as a result the over-valuation has declined, it was less than 10% in the FY 1987.

A similar story can be told in terms of "equilibrium" exchange rate (column 3) which is the exchange rate that would have prevailed in the absence of government intervention, i.e, under a neutral trade policy. Trade policy here includes all elements of the commercial policy such as import controls, tariffs and quotas, export quotas, export taxes or subsidies and price controls.

^aNote: Adopted from Hamid, et, al., [1990].

Table 6-A.

Exchange Rates (1961-1987).

Years	EO ¹ (1)	EPP ² (2)	E* ³ (3)	(EO/PPP)-1 (4)
1960-61	4.7620	8.746	7.45	- 0.4555
1961-62	4.7620	8.759	7.55	- 0.4563
1962-63	4.7620	8.679	7.64	- 0.4513
1963-64	4.7620	9.013	7.72	- 0.4716
1964-65	4.7620	9.414	7.82	- 0.4941
1965-66	4.7620	9.507	7.78	- 0.4991
1966-67	4.7620	10.051	7.73	- 0.5262
1967-86	4.7620	10.135	7.67	- 0.5301
1968-69	4.7620	10.023	7.76	- 0.5249
1969-70	4.7620	10.161	7.87	- 0.5313
1970-71	4.7620	10.426	7.52	- 0.5434
1971-72	4.7620	10.508	8.65	- 0.5468
1972-73	10.5880	10.588	10.31	- 0.0000
1973-74	9.9000	11.851	12.80	- 0.1646
1974-75	9.9000	13.214	13.53	- 0.2508
1975-76	9.9000	13.811	13.98	- 0.2832
1976-77	9.9000	14.649	13.67	- 0.3242
1977-78	9.9000	14.757	13.77	- 0.3291
1978-79	9.9000	14.269	13.36	- 0.3062
1979-80	9.9000	13.940	13.17	- 0.2898
1980-81	9.9000	14.063	13.46	- 0.2960
1981-82	10.5500	14.680	14.41	- 0.2813
1982-83	12.7500	15.091	16.02	- 0.1551
1983-84	13.4800	16.059	17.96	- 0.1606
1984-85	15.1600	17.092	19.20	- 0.1130
1985-86	16.1300	18.227	20.28	- 0.1150
1986-87	17.1700	18.965	20.91	- 0.0947

Source: Hamid, et, al., [1990] 'Trade Exchange Rate, & Agricultural Pricing Policies in Pakistan', World Bank.

Notes:

1. EO = Nominal actual exchange rate (official exchange rate).

2. PPP = Nominal Purchasing Power Parity exchange rate =

{ Where WPIF=Wholesale price index in the U.S.A
CPIp=consumer price index in Pakistan.

3. E* = Nominal Equilibrium Exchange Rate.

APPENDIX - 6-B

Main features of the Government's agricultural policy in Pakistan.

The main features of the government agriculture policies during the period up to the mid 1960s and with some of them still in operation today were as follows (Commission report, 1988):

(a). Government fixed retail consumer prices of food grains at low levels which had the effect of depressing market prices.

(b). Heavy export duties were levied on different agricultural products which had the effect of reducing domestic prices of cotton for the benefit of local industry.

(c). Monopoly procurement of wheat and rice was restored at fixed prices which were deliberately kept low in order to minimise subsidies to consumers.

(d). Inter -district and inter-province restrictions of movement were imposed with the result that producer prices were depressed in the surplus producing areas.

(e). Prices of vegetable ghee (oil) were controlled at an artificially low level which had a depressing effect on producer prices of cotton and oil seeds like mustard.

(f). Proceeds from the agricultural exports were converted at an overvalued fixed exchange rate. The implicit exchange tax on agricultural exports from 1960 to 1971 averaged 98%. In contrast, the industrial sector benefited from the overvalued exchange rate which reduced the domestic cost of imported machinery and other inputs. When it came to the industrial exports, the exchange losses to them were offset by the bonuses and subsidies.

(g). For nearly a decade after independence no systematic attempt for the development of agriculture was made. The first agricultural development programme in the country was launched in 1955.

(h). Barter deals were a common feature of Pakistan's international trade in which agricultural produce was exchanged for industrial machinery and inputs to the disadvantage of the agricultural producers.

(i). Government freely accepted the agricultural commodity imports at concessional prices which, when converted at the overvalued exchange rate, resulted in a depressing of the domestic prices. The adverse effect of the imported commodities was further intensified by budgeted subsidies given by the government on their local sale prices.

As a consequence of the above policies, agriculture's terms of trade vis-a-vis consumer goods and agricultural inputs constantly deteriorated which resulted in a massive transfer of resources out of agriculture to the industries and to the urban consumers.

The assumptions implicit in these policies were that farmers would continue to produce at their best irrespective of prices received by them; and the predominantly agricultural economy of Pakistan could be transferred into an industrial economy, without first

developing agriculture, primarily with foreign assistance. The process of industrialisation, with transfer of resources from agriculture and with foreign assistance thus weakened the agricultural base of the economy. The mounting shortage of food and other products and the accompanying balance of payments problems forced a reconsideration of the government policies in favour of agriculture. The shift of policies coincided with the availability of high yielding varieties of wheat and rice in the late 1960s. Gradually it was recognised that agriculture had to be developed to sustain the industrial development and for this purpose investment in new technological improvements and current inputs were essential.

The implementation of this new policy in favour of agriculture was, of necessity, very gradual. Initially the Government sought to achieve its objectives by subsidising inputs rather than by raising output prices. Obviously the early beneficiaries of this policy were the large producers who were the major users of the subsidised inputs rather than the small and the medium producers who did not take to the use of modern inputs partly due to the lack of financial ability to purchase the inputs and also reluctance in the absence of price incentives, to take the risks perceived to be associated with new technology. The relative low output prices, subsidised inputs notwithstanding, sent distorted signals to agricultural producers as they had little incentive to produce marketable surpluses. Full benefits of the subsidised inputs could have been realised only if the output prices were also maintained at a remunerative levels. A rudimentary system of support prices was introduced for wheat in the late 1960s while rice was subject to monopoly procurement.

In 1981, there was the establishment of Agricultural Price Commission (APCOM), whose responsibility it is to research the cost issues and propose the support prices to the cabinet for approval.

The following agencies are responsible for the implementation of the support price programme for different crops;

Agency.	Product.
- PASSCO and Provincial Food Department.	- Wheat.
- Cotton Export Corporation (CEC).	- Seed Cotton and Cotton lint,
- Rice Export Corporation of Pakistan.	- Paddy and Cleaned Rice.
- Agricultural Marketing and Storage ltd;	- Potatoes and Onions.
- Ghee Corporation of Pakistan.	- Non-traditional oil seeds (Sunflower & Soybeans)
- PASSCO.	- Gram.
- Sugar Mills.	- Sugar-cane.

These agencies intervene in the markets on behalf of the government by establishing a network of procurement centres during the harvesting periods of the respective crops assigned to them. This assigned task is to purchase any quality of the commodity concerned offered for sale by producers. Normally, the support fixed by the government is paid but in exceptional cases the Government may authorise any agency to pay higher than the support price.

APPENDIX-9.A.

QUESTIONNAIRE.

A survey in connection with the distribution/milling system of rice in U.K, especially importation and trading from Pakistan.

Note: Please fill in the following and mark () where applicable.

-
1. Name of the Company. -----
 2. Do you import rice? Yes----- No-----
 3. If yes, which rice varieties? If no, go to question no-23.
i.----- ii.----- iii.----- iv.-----.
 4. Do you import rice from Pakistan? Yes----- No-----.
If yes go to question no-5, if no, go to question no-17.
 5. How much quantity on average per annum do you import?
-----tonne/s -----kgs -----lbs.
 6. How long have you been involved in importing rice from Pakistan?
 7. How are the prices of the imported rice are determined?
 - a. By negotiation with the Government exporting agency? ()
 - b. Negotiation with the private parties? ()
 - c. By Government exporting agency tenders? ()
 - d. By private tenders? ()
 - e. Others, please specify. -----
 8. Which of the following method, is applied in importing rice from Pakistan?
 - a. Government contract -----.
 - b. RECP (Rice Export Corporation of Pakistan) contacts -----.
 - c. RECP tenders -----.
 - d. Private contacts-----.

9. Which of the following problems do you face in importing rice?
- a. Pakistan Government regulations/formalities?
 Yes----- No-----.
 If yes, please specify -----.
 - b. U.K Government regulations/formalities? Yes----- No-----.
 If yes, please give example -----.
 - c. Quality problems? Yes ----- No-----.
 - d. Package problems? Yes----- No-----.
 If yes give example -----.
 - e. Others, please specify-----.
10. Do you pay levy/taxes in U.K, on importing Pakistani rice?
 Yes----- No-----.
 If yes go to question no-11, if no go to question no-12.
11. How much tax do you pay per tonne on the following:
- £----- per tonne on paddy.
 £----- per tonne on rice.
 £----- per tonne on broken rice.
12. Do you re-process the Pakistani imported rice?
 Yes----- No-----.
13. Which of the following applies to you in terms of rice packaging?
- a. We sell rice in the original packages and brand as imported-----.
 - b. We re-pack the rice using smaller packages with our own brand name -----.
 - c. We supply in both ways-----.
14. Do you also export the Pakistani imported rice?
 Yes----- No-----.
15. If yes, please specify country/s.
 i.----- ii.----- iii.----- iv.-----
16. What quantity of the Pakistani imported rice on average do you export annually?

17. We do not sell/supply Pakistani Basmati rice because:
- there is no demand for such rice -----.
 - we do not have an access to supply -----.
 - it is expensive -----.
 - lack of small packages available -----.
 - quality problem -----.
 - others, please specify -----.
18. Do you import rice from other than Pakistan?
 Yes ----- No-----.
- If yes, please specify country/s, i.----- ii.----- iii.-----
 if no go to question no-23.
19. What quantity is imported?
- (country) ----- tonne/s -----kgs -----lbs.
 - (country) ----- tonne/s -----kgs -----lbs.
 - (country) ----- tonne/s -----kgs -----lbs.
 - (country) ----- tonne/s -----kgs -----lbs.
 - (country) ----- tonne/s -----kgs -----lbs.
20. Do you re-process this imported rice? Yes----- No-----.
21. Which of the following applies to you in terms of rice packaging?
- we sell rice in original packages & brand names as imported-----.
 - we re-pack the rice using smaller packages with our own brand name -----.
 - we supply in both ways.
22. Do you pay tax on the imported rice? Yes ----- No-----.
- If yes, how much per tonne on the following?
- £ ----- per tonne on paddy.
 £ -----per tonne on rice.
 £ -----per tonne on broken rice.
23. We do not import rice from any country directly but buy from the local wholesalers, Yes----- No-----.

24. From the following, who are your major buyers?
- a. wholesalers -----.
 - b. retailers -----.
 - c. final consumers -----.
 - d. others, please specify -----.
25. From the following to whom do you mostly sell?
- a. Asian dealers/grocers -----.
 - b. English dealers/grocers -----.
 - c. Chain stores -----.
 - d. All -----.
 - e. others, please specify -----.
26. Which of the following applies to you in terms of rice packaging?
- a. we sell rice in original packages and brand as purchased -----.
 - b. we re-pack the rice using smaller packages with our own brand name -----.
 - c. we supply in both ways -----.
 - d. we reprocess them -----.

Note: After filling this questionnaire, please send it back on the following address:

Amanat A. Jalbani
Department of Business Studies.
William Robertson Building
University of Edinburgh
Edinburgh EH8 9JY.

APPENDIX-9.B

QUESTIONNAIRE.

A survey in connection with the distribution system of rice in U.K, especially importation and trading from Pakistan.

Note: Please fill in the following and mark (✓) where applicable.

-
1. Name of the Company or Departmental/Chain store -----.
 2. Total number in U.K. -----.
 3. Do you sell rice? Yes----- No-----.
 4. If yes, mention rice varieties, if no, go to question no-23.
i.----- ii.----- iii.----- iv.-----
 5. Do you sell Pakistani rice? Yes----- No-----.
If yes, go to question no-7, if no, go to question no-13.
 6. Do you import directly from Pakistan? Yes----- No-----.
 7. Which of the following problems do you face in importing rice?
 - a. Pakistan Government regulation/formalities? Yes----- No-----.
 - b. U.K Government regulations/formalities? Yes----- No-----.
 - c. quality problems? Yes----- No-----.
 - d. packaging problems? Yes----- No-----.
If yes, give examples -----.
 - e. other, please specify -----.
 8. How the prices of imported rice are determined?
 - a. by negotiating with RECP -----
 - b. private negotiation -----
 - c. RECP tenders -----
 - d. private tenders -----
 - e. other method, please specify -----.

9. Which of the following applies to you in terms of rice packaging?
- we sell Pakistani rice in original packages and brand in which imported -----.
 - we re-pack the rice using smaller packages with our own brand -----.
 - we supply in both ways -----.
10. Do you pay tax on the imported rice? Yes----- No-----.
If yes, how much per tonne on average on the following:
- paddy £----- per tonne,
 - rice £-----per tonne,
 - broken £-----per tonne.
11. On average what quantity of rice (Pakistani) do you sell in a year?
- Basmatii rice -----tonne/s -----lbs -----kgs.
 - Irri rice -----tonne/s -----lbs -----kgs.
 - broken rice -----tonne/s -----lbs -----kgs.
12. We do not sell/supply Pakistani Basmatii/other rice because:
- there is no demand for such rice -----.
 - we do not have an access to supply -----.
 - it is expensive -----.
 - lack of small packages available -----.
 - quality problem -----.
 - others, please specify -----.
13. Do you import rice from other than Pakistan? Yes----- No-----
If yes please specify country/s, if no go to question no-19.
i.----- ii.----- iii.----- iv.-----
14. How much quantity of rice is imported from each country?
- tonnes from----- (country).
 - tonnes from----- (country).
 - tonnes from----- (country).
 - tonnes from----- (country).
15. Do you reprocess/re-mill the imported rice? Yes----- No-----.

16. How the prices of the imported rice are determined?
- By negotiation with the Government exporting agency? ()
 - Negotiation with the private parties? ()
 - By Government exporting agency tenders? ()
 - By private tenders? ()
 - Others, please specify. -----
17. Which of the following applies to you in terms of rice packaging?
- We sell rice in the original packages and brand as imported-----.
 - We re-pack the rice using smaller packages with our own brand name -----.
 - We supply in both ways-----.
18. Do you pay tax on the imported rice? Yes ----- No-----.
- If yes, how much per tonne on the following?
- £ ----- per tonne on paddy.
- £ -----per tonne on rice.
- £ -----per tonne on broken rice.
19. We do not import rice from any country directly but buy from the local wholesalers, Yes----- No-----.
20. Which of the following applies to you in terms of rice packaging?
- we sell rice in original packages and brand as purchased -----.
 - we re-pack the rice using smaller packages with our own brand name -----.
 - we supply in both ways -----.
 - we reprocess them -----.
21. From the following, who are your major buyers?
- wholesalers -----.
 - retailers -----.
 - final consumers -----.
 - others, please specify -----.

22. From the following to whom do you mostly sell?
- a. Asian dealers/grocers -----.
 - b. English dealers/grocers -----.
 - c. Chain stores -----.
 - d. All -----.
 - e. others, please specify -----.
23. We do not sell/supply any kind of rice because:
- a. there is no demand for rice -----.
 - b. we do not have an access to supply -----.
 - c. lack of small packages available -----.
 - d. quality problem -----.
 - e. storage problem -----.
 - f. others, please specify -----.

Note: After filling this questionnaire, please send it back the following address:

Amanat A. Jalbani
Department of Business Studies.
William Robertson Building
University of Edinburgh
Edinburgh EH8 9JY.

TABLES

Table - 5.5

Gross Domestic Product of Pakistan (at constant factor cost of 1959-60)

(Million Rs:)

Years	GDP Mln Rs:	Growth rate (in GDP)	GNP	Growth rate (in GNP)	Population. (in million)	Per Capita income in Pak: Rupees.
1972-73	35773	+1.6	35954	+7.1	65.309	550
1973-74	38439	7.5	38623	7.4	66.878	577
1974-75	39930	3.9	40188	4.1	68.924	583
1975-76	41229	3.3	41940	4.4	71.032	590
1976-77	42401	2.8	43696	4.2	73.205	596
1977-78	45679	7.7	48354	10.7	75.444	640
1978-79	48204	5.5	51270	6.0	77.751	659
1979-80	51736	7.3	54888	7.1	80.129	684
1980-81	55048	6.4	57863	5.4	82.580	700
1981-82	59012	7.2	61851	6.9	84.253	734
1982-83	62975	6.7	67069	8.4	87.758	764
1983-84	65968	4.8	69892	4.2	90.480	772
1984-85	72014	9.2	75586	8.2	93.286	810
1985-86	77023	7.0	80903	7.0	96.179	841
1986-87	81427	5.7	84733	7.4	99.162	854
1987-88	86166	5.8	88887	4.9	102.238	869

Sources: Annual Report, State Bank of Pakistan, 1987-88; Statistical Year Book, Government of Pakistan, Bureau of statistics, 1987-88.

TABLE - 5.9

Structure of Pakistan Economy (Breakdown of GNP at constant factor cost of 1959-60).
(sectorial share of GNP in percentage)

Years.	PERCENTAGE of GNP.				GNP
	Primary Sector.	Secondary Sector	Tertiary Sector	Income from Abroad	
1949-50	53.44	0.77	45.79	---	100
1955-56	47.75	11.54	40.71	---	-
1960-61	44.11	12.92	42.97	---	-
1965-66	37.68	15.21	47.11	---	-
1970-71	37.79	16.90	45.31	---	-
1975-76	32.98	15.70	49.63	1.69	-
1980-81	28.84	18.83	47.47	4.86	-
1981-82	27.96	17.91	49.54	4.59	-
1982-83	26.77	17.23	49.90	6.10	-
1983-84	24.17	18.30	51.92	5.61	-
1984-85	25.13	18.29	51.86	4.72	-
1985-86	25.05	18.38	51.78	4.49	-
1986-87	24.46	18.87	52.18	4.49	-
1987-88	24.38	19.35	53.23	3.04	-

Source: Economic Survey of Pakistan [1989-90, p.26-27] (Statistical section), Government of Pakistan, Islamabad.

Table - 5.10

Breakdown of GDP (at constant factor cost of 1959-60).

(in percentage)

Years	Total GDP.	Agriculture.	Manufacturing	Mining & quarrying.	Others.
1949-50	100	53.50	7.78	0.21	38.53
1955-56	-	47.35	11.53	0.33	40.79
1960-61	-	43.60	12.90	0.45	43.03
1965-66	-	37.08	15.18	0.53	47.19
1970-71	-	37.23	16.86	0.47	45.52
1975-76	-	33.12	15.97	0.42	50.46
1980-81	-	29.80	17.69	0.51	51.99
1985-86	-	25.69	11.90	0.62	54.37
1986-87	-	24.83	19.63	0.62	54.89
1987-88	-	24.51	19.96	0.63	54.88

Source: Economic Survey of Pakistan [1989-90, pp.26-27], Statistical section), Government of Pakistan, Islamabad.

Table - 5.11

Production of Important Crops.

(000 tonnes).

Years.	Wheat.	Rice.	Cotton.	Sugar-cane.
1949-50	3,924	805	220	7,849
1954-55	3,186	838	281	8,836
1960-61	3,814	1,030	301	11,641
1965-66	3,916	1,317	414	22,309
1970-71	6,476	2,200	542	23,167
1975-76	8,691	2,619	514	25,547
1980-81	11,475	3,123	715	32,359
1985-86	13,913	2,919	1,208	27,856
1986-87	12,016	3,486	1,309	29,926
1987-88	12,675	3,241	1,468	33,029
1988-89	14,419	3,200	1,426	36,916
1989-90	15,000	3,222	1,455	36,188

Source: Economic Survey of Pakistan [1989-90, p.46], (Statistical section), Government of Pakistan Islamabad.

TABLE - 5.17.

Value Added Share in Percentage of Major Agricultural Crops.
(at constant factor cost - base 1980-81)

Year.	Wheat.	Rice.	Cotton.	Sugar -cane.	Others.
1980-81	20.52	17.16	32.33	17.54	12.45
1981-82	20.55	17.84	31.07	18.98	11.56
1982-83	21.79	17.00	32.15	16.24	12.82
1983-84	17.74	18.62	32.44	19.30	14.90
1984-85	20.08	15.61	29.24	15.68	19.39
1985-86	29.07	13.67	32.09	12.57	12.60
1986-87	30.48	15.36	29.07	13.06	12.03
1987-88	33.25	14.12	28.94	14.14	09.55
1988-89	30.50	13.32	30.60	14.96	10.62
1989-90	30.61	13.14	31.26	14.49	10.50

Source: Economic Survey of Pakistan [1989-90, p.48], (statistical section), Government of Pakistan, Islamabad.

Table - 5.18.

Economic Classification of Pakistan's Total Export by Major Export Crops.

Years.	Total Export Rs. Mln.	Percentage of Total Export (in value).	
		Rice.	Raw Cotton.
1969-70	1,609	5.80	13.05
1970-71	1,998	8.60	13.51
1971-72	3,311	8.27	28.84
1972-73	8,551	13.28	13.64
1973-74	10,161	20.64	3.61
1974-75	10,286	22.39	15.01
1975-76	11,253	22.02	8.71
1980-81	29,280	19.13	17.76
1985-86	49,992	11.05	16.58
1986-87	63,355	8.11	12.11
1987-88	78,445	8.16	13.71
1988-89	90,183	6.61	19.99

Source: Economic Survey of Pakistan [1988-89, pp.154-157], (statistical section), Government of Pakistan, Islamabad.

TABLE-7.3.

BREAKDOWN OF AREA UNDER DIFFERENT RICE VARIETIES.

(000) HACTARES).

YEARS.	AREA UNDER BASMATI RICE.		AREA UNDER IRRI RICE		AREA UNDER OTHER RICE		TOTAL PADDY/RICE AREA.
	Area under Basmati Rice	% of Total Rice Area	Area under Irri Rice.	% of Total Rice Area.	Area under other Rice.	% of Total Rice Area.	
1977-78	515.0	27	852.2	45	531.9	28	1899.1
1978-79	677.9	34	1015.4	50	332.3	16	2025.6
1979-80	779.0	38	946.1	47	291.4	15	2034.5
1980-81	823.7	43	841.1	43	268.3	14	1932.1
1981-82	844.0	43	872.8	44	259.2	13	1973.4
1982-83	836.3	42	915.7	46	226.1	12	1978.1
1983-84	825.2	41	941.3	47	232.0	12	1998.5
1984-85	779.1	39	974.1	49	245.3	12	1998.6
1985-86	759.0	41	902.3	48	201.9	11	1853.2
1986-87	803.7	39	1055.5	51	206.4	10	2065.0
AVERAGE AREA IN % (1977-78 TO 1886-87).		38.7		47.0		14.3	100

Source: 'Statistical Year Book', [1988], Government of Pakistan, Bureau of Statistics, Islamabad.

TABLE 7-4.

BREAKDOWN OF RICE PRODUCTION BY VARIETIES IN PAKISTAN.

(000 tonnes).

YEARS.	BASMATI RICE PRODUCTION.		IRRI RICE PRODUCTION.		OTHER RICE.		TOTAL PRODUCT.
	BASMATI RICE.	% OF TOTAL RICE PROD;	IRRI RICE.	% OF TOTAL RICE PROD;	OTHER RICE.	% OF TOTAL RICE PROD;	
1975-76	642.3	25	1290.1	49	685.1	26	2617.5
1976-77	659.8	24	1315.7	48	761.9	28	2737.4
1977-78	560.1	19	1671.2	57	718.3	24	2949.6
1978-79	877.7	27	1948.8	60	445.5	13	3272.0
1979-80	886.6	28	1958.0	61	371.2	11	3215.8
1980-81	980.0	31	1796.6	58	346.6	11	3123.2
1981-82	1054.9	31	2020.8	59	354.0	10	3429.7
1982-83	1010.4	29	2123.6	62	310.7	09	3444.7
1983-84	965.2	29	2069.9	62	304.4	09	3339.5
1984-85	958.3	29	2038.7	62	318.2	09	3315.2
1985-86	883.1	30	1786.6	61	251.2	09	2918.9
1986-87	916.9	26	2309.9	66	259.5	08	3486.3
1987-88	943.2	29	2069.8	64	227.9	07	3240.9

Source: Agricultural Statistics of Pakistan, [1988-89], Government of Pakistan, Ministry of Food and Agriculture and Co-operatives, Islamabad.

TABLE - 7.9

AVERAGE PER HACTARE YIELD OF RICE FOR DIFFERENT VARIETIES IN PAKISTAN.

(in Kgs).

YEARS.	BASMATI.	IRRI.	OTHERS.	TOTAL AVERAGE.
1977-78	1088	1961	1350	1466
1978-79	1295	1919	1341	1581
1979-80	1138	2031	1274	1481
1980-81	1317	2270	1243	1610
1981-82	1629	2338	1288	1751
1982-83	1636	2342	1309	1762
1983-84	1639	2317	1294	1750
1984-85	1653	2273	1291	1739
1985-86	1639	2219	1305	1721
1986-87	1734	2345	1206	1761

Source: Statistical Year Book, [1988], Government of Pakistan, Bureau of Statistics, Islamabad.

TABLE - 9.6

RELATIVE SHARES OF DIFFERENT MARKETING CHANNELS IN TOTAL EXPORTS OF OTHER RICE VARIETIES.

MARKETING CHANNELS	1984-85	1985-86	1986-87	1987-88	AVERAGE.
Through Tenders.	35.27	42.00	29.70	34.38	37.80
Negotiations with private parties.	16.67	23.62	19.95	9.59	17.40
Government to Government through Negotiations.	47.37	34.03	39.50	55.80	44.17
Total.	100.00	100.00	100.00	100.00	100.00

Source: UCG, [1989, p.254], 'Rice Export Operation Study', vol. 1.

TABLE - 9.11

TREND ANALYSIS OF AVERAGE UNIT PRICES RECEIVED FOR BASMATI AND OTHER* VARIETIES.

YEARS	BASMATI.		OTHER VARIETIES.	
	US\$/TONNE.	TREND.	US\$/TONNE.	TREND.
1975-76	524	100	187	100
1976-77	345	66	180	96
1977-78	451	86	232	124
1978-79	743	142	247	132
1979-80	715	136	255	136
1980-81	713	136	326	174
1981-82	721	138	298	159
1982-83	639	122	212	113
1983-84	604	115	210	112
1984-85	628	120	207	110
1985-86	672	128	160	85
1986-87	720	137	154	82
1987-88	726	139	207	110

Source: UCG [1989, p.73] 'Rice Export Operation Study' Vol-1, table-3.12.

*Irri and negligible share of other rice varieties.

TABLE - 9.12.

Output, Procurement, Export and Consumption of Basmati rice in Pakistan (1972-1987).
(000 mt)

Year	Output.	Procurement.	Export.	consumption.	Percentage to output.		
					Procurement.	Export.	Consumption.
1971-72	384.0	35.9	177	184.0	9.3	46.0	48.0
1972-73	400.0	133.3	109	267.0	33.3	27.25	66.7
1973-74	486.0	215.6	131	25.8	44.3	26.9	67.0
1974-75	602.0	287.0	181	384.9	47.6	30.0	63.9
1975-76	642.3	318.6	306	297.8	49.6	47.6	46.3
1976-77	659.8	201.4	510	110.2	30.5	77.2	16.7
1977-78	560.1	193.3	272	254.5	34.5	48.5	45.4
1978-79	877.7	390.8	179	646.0	44.5	20.4	73.6
1979-80	886.6	382.4	315	518.4	43.1	35.5	58.4
1980-81	980.0	320.1	410	511.2	32.6	41.8	52.16
1981-82	1054.9	388.2	262	729.6	36.7	24.8	69.16
1982-83	1010.4	337.5	238	711.8	33.4	33.5	70.44
1983-84	965.2	264.6	406	501.3	27.4	42.0	51.93
1984-85	958.3	284.4	174	726.8	29.6	18.1	75.84
1985-86	883.1	226.5	261	569.1	25.6	29.5	64.44
1986-87	1020.8	201.7	188	771.6	19.75	19.4	75.58

Source: Hamid, et, al., [1990] 'Trade, Exchange Rate, and Agricultural Pricing Policies in Pakistan', table-4.2.2, The World Bank, Washington, D.C.

TABLE - 9.13.

AVERAGE EXPORT PRICE OF BASMATI RICE EXPORT FROM PAKISTAN FOR DIFFERENT REGIONS. (US \$ PER TONNE.)

REGION.	1975-76	1978-79	1981-82	1983-84
MIDDLE EAST.	527	793	794	604
ASIA.	419	800	722	597
AUSTRALIA.	480	800	740	539
N. & S. AMERICA	456	825	701	543
EUROPE.	506	782	689	576
AFRICA.	452	800	716	606

Source: Adopted from: U.C.G [1989, vol-II, p.331] Annexure B-1.

TABLE-9.14.

RICE* EXPORT BY VALUE (MLN: RS.) IN PAKISTAN.

YEAR.	BASMATI	IRRI	TOTAL.	BASMATI AS % OF TOTAL RICE EXPORT.
1982-83	1884.0	1798.0	3682.0	51.2
1983-84	3287.0	2401.0	5688.0	57.8
1984-85	1648.3	1691.4	3339.7	49.4
1985-86	2801.7	2725.5	5527.2	50.1
1986-87	2285.8	2766.8	5052.6	45.2
1987-88	2828.3	3576.1	6404.4	44.2
1988-89	3015.9	3950.7	5966.6	50.5

Source: Agricultural Statistics of Pakistan 1988-89.

*It includes all rice varieties i.e., Basmatii, Irri and other.

TABLE-9.15.

RICE* EXPORT AS % OF TOTAL EXPORTS IN PAKISTAN BY VALUE IN RS.

YEAR.	Rice Export as % of Total Exports.
1977-78	19.0
1978-79	20.0
1979-80	18.0
1980-81	19.2
1981-82	16.0
1982-83	11.0
1983-84	15.3
1984-85	09.0
1985-86	11.14
1986-87	08.00
1987-88	08.00

Source: Pakistan Statistical Year Book [1988-89, pp.570-71], Federal Bureau of Statistics, Statistical Division, Government of Pakistan.

*It includes all rice varieties i.e., Basmatii, Irri and other.

TABLE - 10.2.

PADDY PRODUCTION IN PRINCIPAL COUNTRIES.

Regions and Countries.	Thousand tons (paddy).					Annual Growth Rate in %.	
	1981	1982	1983	1984	1985	1984-85	1981-85
ASIA:	374663	384693	417499	431614	421336	-2.4	3.0
Bangladesh	20435	21314	21752	21933	21900	-0.2	1.7
Burma	14146	14373	14288	14590	15387	5.5	2.1
China ¹	144285	161600	169181	178577	168317	-5.7	3.9
India	79883	70772	89579	87856	87106	-0.9	2.2
Indonesia	32770	33584	35303	37978	38660	1.8	4.2
Japan	12824	12838	12958	14850	14580	-1.8	3.3
Thailand	17774	16879	18730	18700	19000	1.6	1.7
Vietnam	12522	14169	14732	15458	15500	0.3	5.5
Others	40024	37331	40976	41672	40886	-1.9	-0.5
AFRICA:	8605	8965	8985	9118	9765	7.1	3.2
Egypt	2236	2441	2440	2442	2450	0.3	2.3
Madagascar	2012	1967	2147	2131	2215	3.9	2.4
Nigeria	1125	1250	1280	1300	1430	10.0	6.2
Others	3232	3307	3118	3245	3670	13.1	3.4
CENTRAL & NORTH-AMERICA:	10800	9240	6900	8600	8732	1.5	-4.8
Mexico	649	511	416	488	740	51.6	3.3
USA	8289	6968	4523	6296	6169	-2.0	-7.1
Others	1862	1761	1961	1816	1823	0.4	-0.5
SOUTH AMERICA:	13266	15320	14482	14561	14118	-3.0	1.6
Brazil	8228	9735	7742	8990	8750	-2.7	1.5
Columbia	1788	2018	1780	1796	1798	0.1	0.1
Others	3250	3567	2960	3775	3570	-5.4	2.5
EUROPE:	1708	1911	1731	1954	2110	8.0	5.4
EEC ²	934	1118	1441	1139	1247	9.5	7.5
Others	1534	1706	1544	1735	1862	7.3	5.3
OCEANIA:	747	885	559	704	894	27.0	4.6
Australia	728	854	528	675	865	28.1	4.4
Others	19	31	31	29	29	0.0	11.2
USSR	2400	2500	2600	2600	2550	-1.9	1.5
World	412189	423514	450756	469151	459505	-2.1	
All Developed	25952	25074	22343	26378	26277	-0.4	0.3
All Developing	386237	398440	428413	442773	433228	-2.2	2.9
Exports	220416	236008	242953	256539	246899	-3.8	2.9
Imports.	191772	187506	207803	212613	212606	0.0	2.6

Source: Nick Amin, [1987, p.31], 'Characteristics of International Rice Market', table-1,

¹Including Taiwan Province.

²EEC (10).

TABLE - 10.3

AVERAGE WORLD RICE PRODUCTION AND WORLD RICE TRADE, SELECTED PERIOD.

PERIOD.	PRODUCTION.	TOTAL EXPORTS.	% OF PRODUCTION EXPORTED.
	(million metric tonnes)		
1936-40	109.3	5.7	5.2
1950-54	122.0	4.7	3.9
1955-59	147.0	6.1	4.1
1960-64	163.5	6.8	4.2
1965-69	184.2	6.7	3.7
1970-74	208.6	7.3	3.5
1975-79	247.8	10.3	4.2
1983-85 ^a	298.9	11.6	3.9
1986-88 ^b	308.2	11.4	3.7

Source: Nick Amin, [1987, p.33]], 'Characteristics of International Rice Market', table-3.

^aThese figures are calculated on the basis of table 9.13, then the paddy figures have been converted into rice by multiplying with .65 as FAO standard rate (1 unit of paddy = .65 unit of rice).

^bThese figures are taken from the, 'World Rice Situation and Outlook 1988-89', CCP:RI 89/ CRS 1,FAO, Rome, Italy. February. The paddy is converted into rice as in note a.

TABLE - 10.6.

RICE TRADE OF RICE-IMPORTING COUNTRIES AND THEIR SHARE OF THE WORLD MARKET.

Region/Country.	Average Annual Imports (1000 mt)					World Import in percent.				
	1961-63	1969-71	1976-78	1978-80	1983-85	1961-63	1969-71	1976-78	1978-80	1983-85
Monsoon Asia:	3304	4501	3720	3301	2307	60.3	64.2	42.2	33.1	21.1
Bangladesh,	479	638	234	279	323	8.7	9.1	2.7	2.8	3.0
Hong Kong and Singapore,	555	518	522	514	533	10.1	7.4	5.9	5.2	4.9
India,	418	347	25	-347	124	7.6	4.9	0.3	-3.5	1.1
Indonesia,	1044	692	1707	1928	392	19.0	9.9	19.3	19.3	3.6
Korea Republic	15	591	46	366	27	0.3	8.4	0.5	3.7	0.2
Laos Peoples Republic	108	50	105	72	49	2.0	0.7	1.2	0.7	0.4
North Vietnam,	-4	490	402	170	98	- 0.1	7.0	4.6	1.7	0.9
South Vietnam,	-172	355	n-a	n-a	n-a	- 3.1	5.1	n-a	n-a	n-a
Sri Lanka, Malaysia & Philip;	861	820	679	319	761	15.7	11.7	7.7	3.2	7.0
Middle East,	311	440	1394	1747	2308	5.7	6.3	15.8	17.5	21.1
Sub-Sahara-n- Africa,	443	610	1459	1823	2643	8.1	8.7	16.5	18.3	24.2
Western European importers,	676	565	373	688	925	8.7	8.1	8.8	6.9	8.5
USSR and Eastern Europe	383	558	644	836	433	7.0	8.0	7.3	8.4	4.0
Western Hampshire,	297	394	406	531	512	5.4	5.6	4.6	5.3	4.7
World Gross Import.	6120	7305	9268	10894	11447	100.0	100.0	100.0	100.0	100.0

Sources: Nick Amin, [1987, p.37], 'Characteristics of International Rice Market', table-7.

Note: -Bangladesh was East Pakistan prior to 1971.

-Figures for North Vietnam include trade with the People's Republic of China,

-North Vietnamese figures for 1976-85 are for the Socialist Republic of (North and South) Vietnam,

-The Middle East includes Jordan Kuwait, Lebanon, Syria, Yemen (North and South), UAE, Israel, Iraq, Iran, S.Arab, Algeria, Libya, and Morocco.

-Sub-Sahara Africa includes Chad, Mali, Upper Volta, Nigeria, Somalia, Tanzania, Angola, Zaire, Madagascar, Mozambique, Mauritius, Gambia, Ghana, Guinea Bissau, Ivory Coast, Liberia, Senegal, Sierra Leone, and South Africa.

-Western Europe includes Belgium-Luxamburg, France, F.R.of Germany, The Netherlands, Austria, Greece, Norway, Portugal, Sweden, Switzerland, U.K, Denmark, Turkey, and Cyprus.

-Eastern Europe includes, Bulgaria, Czechoslovakia, Hungary, Poland, Rumania, and Yugoslavia,

-The Western Hampshire includes Cuba, The Dominican Republic, Haiti, Jamaica, Trinidad and Tobago, Canada, El-Salvador, Guatemala, Honduras, Chile, and Peru.

TABLE - 10.7.

STRUCTURAL SHIFTS IN RICE TRADE.

COUNTRY/REGION	1979-81.		1985-87.	
	Quantity		Quantity	
	'000' Tonnes	Average %	'000' tonnes	Average %
<u>IMPORTS.</u>				
WORLD.	11874	100	11715	100
Developing Countries,	9706	82	9623	82
Far East & Asian CPE.	4428	38	2668	23
Near East,	1786	15	2591	22
Africa,	2269	19	2804	24
Latin America,	1082	9	1356	12
Other Developing Countries,	141	1	191	1
Developed Countries,	2168	18	2087	18
<u>EXPORTS.</u>				
WORLD.	11907	100	11653	100
Burma	647	5	530	5
China	1164	10	1154	10
EEC (10) ¹	356	3	485	4
Pakistan	1154	10	1138	10
Thailand	2860	24	4247	36
United States.	2749	23	2246	19
Others.	2977	25	1853	16

Source: UCG, [1989, p.63], table-3.7

Note: ¹Excludes intra-EEC (10) trade. Official data on EEC (12) is not available for Years prior to 1986.

TABLE - 10.8.

RICE AREA , YIELD AND PRODUCTION: WORLD AND SELECTED COUNTRIES & REGIONS.

COUNTRY/REGION.	Area.		Yield.		PRODUCTION (milled.	
	(Million Hectare)		(mt per Hectare)		(mln metric tons)	
	1986-87	1987-88	1986-87	1987-88	1986-87	1987-88
WORLD.	145.1	142.2	3.22	3.17	318.3	307.5
United States	1.0	0.9	6.33	6.14	4.2	4.1
Burma	4.7	4.5	2.68	2.72	7.8	7.6
Pakistan	2.1	1.9	2.53	2.53	3.5	3.2
Thailand	9.7	9.2	1.95	1.74	12.5	10.6
Indonesia	9.9	9.8	3.94	3.97	26.5	26.3
Nigeria	0.7	0.6	1.43	1.31	0.6	0.6
Rep. of Korea	1.2	1.3	6.37	6.02	5.6	5.5
Australia	0.1	0.1	5.72	7.50	0.4	0.6
Bangladesh	10.6	10.4	2.18	2.21	15.4	15.3
Brazil	6.0	6.0	1.74	1.83	7.1	7.5
China	32.3	32.1	5.34	5.42	120.6	121.8
India	40.8	39.7	2.22	2.00	60.4	53.0
Japan.	2.3	2.1	6.32	6.19	10.6	9.7
Philippines	3.4	3.3	2.64	2.58	5.8	5.5
Vietnam	5.7	5.6	2.84	2.74	10.4	9.9

Source: UCG, [1989, p.60], table 3.5.

TABLE-10.9

PER HECTARE YIELD OF RICE IN MAIN RICE PRODUCING COUNTRIES.
(in kgs).

Countries.	1983-84	1984-85	1985-86	1986-87	1987-88
India.	2195	2126	2212	1827	1999
Bangladesh	2047	2048	2238	2130	2377
Thailand	1972	1979	2010	1983	1961
Burma	3085	3098	3214	3259	2957
Philippines	2470	2486	2694	2632	2644
Japan	5701	6414	6322	6222	6186
Pakistan.	2507	2488	2351	2532	2477
U.S.A	5153	5520	6097	6218	6143
Egypt.	5768	5310	5950	5952	5714

Source: Pakistan Agriculture Statistics, [1988-89, p.75].

TABLE - 10.10.

Levy on import from third countries in EEC.

ECU/1000 KG.

Description		76-77	77-78	78-78	79-80	80-81	81-82	82-83
PADDY.	ROUND GRAIN,	52.65	108.70	74.24	24.52	24.52	106.71	170.27
	LONG GRAIN,	110.60	83.98	139.67	102.57	102.57	24.71	110.91
HUSKED RICE	ROUND GRAIN,	116.78	65.81	135.88	92.81	92.81	30.65	133.38
	LONG GRAIN,	138.25	104.98	174.58	128.21	128.21	30.894	138.64
SEMI-MILLED RICE.	ROUND GRAIN,	159.17	131.40	185.06	186.33	186.33	56.272	181.83
	LONG GRAIN,	237.63	206.77	313.47	266.28	266.28	158.18	292.95
MILLED RICE.	ROUND GRAIN,	169.56	139.94	197.09	198.44	198.44	59.929	193.65
	LONG GRAIN,	255.29	221.66	336.04	285.46	285.46	169.57	313.29

Source; Commission of EC, 'Agricultural Markets' 1984, Luxembourg.

Table - 10.11.

EC IMPORT LEVIES ON RICE AS PERCENT OF IMPORT PRICE (CIF) & EXPORT REFUNDS AS PERCENT OF CONSUMER PRICE.

	1982	1983	1984	1985	1986
IMPORT LEVIES	29.2	23.1	43.1	58.3	73.1
EXPORT REFUNDS	9.6	6,8	11.1	13.0	n.a

Source: USDA 1988, Estimates of Producer & Consumer Subsidy Equivalents, Government Intervention in Agriculture, 1982-86.

n.a, indicates not available.

Table - 10.12

**POSITION OF RICE IN EC.
('000' tons milled rice equivalent.)**

	1983-84	1984-85	1986-87
PRODUCTION	945	1056	1230
CHANGE IN STOCK	-45	-11	-35
IMPORTS	681	878	780
EXPORTS	359	505	562
INTERNAL CONSUMPTION	1214	1247	1266
SELF SUFFICIENCY RATIO*	66.5	73.5	83.0

Source; USDA, 1988, Estimates of Producer and Consumer Subsidy Equivalents, Government intervention in agriculture, 1982-87.

*This is the ratio of rice in % of total consumption, which shows that other than given ratio, the remaining % is imported. For example, the total consumption is 100, out of which 66.5% is locally produced and the remaining is imported. It means that the self-sufficiency ratio is 66.5%.

TABLE - 10.13

TRENDS IN FOOD AID IN RICE BY DONOR AND RECIPIENT.
(000 tons milled rice)

DESCRIPTION.	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
FOOD AID SHIPMENT.											
JAPAN.	200	517	284	10	-	17	75	564	654	795	318
+TRIANGULAR.	82	7	23	33	72	40	70	38	33	37	76
United States.	1242	716	723	694	892	508	534	517	442	351	377
+TRIANGULAR	52	36	-	1	-	-	-	-	30	14	-
OTHERS.	19	9	18	7	36	62	111	397	257	132	168
+TRIANGULAR.	260	18	17	22	-	23	31	72	137	20	131
TOTAL.	855	1303	1065	677	1000	650	821	1588	1553	1339	1088
WORLD FOOD RECEIVED.											
AFRICA.	08	08	13	43	80	105	160	140	340	306	580
ASIA.	1845	1294	1052	624	777	639	605	1232	1031	1141	424
LATIN AMERICA.	-	-	-	10	-	13	6	86	79	90	81
OTHERS.	-	1	-	-	55	56	-	1	2	9	23
TOTAL.	1854	1303	1065	677	912	813	771	1459	1454	1546	1108
SHARE OF FOOD AID IN IMPORT.											
AFRICA.	1	1	1	6	8	6	8	6	14	11	18
ASIA.	31	21	19	13	14	11	12	19	16	17	09
LATIN AMERICA.	-	-	-	2	-	3	2	7	7	11	12
WORLD.	23	16	14	09	11	9	9	13	12	12	10

Source: FAO, [1985] Rice: Selected Aspects of Production, Trade, and Price Policies, Economic and Social Development; paper-54.

TABLE - 11.1

PROFIT FROM BASMATI RICE AS A PERCENTAGE OF THE TOTAL NATIONAL BUDGET AND REVENUES OF PAKISTAN.

YEARS	PAKISTAN'S ANNUAL BUDGET. (Rs. Million)	PAKISTAN'S TOTAL REVENUES.	BASMATI RICE EXPORT PROFIT.			IRRI RICE EXPORT PROFIT/LOSS.		
			PROFIT Rs. Million	PERCENTAGE OF BUDGET.	PERCENTAGE OF REVENUES.	PROFIT/LOSS RS. MILLION.	PERCENTAGE OF BUDGET.	PERCENTAGE REVENUES.
1977-78	40,898	26,482	258	0.63	0.97	144	0.35	0.54
1978-79	48,994	30,704	681	0.13	2.21	392	0.80	1.27
1979-80	54,629	38,502	1000	1.83	2.59	289	0.52	0.75
1980-81	63,639	47,002	1171	1.84	2.49	707	1.11	1.50
1981-82	71,013	51,930	744	1.04	1.43	510	0.71	0.98
1982-83	87,121	59,181	735	0.84	1.24	- 68	- 0.07	- 0.11
1983-84	100,002	72,290	1078	1.07	1.49	- 502	- 0.50	- 0.69
1984-85	116,819	77,403	558	0.47	0.72	- 152	- 0.13	- 0.19
1985-86	134,479	89,523	1250	0.92	1.39	- 907	- 0.67	- 1.01
1986-87	153,654	103,374	1080	0.70	1.04	- 991	- 0.64	- 0.95
ANNUAL AVERAGE (for 10 Years)			855.5	0.94	1.55	-57.8		

Sources: Government of Pakistan, 'Economic Survey' [1986-87]
Richard Schermerhorn [1990], 'Rice Export Marketing Study'.

BIBLIOGRAPHY

BIBLIOGRAPHY.

- Abbot, John C. [1986] 'Institutional Reforms of Marketing and Related Services to Agriculture with particular reference to Africa', *Agriculture Economics*, no:1, pp.143-157.
- Abbot, J.C. et al. [1972] 'Rice Marketing', Food and Agricultural Organisation, (FAO) Rome.
- Abbott, J.C. [1987] 'Agricultural Marketing Enterprises for the Developing World', Cambridge Press .
- Aharoni, Yair. [1987] 'The Evolution and Management of State Owned Enterprises, Maryland.
- Ajay, Chhibber and Wilton, John. [1986] Macroeconomic Policies and Agricultural Performance in Developing Countries, *Finance and Development*, Quarterly, September, pp.6-9, Washington, D.C.
- Alderman, H., Choudhary, M and Garcia, M. [1987] 'House hold food security in Pakistan with reference to ration shop system' Pakistan Institute of Development Economics (PIDE), Islamabad.
- Anandarup, Ray. [1986], Trade and Pricing Policies in World Agriculture, *Finance and Development*, Quarterly, September, pp.2-5 Washington, D.C.
- APCOM [1990] 'Support Price Policy for Rice (Paddy), 1990-91 crop', Secret APCOM series No. 90, Agriculture Price Commission, Government of Pakistan, Islamabad.
- Ashraf, Mohammad. [1985] 'The Impact of Farm Mechanisation on Productivity and Employment: A case study of Punjab Pakistan', Ph.D thesis, University of Salford.
- Barker, Randolph, et al. [1984] 'Rice Economy of Asia', Resources for the future/Washington, D.C. In Cooperation with the International Rice Research Institute/Manila, Philippine.
- Barker, Randolph. et al. [1985] 'Rice Economy of Asia', Resources for the future, Washington D.C.
- Bates, Robert H. [1981] 'Markets and States in Tropical Africa: The Political basis of Agricultural Policies', University of California Press.
- Bates, Robert H. [1983] 'Essays on the Political Economy of Rural Africa, Cambridge University Press.
- Bates, Robert H. [1988] 'Towards a Political Economy of Development: A Rationale Choice Perspective', University of California Press.
- Bates, Robert H. [1989] 'Beyond the Miracle of the Market: The Political Economy of Agrarian Development in Kenya',

Cambridge University Press.

- Berg, Elliot. [1987] 'Obstacles to Liberalising the Agricultural Markets in Developing Countries', in (ed.,) Dieter Elz, 'Agricultural Marketing Strategy and Pricing Policies, World Bank.
- Bijan B. Aghevli, et al. [1987], Growth and Adjustment in South Asia, Finance and Development, Quarterly, September, pp12-16, Washington, D.C.
- Blue Greenshields, and Bellamy, M. [1989] 'Government Intervention in Agriculture: causes and effects', International Association of Agriculture Economics, Athenaeum press limited, Newcastle upon Tyne.
- Bryceson, D.F. [1985] 'The Organisation of Tanzania Grain Marketing: Switching Roles of the Co-operative and Parastatal', in (ed.,) Arhin, et., al, Marketing Board in Tropical Africa, KPI, London.
- Burniavx, Jean-Marc. [1989] 'Intersectoral Effects of CAP Trade Liberalisation', in (ed.,) Tarditi Secondo, Agricultural Trade Liberalisation and European Community, Clarendon press, Oxford.
- Butler, Stuart. [1985] 'Privatising Federal Spending: A strategy to eliminate the Deficit'. Universal Books, New York.
- Cable, Vincent. [1987] 'The Impact of EEC Trade Policies on Developing Countries', in (ed.,) Herbert Gierch, 'Free trade in the world Economy'.
- Caswell, Nim. [1985] 'Peanuts, Peasants and Politics: State Marketing in Senegal', in (ed.,) Arhin et, al, Marketing Board in Tropical Africa, KPI, London.
- Caswell, N. [1985] 'Peasants, Peanuts & Politics: State Marketing in Senegal, 1966-80', in (ed.,) Arhin, et, al., Marketing Board in Tropical Africa, KPI, London.
- Choudhary, Mohammad Ali. [1981] 'Pricing and Performance - Special Report', Pakistan Economist, Monthly (21 February), Karachi.
- Choudhary, Mohammad Aslam. [1978] 'The Production and Trade of Rice and Cotton with special reference to export to EC'. Ph.D thesis, University of Exeter.
- Christianson, R.E, and Kydd, J.G. [1987] 'The Political Economy of Agricultural policy Formulation in Malawi', MADIA working paper, World Bank, Washington, D.C.
- Colclough, Christopher. [1991] 'Structuralism versus Neo-liberalism: An Introduction', in (ed.,) Colclough Christopher and Manor James, 'States or Markets? Neo-liberalism and the Development Policy Debate', Institute of Development Studies,

- (IDS), Clarendon Press, Oxford.
- Commission of European Communities [1987-91] 'The Agriculture Situation in the community', Luxembourg, (Different Issues).
- Commonwealth Heads of Governments, [1975] 'Communique', Nassau.
- Cook, P. and Krickpatrick, C. (ed.,) [1988] 'Privatisation in less developed countries', Wheatsheaf Books, Sussex.
- Corden, W. Max. [1987] 'Protection and liberalisation: A review of Analytical Issues', Occasional paper no.54, IMF, Washington, D.C.
- Coudert, Jean. [1985] 'Imports of Rice into the Middle-East Market levelling off', *International Trade Forum*, quarterly, (January-March), volume-21, part-1, pp.10-13,34, Switzerland.
- Cramer, et al. [1990] 'The Impact of Liberalising Trade on the World Rice Market', Selected paper, Annual Meetings of the American Agriculture Economic Association, Vancouver, British Columbia, Canada, August.
- Davenport, Michael. [1988] 'European Community Trade Barriers to Tropical Agriculture Products', Working paper 27, ODI, London.
- Dean, A. DeRosa. [1988] Agricultural Trade and Protection in Asia, *Finance and Development*, Quarterly, December, pp.50-53, Washington, D.C.
- Dinopoulos, Elias. and Lane, D. Timothy. [1992], Market Liberalisation Policies in a Reforming Socialist Economy, *IMF Staff Papers*, Volume 39, No.3, September, pp.465-494, Washington, D.C.
- Easterby-Smith, Mark. et al. [1991] 'Management Research: An Introduction', Sage Publication, London.
- '*Economist*', weekly, London, June 15, 1991.
- Ender, Gary. [1990] 'Government Intervention in Pakistan's Agricultural Economy', USDA staff report no:9027, New York.
- Erh-Cheng, Hwa. [1983] World Bank Staff Working Paper no: 619, The World Bank, Washington, D.C.
- Erzan, et al. [1988] 'The profile of Protection in Developing Countries', *Discussion Paper no.20*, New York, United Nations Conference on Trade and Development, (UNCTAD).
- Evans, J. Lynton. [1987] 'Report on Paddy/Rice Marketing in Pakistan, APCOM, Government of Pakistan, Islamabad.
- Falcon, Walter.P. and Monke, Eric, A. [1979-80] 'International Trade

- in Rice', Food Research Institute Studies, volume-xvii, no.3, pp.279-305, Stanford.
- FAO [1983] 'Tariff and Non-Tariff Barriers to Rice Trade', FAO, Rome, CCP; RI 83/5.
- FAO [1985] 'Rice: Selected Aspects of Production, Trade and Price Policies', FAO Economic and Social Development paper-54, Rome.
- FAO [1987] 'Agricultural Policies, Protectionism and Trade: Selected working papers 1985-87', Economic and Social Development working paper-75, Rome.
- FAO [1988] 'Tariff and Non-Tariff Measures Affecting International Trade in Rice', CCP:RI 88/4 Addendum 1, FAO, Rome.
- FAO [1989] Report of FAO Regional Seminar on Food Marketing Policy Adjustment, Dar-es-Salam, United Republic of Tanzania, 22-24 July, Food and Agriculture Organisation of the United Nations, Rome, Italy.
- FAO [1989] 'World Rice Situation and outlook 1988-89', CCP:RI 89/CRS 1, February, Rome, Italy.
- FAO [1990] Selected Papers: Structural Adjustment and Agricultural Marketing, Food and Agriculture Organisation of the United Nations, Rome.
- Finger, Michael. and Olechowski, J. [1987] 'Trade barriers: who does what to whom', in (ed;) Giersh Herbert, 'Free Trade in World Economy Towards an opening of Markets', Symposium, at Kiel University, Germany.
- Fordyce, Maxwell. [May 22, 1992] 'The Scotsman' daily, Scotland, U.K.
- Frohberg Klavs, et al. [1989] 'International Effects of CAP Trade Liberalisation', in (ed.,) Tarditi Secondo, Agricultural Trade Liberalisation and European Community, Clarendon press, Oxford.
- GATT [1989] 'What it is and what it does'? GATT Secretariat, Geneva.
- GATT 'FOCUS' Newsletters (different issues) [1990-92], Geneva.
- Ghai, Dharam. and Lawrence, D.Smith. [1987] 'Agricultural Prices, Policy and Equity in Sub-Saharan Africa'; Lynne Rienner Publishers, Inc.Boulder,Colorado, USA.
- Glade, William. [1983] 'The Privatisation and Denationalisation of Public Enterprises' in (ed.,) Reddy G . Ram, 'Government and Public Enterprise: Essays in the honour of Professor V.V Ramandham', Frank Cass and Company Limited, London.

- Government of Pakistan, Ministry of Food and Agriculture, Agricultural Statistics of Pakistan, [1988],, Islamabad.
- Government of Pakistan, Finance Division, 'Economic survey of Pakistan', Yearly, (various issues), Islamabad.
- Government of Pakistan, Ministry of Commerce [1990] letter no: S.R.O no:400-(I) 90, May-7.
- Government of Pakistan, Ministry of Commerce [1991] Letter no:1(3)/91-E.iv, November 27, 1991.
- Government of Pakistan, Ministry of Food and Agriculture [1988] 'Report of the National Commission on Agriculture', Islamabad.
- Grant, Warren R. et al. [1990] 'Trade Distortion Policies in World Rice Market', Texas Agricultural Marketing Research Council (TAMARC), International Market Research Report No:IM-1-90, November, Texas.
- Greeley, Martin. [1985] 'Rice in Bangladesh: Post Harvest Losses Technology and Employment'. Ph.D thesis, University of Sussex.
- Griffin. [1969] 'Financing Development Plans in Pakistan', in (ed.,) A.R. Khan, 'Strategy and Techniques of Development Planning' (Paper Readings), Pakistan Institute of Applied Economics, Karachi.
- Hamid, Naved, et al. [1990] 'Trade, Exchange Rate, and Agricultural pricing Policies in Pakistan', The World Bank, Washington, D.C.
- Hanke, S. H. [1985] 'The Privatisation Option: An Analysis', Heritage Foundation.
- Harris, Barbara. [1976] 'Paddy and Rice Marketing in Northern Tamil Nadu, India. (A study of marketing efficiency and of the effects upon it of partial Government intervention)'. Ph.D thesis, University of East Anglia.
- Harris, Barbara. [1977] 'Piecemeal Planning in Rice Markets: The Effects of Partial Government Intervention on Marketing efficiency in a South India District'. Monographs in Development Studies no-1, School of Development Studies, University of East Anglia.
- Harris, Barbara. [1979] 'There is a method in my madness or is it vice versa? Methodology data and conclusion in the measurement of agricultural market performance', School of Development studies, University of East Anglia.
- Harris, Barbara. [1983] 'Money and Commodities: Their Interaction in a Rural Indian Setting', in (ed.,) Von Pischke J.D, et, al., 'Rural Financial Markets in Developing countries: their

- uses and abuses', (published for World Bank), Jones Hopkins University Press.
- Heald, D. [1988] 'The relevance of UK Privatisation for LDCs", in (ed.,) Cook P & Kirkpatrick C., 'Privatisation in less Developed Counties', Wheatsheaf Books, Essex.
- Helen, Hughee. [1982, pp.22-25] Private Enterprise and Development - Comparative Country Experience, Finance and Development, Quarterly, March, Washington, D.C.
- Heller, P. S. and Schiller C . [1989] 'The Fiscal Impact of privatisation with some examples from Arab countries', World Development , vol-17, no-5.
- Hemmington, Richard. and Ali Mansoor [1989] 'Privatisation and Public Enterprises', Occasional paper no.56, Washington, D.C: International Monetary Fund.
- Henley, John S. [1991] 'Privatisation in an African Context: The Case of Tanzania', University of Edinburgh, Department of Business Studies.
- Hesp, Paul. and Van Der Laan, Laurens. [1985] 'Marketing Board in Tropical Africa: A Survey', in (ed.,) Arhin, et. al., Marketing Boards in Tropical Africa, KPI, London.
- Hill, Frances. [1977] 'Experiments with a public sector peasantry', African Studies Review, No.20.
- Hong Kong Shanghai Banking Corporation [1986] 'Business Profile Series: Islamic Republic of Pakistan'.
- Hopecraft, R. [1987] 'Grain Marketing Policies and institutions in Africa', Finance and Development, Quarterly, IMF, Washington, D.C. March.
- Humphreys, Charles P. [1986] 'Cereal Policy Reform in Mali', draft report, World Bank, Washington, D.C.
- Huppi, Feder J.M. and Yaron, J. [1989] 'Agriculture Credit: Experience and implications for future projects'. Agricultural Policies Division, World Bank, Washington, D.C. November.
- Idachaba, F.S. [1985] 'Commodity Boards in Nigeria: A crisis of Identity', in (eds;) Arhin, et, al, Marketing Boards in Tropical Africa', KPI, London.
- Jalbani, Mahmooda [1991] 'Digression of GATT to its original Principles', unpublished report/paper.
- Jalbani, Mahmooda. [1991] 'Law and Organisation of the Primary Commodities in the World Market', unpublished paper.
- Jammeh, Sidi Cherno. [1988] 'State Intervention in Agriculture

- Pricing and Marketing in Senegal: The Politics of Budgetary Allocation', Ph.D Thesis, The John Hopkins University .
- Jan, Adam and Sabiha, Iqbal. [1982] 'Export Policies and Economic Development in Pakistan 1970-82', USA.
- Jayal, N . D. [1985] 'Emerging patterns of the Crisis in the Water Resource Conservation', in (ed.,) J.Bandyopadhyaya, India's Environment: Crisis and Response, Dehra Dun: Natraj.
- JICA (Japan International Cooperation Agency) [1986] 'Master Plan Study for Paddy/Rice Handling and Processing Improvement Project in the Islamic Republic of Pakistan', Government of Pakistan, Islamabad.
- Jittapatr, Kruavan. [1986] 'The Effects of the Free Rice Trade Policy in Thailand', Ph.D thesis, The Pennsylvania State University.
- Jones, Leon A. [1975] 'The Political Economy of Rice in the United States', Food Research Institute Studies, volume-xiv, no-4, pp.319-353, Stanford.
- Jones, P. Leroy. and Papanek Gustav. F. [1983] 'The Efficiency of Public Enterprise in less Developed Countries', in (ed.,) Reddy G . Ram, Government and Public Enterprise: Essays in the honour of Professor V.V Ramandham, Frank Cass and Company Limited, London.
- Jones, P. Leroy. [1982] 'Towards a Performance Evaluation Methodology for Public Enterprises: with special reference to Pakistan'. Pakistan Management Review, vol-XXIII, no: 2 & 3, 2nd and 3rd Quarter, Pakistan Institute of Management, Karachi.
- Kamdar, M S. [1987] 'Agriculture Marketing and Agrarian Relation in Pakistan: A case study of the Nawabshah District, Sindh', Ph.D thesis, University of Salford.
- Kee-Check, Cheong and Emmanuel, H.D'Silva. [1984] 'Prices, Terms of Trade, and role of Government in Pakistan's agriculture', World Bank Staff working paper number 643, The World Bank, Washington D.C.
- Keun, Lee and Hong, Young Lee. [1992, pp.107-130] States, Markets and Economic Development in East Asian Capitalism and Socialism, Development Policy Review, Volume 10, Number 2, June, SAGE Publication, ODI.
- Khalid, Ikram. [1980] Egypt: Economic Management in a period of Transition, Baltimore: World Bank and John Hopkins University Press.
- Khan, Salamat Ali . [1991] 'Buy-out stir privatisation hopes in Pakistan', Weekly, Far Eastern Economic Review, 11 July, Hongkong.

- Killick, Tony. [1989] 'Principles of Policy for the adoptive Economy', ODI working paper 32, London.
- Killick, Tony. [1990] 'Markets and Governments in Agricultural and Industrial Adjustments', ODI, working paper 34, London.
- Knudsen, O. and Nash J. [1990] 'Redefining the Role of Government in Agriculture for the 1990s', World Bank, Discussion paper 105.
- Koester, Ulrich. [1991] 'Economy-wide costs of farm support policies in the major industrial countries', in (ed.,) Burger Kees, et, al., 'Agriculture Economics and Policy: International Challenges for the Nineties', Essays in the honour of Professor Jan, De Veer, Elsevier, Amsterdam.
- Kruavan, Jittapatr. [1986] 'The Effects of the Free Trade Policy in Thailand', Ph.D thesis, The Pennsylvania State University.
- Krueger, Anne O. [1987] 'Liberalisation Attempts and consequences', in (ed;) Foreign Trade regimes and Economic Development, Volume X, National Bureau of Economic Research, New York.
- Krueger, A.O. et al. [1988] 'Agricultural incentives in developing countries: measuring the effects of sectoral and Economy-wide Policies', World Bank Economic Review, 2nd September.
- Kumar, Ramesh and Ravidar, Dhawan. [1991, pp.1225-1240] Exchange Rate Volatility and Pakistan's Exports to the Developed World, World Development, Vol. 19, no. 9.
- Kydd, J. [1989] 'Zambia in the 1980's: the Political Economy of Adjustment', in (ed.,), Commander Simon, 'Structural Adjustment and Agriculture: theory and practice in Africa and Latin America', London.
- Kydd, J.G. and Hewitt, A. [1986] 'The effectiveness of structural adjustment lending: Initial evidence from Malawi', World Development, vol-14, no-3.
- La Porte, Robert. and Muntazar Bashir Ahmed. [1989] 'Public Enterprises in Pakistan: The Hidden Crisis in Economic Development', Westview special studies on South and Southeast Asia, Westview press, London.
- Ladman, J. [1984] 'Loan Transaction Costs, Credit Rationing & Market Structure: The case of Bolivia', in (ed.,) D. Adams, Undermining Rural Development with Cheap Credit. Boulder, Colorado, Westview press.
- Lee, Soon-Chee. [1982] 'The Paddy and Rice Marketing in West Malaysia', Ph.D thesis, University of Leeds.
- Lele, U. and R.E. Christianson [1988] 'Agricultural Markets, Marketing Boards and Cooperatives in the MADIA countries: Issues in Adjustment policy in Africa', World Bank.

- Lele, U. [1988] 'Structural Adjustment, Agricultural Development & the poor: some lessons from the Malawian experience', MADIA working paper, World Bank, Washington, D.C.
- Lingard, John. [1986] 'An Economic Analysis of Agriculture Mechanisation with particular reference to Rice Farms in the Philippines and Indonesia, Ph.D thesis, University of Newcastle.
- Lipton, Michael. [1975?] Why Poor People Stay Poor: Urban Bias in world Development, Gower Publishing Group, Hampshire, England.
- Lutz, E. and Bale, D.M. [1980] 'Agricultural Protectionism in industrialised countries and its global effects: a survey of issues', in AUSSENWIRTSCHAFT, Vol. 4, No. 35, pp.331-354.
- Maddock, Niculus. [1987] 'Privatising Agriculture: Policy Options in Developing countries', Food Policy, November.
- Mahmood, Akhtar and Walters, Forrest. [1990] 'Pakistan Agriculture: A Description of Pakistan's Agricultural Economy', EAN Project, USAID, Islamabad.
- Manghas, Mahar . [1975] 'The Political Economy of Rice in the New Society', Food Research Institute Studies volume-xiv, no-3, pp.295-309, Stanford.
- Marsh, John. [1991] 'Agriculture and Structural Policy' in (ed.,) Burger Kees, et, al., 'Agriculture Economics and Policy: International challenges for the Nineties', Essays in the honour of Professor Jan, De Veer, Elsevier, Amsterdam.
- Martin, Greely. [1985] 'Rice in Bangladesh: Post Harvest Losses Technology and Employment', Ph.d thesis, University of Sussex.
- Michaely, Michael. et al. [1989] The Design of Trade Liberalisation, Finance and Development, Quarterly, March, pp.2-5, Washington, D.C.
- Michaely, Michael. et al. [1991] 'The Experience of Indonesia, Pakistan, and Sri Lanka', in (ed.,) Papageorgiou Demetris , et al. 'Liberalising Foreign Trade', volume-5, Basil Blackwell, Inc, Cambridge.
- Michaely, Michael. et al. [1991] 'Lessons of experience in the Developing Countries', in (ed.,) Papageorgiou Demetris , et, al., 'Liberalising Foreign Trade', volume-7, Basil Blackwell, Inc, Cambridge.
- Millward, Robert. [1982] 'The Comparative Performance of Public and Private Ownership', in (ed.,) Lord Roll of Ipsden The Mixed Economy: proceedings of section F, Economics of the British Association for the Advancement of science, Salford, 1980, Macmillan, London.

- Mohammad, Khayrat. [1980] 'An Empirical Analysis of Export Promotion in Pakistan, 1959-77', Ph.D thesis, University of Edinburgh.
- Monke, Eric. et al. [1976] 'Comparative Advantage, Government Policies, and International Trade in Rice, Food Research Institute Studies, volume-xv, no-2, pp.257-283, Stanford.
- Moravetz, David. [1978] 'Twenty five Years (1950-75) of economic development, John Hopkins Press, Baltimore (published for World Bank).
- Nash, John. [1983] 'Pricing for Rice in Peru', World Bank, Washington, D.C.
- National Westminster Bank, Market Intelligence Department [1987] 'An Economic Brief: Pakistan', May.
- Naved, Hamid. et al. [1990] 'Trade, Exchange Rate, and Agricultural pricing Policies in Pakistan', The World Bank, Washington, D.C.
- Nellis, J. [1986] 'Public Enterprises in Sub-Saharan Africa', World Bank, Discussion Paper-1, Washington, D.C.
- Nick, Amin. [1987] 'Characteristics of International Rice Market'. DPP working paper no;8, Development Policy & Practice Research Group, Faculty of Technology, The Open University, U.K.
- Nickun, J. [1982] 'Irrigation Management in China: A review of the literature', Staff Working Paper no-545, World Bank, Washington, D.C.
- Okun, B. R. [1986] 'Freeing Constraints on the Economy: The Benefits of Deregulation', Heritage Foundation, Washington, D.C.
- Omer, Noman . [1988] 'Pakistan: Political and Economic History since 1947, Kegan Paul International Ltd; London.
- Pearson, R Scot. et al. [1981] 'Rice in West Africa', Stanford University Press.
- Petzal, Todd. E. and Monke, Eric A. [1979-80] 'The Integration of the International Rice Market', Food Research Institute Studies, volume-17, no-3, pp.307-326, Stanford.
- Postal, S. [1989] 'Water for Agriculture: Facing the Limits', World Watch Institute, Washington, D.C.
- Prager, Jonan. [1992] 'Is Privatisation a Panacea for LDCs? Market Failure versus Public Sector Failure', The Journal of Developing Areas, vol.26, no.3, April, pp.301-322, Western Illinois University, USA.

- Prasert, Chaitip. [1989] 'A spatial Equilibrium Analysis of the effects of Trade Liberalisation on the Asian and U.S Rice', Ph.D thesis, Mississippi State University, U.S.A.
- Qamar-ul-Islam [1987] 'Marketing Problems of Farmers in Punjab, Pakistan: A case Study'. M.Phil thesis, University of Edinburgh.
- Qureshi, S.K, et al. [1987] 'Taxes and Subsidies on Agricultural Producers as elements of Intersectoral Transfer of Resources: Magnitude of the transfer and search for policy options', PIDE, Islamabad.
- Rassas, B. et al. [1988] 'Evolution of the food for progress Rice Programme in Madagascar, Washington, D.C. August.
- Rayner, Anthony C. et al. [1991] 'The Experience of New Zealand, Spain, and Turkey', in (ed.,) Papageoriou Demetris, et, al., Liberalising Foreign Trade, Basil Blackwell, Cambridge.
- Reusse, E. [1987] 'Liberalisation and Agricultural Marketing: Recent causes and effects in Third World Economies', Food Policy, November.
- Rhatigan D.J, [1987] MARS Private Sector Rice Study, (Tana: USAID/Tana,), May.
- Rizvi, Muneer, Ali Shah. [1985] 'An Analysis of the structure, conduct and performance of the Date Marketing system in Sindh - Pakistan', Ph.D thesis, The Queen's University of Belfast.
- Ross, Randy L. [1987] 'Government and the Private sector: who should do what?' A Rand Corp: Research study, Crane Russak and co, London.
- Sabiha, Iqbal. [1982] 'Pakistan Export Performance 1972-78: A Political And Economic Analysis', Ph.D thesis, University of Maryland.
- Samuel, Paul. [1985] 'Privatisation and the public sector', Finance and Development, Quarterly, 22(4), December, Washington, D.C.
- Sanderson, Fred. H. [1989] 'Effects of a reduction in US Agricultural protection', in (ed.,) Tarditi Secondo, et, al., 'Agricultural Trade Liberalisation and European Community'.
- Sarris, Alexander. [1991] 'Agriculture Trade Liberalisation and instability in world cereal Market', in (ed.,) Burger Kees, et al. 'Agriculture Economics and Policy: International challenges for the nineties', Essays in the honour of Professor Jan, De Veer, Elsevier, Amsterdam.
- Sartaj, Aziz . [1990] 'Agricultural Policies for the 1990's', Development Centre of the Organisation for Economic Co-operation and Development, (OECD) Paris.

- Savas, E S. [1985] 'Privatisation: A Powerful New Tool For Government', The Privatisation Review, Vol-1, No-1.
- Schermerhorn, Richard. [1990] 'Rice Export Marketing Study', EAN/USAID Project, Islamabad.
- Schultz, Theodore W. [1976] 'Transforming Traditional Agriculture', New York.
- Schwartz, Gred. [1991, pp.1731-1736] Privatisation: Possible lessons from the Hungarian case', World Development, vol. 19, No.12.
- Scot, William and Redding, David. [1978] 'Distortion of agricultural incentives', Bloomington, Ind.: Indiana University press.
- Scot, William and Redding, David. [1988] 'Agriculture credit in Pakistan' USAID Project, Islamabad.
- Shirley, Mary. [1988, pp.40-43] Promoting the Private Sector, Finance and Development, Quarterly, March, Washington, D.C.
- Siamwalla, Ammar [1975] 'A History of Rice Policies in Thailand', Food Research Institute Studies, volume-xiv, no-3, pp.233-249, Stanford.
- Siamwalla, A. and S. Haykin [1983] 'The World Rice Market: Structure, Conduct and Performance'. International Food Policy Research Institute, (IFPRI) Research Report no:9, Washington, June.
- Singh, K. [1983] 'Structure of interest Rates on Consumption Loan in an Indian Village', in (ed.,) Von Pischke J.D, et, al., 'Rural Financial Markets in Developing Countries: their uses and abuses', (published for World Bank), John Hopkins University press.
- Slayton, Thomas. [1984] 'World Rice Market: Its Structure and Workings', World Grain, volume-2, no03, pp.13-16, Foreign Agriculture Service, United States Department of Agriculture, (FAS, USDA), USDA.
- Small, L. et al. [1986] 'Regional Study on Irrigation Service Fees; Final Report; esp. Annex six; Financing Irrigation Services in the Philippines'. Sri Lanka: International Irrigation Management Institute.
- Smith, D. Lawrence. and Spooner, Neil J. [1990] The Sequencing of Structural Adjustment Policy Instruments in the Agriculture Sector, CDS Occasional Paper No.6, Centre for Development Studies, University of Glasgow.
- Smith, Lawrence D. and Thomson, Anne M. [1990] 'The Relative Roles of the Public and Private Sector in Agricultural Marketing under Liberalisation';(paper presented at the Development

- Studies Association, Scotland Group, Conference, University of Edinburgh, February 10).
- Smith, Lawrence D. and Thomson, Anne M. [1991] 'Liberalisation and Privatisation of Food Marketing in the Asia and Pacific region - Implementation Issues, (paper prepared for the 5th FAO Regional Commission on Food Security, Bangkok, May).
- Smith, Lawrence D. [1989] Structural Adjustment, Price Reforms and Agricultural Performance in Sub-Saharan Africa, Journal of Agricultural Economics, Vol.40, No. 1, Jan: 1989, pp.21-31.
- Smith, Mark Easterby. et al. [1991] 'Management Research: An Introduction', Sage Publication, London.
- Soon - Chee, Lee. [1982] 'The Paddy and Rice Marketing in West Malaysia', Ph.D thesis, University of Leeds.
- Sopin Tangoan [1969] 'An Economic Analysis of the price of Thai Rice', Ph.D thesis, Ohio State University, USA.
- Srinivasan, T.N. [1986] 'Fertiliser Pricing in Developing Countries: A Market Based Approach', in (ed.,) Segura, et, al., Fertiliser Production Pricing in Developing countries.
- Staatz, M. John. [1989] 'Cereal Market Liberalisation in Mali', World Development, vol.17, no.5.
- State Bank of Pakistan, 'Annual Report', [1987-88] Karachi, Pakistan.
- Talbot, Ross. B. and Moyer, H Wayne. [1987] 'Who Governs Rome Food Agencies'? Food Policy, November, pp.349-364, Butterworth and company.
- Tangerman, Stefan. [1991] 'Agriculture in International Trade Negotiation', in (ed.,) Burger Kees, et, al., 'Agriculture Economics and Policy: International challenges for the Nineties', Essays in the honour of Professor Jan, De Veer, Elsevier, Amsterdam.
- Teerana, Ngowsirimanee [1988] 'Monopolistic Competition and Trade Liberalisation in a small open developing country: A computable general equilibrium', Ph.D thesis, University of Wisconsin -Madison.
- The Economist Intelligence Unit, London, no:2 [1989] 'Pakistan-Afghanistan' (Country report) no: 21989.
- 'The ECONOGRAM', Volume 5, no:2, [April, 1989] Pakistan Economic Analysis Network Project, USAID, Islamabad.
- 'The Europa World Year Book' [1985] 'A World Survey', vol.II, London Europa Publications limited.
- 'The Scotsman', daily, Scotland, U.K.

- Timmer, Peter C. and Falcon, W. [1975] 'The Political Economy of Rice Production and Trade in Asia', in (ed.,) L.Reynolds, Agriculture in Development Theory, Yale University Press, New Haven, USA.
- Timmer, Peter C. [1974] 'A Model of Rice Marketing Margins in Indonesia', Food Research Institute Studies, 13.2, pp.145-167, Stanford.
- Timmer, Peter C. [1975] 'The Political Economy of Rice in Asia: A Methodological introduction', Food Research Institute Studies, volume-xiv, no-3, pp.191-196, Stanford.
- Timmer, Peter C. [1989] 'Food Price Policy: A Rationale of Government Intervention', Food Policy, Volume 14, number 1, February, U.S.A.
- Tolley, George S. et al. [1982] 'Agriculture Price Policies and the developing countries', World Bank, Washington, D.C.
- UCG (United Consulting Group) (PVT) Limited, [1989] 'Rice Export Operation Study', Volume -II, APCOM, Government of Pakistan, Islamabad.
- UCG (United Consulting Group) (PVT) Limited, [1990] 'Marketing Margins of Selected Crops in the Context of Farming Systems and Ecological Zones', Vol-1, Ministry of Food and Agriculture, Government of Pakistan.
- UCG (United Consulting Group) (PVT) Limited [1989] 'Rice Export Operation Study', Volume -I, APCOM, Government of Pakistan, Islamabad.
- United Nations Conference on Trade and Development (UNCTAD) [1986] 'Protectionism and Structural Adjustment. TD/B1081, New York.
- Van De Walle. [1989] 'Privatisation in Developing Countries: A Review of the Issues', World Development, vol.17, no.5.
- Van Ginneken, Wouter. [1976] 'Rural and Urban Income Inequalities', International Labour Office, Geneva.
- Van Maanen, J. [1983] 'Qualitative Methodology', Sage Publication, London.
- Veer, Jan De. [1989] 'National Effects of CAP Trade Liberalisation', in (ed.,) Tarditi Secondo, Agricultural Trade Liberalisation and European Community, Clarendon press, Oxford.
- Vernon, R. [1989] 'Conceptual Aspects of privatisation', Cepal Review, no-37, April.
- Vinod, Thomas. and John, Nash. [1991] Reform of Trade Policy: Recent Evidence from Theory and Practice, The World Bank Research Observer, vol.6, no.2, July, pp.219-241, IBRD,

Washington, D.C.

- Viqar Ahmed and Rashid Ahmed [1984] 'The Management of Pakistan Economy', Oxford University Press, Karachi.
- Wade, R. [1982] 'Irrigation and Agricultural Policies in South Korea', Boulder, Colorado: Westview.
- Walter, P. Falcon. and Monke, A.E. [1979-80] 'International Trade in Rice', *Food Research Institute Studies*, vol- 17, no;3.
- Waters, Alan. [1985] 'Privatisation: A Viable Policy Option?' in (ed.) Rufus and Heald David, Privatisation Policies, methods and procedures. Manila, Asian Development Bank,
- Wells, R.J.G. [1983] 'An Input Credit Programme for Small Farmers in West Malaysia', in (ed.,) Von Pischke J D, et, al., 'Rural Financial Markets in Developing Countries: their uses and abuses', (published for World Bank), John Hopkins University press.
- Williamson, John. [1991, pp.1-13] The Debt Crisis: Lessons of the 1980s, Asian Development Review, Volume 9, No.2, Asian Development Bank, Philippines.
- Willis, James . W. [1972] 'Review of World Rice Markets and Major Suppliers', Foreign Agriculture Service, United States Department of Agriculture, (FAS, USDA).
- Wilson, Byernest. [1986] 'The Public Private Debate', Africa Report, July-August.
- Wolter, Frank. [1987] 'Trade liberalisation within the GATT framework? in (ed.,) Giersch, Herbert, 'Free Trade in the world Economy Towards an opening of Markets', Symposium held at Kiel University, Germany.
- World Bank [1981] 'Accelerated Development in Sub-Saharan Africa: An Agenda for Action', Washington, D.C.
- World Bank [1982] 'World Development Annual Report', Washington, D.C.
- World Bank [1986] 'World Development Annual Report', Washington, D.C.
- World Bank [1990] 'World Development Annual Report', Washington D.C.
- Yarrow, George. [1986] 'Privatisation in Theory and Practice', Economic Policy, vol.2, pp.323-371, Cambridge University press.
- Yarrow, George. [1988] 'Privatisation and Economic Performance', Economic Review, Number.2, volume.6, November, pp.2-8.

Yong, Dac Kwon. [1989] 'Political Macro economy of Agricultural Policy: Rice Policy Adjustment in Korea', Ph.D thesis, University of Hawaii.

Zikmund, William G. [1986] 'Exploring Marketing Research', second edition, The Dryden press, USA.