

# Problems of Jute Marketing in East Pakistan

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## I

Jute constitutes the largest item in the export market of Pakistan. At present Pakistan is facing a number of difficulties with respect to jute trade due mainly to the emergence of substitutes and powerful competitors in the world market. While these are the factors affecting long term demand for Pakistani jute, there also exist other important problems associated with jute. The most urgent among them is the marketing of jute.

Jute marketing problems arise from economic and physical conditions that are primarily external to individual producers. But the problem of reducing the spread between producers' and consumers' prices is as important as that of reducing production costs. The world demand for raw jute is based on the fact that this fibre is the cheapest packing material in the world. To sell the huge amount of jute that the country produces, the supply price will have to be kept sufficiently low. To keep the supply price low both production costs and marketing costs will have to be kept low.

The price of jute is subject to tremendous fluctuation. Jute growers are mostly small subsistence farmers who suffer greatly if there is any reduction in their share of the price paid by the consumers.

Jute marketing has also been an important field for governmental action. Provincial Directorate of Jute and Central Government Jute Board were set up to supervise the internal trade and export of jute respectively. The government improved the port facilities by developing Chittagong and Chalna ports. One of the reasons for establishing the National Bank of Pakistan in 1949 was to finance jute trade. Co-operative jute marketing societies were set up to improve the growers' ability to bargain for fair prices. A price support scheme was introduced in 1950 though abandoned shortly afterwards. The East Pakistan Jute Marketing Corporation was created to act as the monopoly buyer of jute in border areas to prevent smuggling.

It, therefore, appears that marketing of the nation's 'golden fibre' is a big and complicated job. Its problems can best be appraised by seeing first what the present marketing structure is, and how well or poorly it is

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being performed. The study of the Dacca University Socio-Economic Research Board (DUSERB) deals specifically with this<sup>1</sup>. It, therefore, merits a great deal of attention. The purpose of this brief article is to examine the problems of jute marketing in East Pakistan on the basis of the study mentioned above.

The object of the DUSERB study of jute marketing is to describe the existing institutions, functions and structure of the marketing machinery in jute "by following scientific methods with a view to appraising its efficiency"<sup>2</sup>. The study is divided into seven chapters. Chapter I presents a brief history of jute cultivation in East Pakistan, the role of the state in the marketing of jute and the past investigations into the problem of jute marketing. Chapter II states the objects of and the methods used in the survey. Chapter III deals with the institutional classification of the raw jute market. Chapter IV discusses the methods and problems of the marketing functions; existing systems of storage, grading, transportation and supply of market information are specially discussed. Chapter V deals with the cost of marketing services. This chapter also presents a total price spread of jute between the growers and ultimate consumers. Chapter VI examines the efficiency of the existing system of jute marketing. The final chapter presents a summary.

The study is a report of the sample survey undertaken in 1958 by the DUSERB. Data were collected mainly by interviewing random samples of different categories of intermediaries engaged in the raw jute trade. Marketing processes were also observed in a randomly selected sample of markets to supplement the information obtained from the intermediaries.

In the next section a summary of the DUSERB study is presented. The concluding section contains some comments and observations about the study and about the problems of jute marketing in general.

## II

There are 1500 primary, 250 secondary and 3 terminal markets in East Pakistan. Most of the jute comes to the market immediately after harvesting in June-July and the peak is reached in September-October because boat communication is extensively available in these months. In a primary market weekly assemblage is below 500 maunds and in a secondary market it is above 5,000 maunds. The important characteristics of the method of transaction are visual estimation of quality, bargaining on the price and

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1. *Marketing of Jute in East Pakistan*, prepared by a Research Team of the Dacca University Socio-Economic Research Board (DUSERB), Dacca, 1961.

2. *Ibid.*, p. 20.

attempts on the part of the urban buyers to outwit the rural sellers. The system of visual grade estimation and haggling make the process risky and time consuming.

Forty-one thousand *beparis* and *farias* (both the words meaning small merchant) comprise the primary link in the chain of intermediaries. They are generally self employed, seasonal traders in jute having other occupations such as farming. They are not experts in quality determination of raw jute and in other marketing functions. The vast majority of them have less than ten years' experience in jute trade. The volume of trade done by each of them is also very small. *Aratdars* (stockists) and *dalals* (small brokers), who work on commission, act as negotiators between primary and secondary intermediaries. The 500 *aratdars* and *dalals* are not specialists in jute trade, but usually have more experience than the primary intermediaries. Fifteen hundred *Kutchi balers*<sup>3</sup> are next in the link having an annual average business of over 5,000 maunds. About three-fourth of them operate their own business while the rest work as branch houses of mills or of their own head offices. Brokers in baled jute, who operate in the three terminal markets and work on commission, negotiate transactions between buyers and sellers in baled jute. Above them are 110 highly organised *pucca baling* and shipping firms forming the final link in the chain of marketing intermediaries within the country. They undertake buying, selling, assorting, storing and exporting jute.

Twenty-seven per cent of the total raw jute is used by the Pakistani mills. Their purchases are usually determined by the raw material requirement of the mills and by the volume of orders received for jute goods. They buy more of the relatively cheaper quality. Seventy-three per cent of the raw jute is consumed by the foreigners. There is no great dissatisfaction about the quality of jute supplied to them, but some consider the existing prices as uneconomic. They have had rather bad experience about the efficiency and promptness of Pakistani shipping.

The highest percentage (43%) of the primary intermediaries make purchases in the homes of the growers and in *hats* (village markets). Somewhat smaller percentage (35%) of them make their purchases exclusively in *hats*, while relatively few (19%) of them buy exclusively from the growers' homes. The practice of having fixed price according to grade does not exist; price is generally determined by open bargaining.

The *pucca* balers and shippers buy from lower intermediaries mainly

3. *Kutchi* bales are somewhat loose and are intended for internal transportation. *Pucca* baling is a mechanical process of baling for international shipping. *Kutchi* bales have to be *pucca*-baled before export.

through the brokers. The superior quality among exports is obtained by a careful selection from their purchases of loose unassorted jute. No demand-creating advertisement is done for the sale of raw jute.

The *storage* facilities are very scanty in the primary markets. No storage capacity exists in the primary markets in the form of godowns except in certain areas of North Bengal. Storing at this stage is done either at the traders' home or in boats carrying jute for a short period. In the secondary markets more godowns are available; generally the greater the assemblage in the peak season the larger the available godown capacity. In the majority of the markets a trader does not have any ready storage facility available on hire. In the cases where it is available often the trader has to hire the whole warehouse or godown for a specified period.

*Grading* is the most complicated task in the whole process of jute marketing. On the one hand it is claimed that standardisation in jute has existed for the last century in the sense that very rigid specifications have been developed in the light of the long experience. On the other hand, the entire primary marketing of jute turns into a process of estimating the quality purely subjectively. In addition, grade standards change not only from buyer to buyer, but also from time to time. The primary intermediaries are generally inexperienced and cannot recognise grades accurately. As a result there is a general reduction in their offers made to the growers to cover the risk of incorrect grade specification. Although most of the primary intermediaries want to learn more about grading, there is hardly any system of apprenticeship in the jute trade in the primary stage.

*Transportation* remains a very costly item in the marketing of jute in East Pakistan. The major difficulties are: (1) the seasonal nature of transport, (2) the risk of jute getting wet in rain as boats are not covered, (3) theft and robbery, and (4) insufficient space in trains. The poor state of transport facilities is an important reason for the prevalence of a very large number of primary intermediaries. At the primary stage country boats and carts are the important means of transport. Secondary intermediaries depend more on railway and motor vehicles.

The next important problem is of *finance*. The primary intermediaries are mostly self-financed and no bank credit is available at this stage. This greatly limits the volume of their business. Relatively greater amount of bank credit is available to the *kutchā balers*. Sixty per cent of the working capital of the *pucca balers* and shippers are provided by the banking institutions.

*Marketing information* at the primary stage is very scanty. It is available

only from the fellow traders and directly from the *hats*. At the higher levels letters, telegrams and Chamber of Commerce quotations are used.

In estimating the cost of marketing and price spread serious problems of imputation and comparison arise because some services are not paid for in monetary terms and certain items like business profits can be estimated only indirectly. A price spread of raw jute is conceptually difficult to build up because for every transaction there is a different pattern, some relatively simple involving fewer intermediaries and some more roundabout<sup>4</sup>. Every bundle of raw jute is different from the rest and, therefore, has a different price. An average price spread has, however, been calculated showing the marketing cost at each stage. Of the price paid by the consumer (excluding shipping cost and tax) 72 per cent goes to the growers, 5 per cent to the primary intermediaries, 9 per cent to the *kutchā balers* and 14 per cent to the *pucca balers* and shippers. The earnings of the functional intermediaries *i.e.*, those who do not hold title to the goods (*e.g.*, brokers, *aratdars* and financiers) are not shown separately but are accounted for. Highest rate of profit is earned by the final intermediaries while the primary intermediaries earn profit at the lowest rate. Total marketing cost amounts to about 28 per cent of the price paid by the consumer.

### III

In the previous section the more important findings of the DUSERB study were summarised. We turn now to a consideration of some of the problems that emerge from this description of the market.

One very important problem is the presence of a large number of primary intermediaries each with very small scale business. This leads to higher marketing cost at this stage because advantages of large scale operation cannot be achieved. This type of marketing inefficiency is imposed by such physical limitations as the existing system of small scale production of raw jute, primitive system of transportation and the presence of many non-insurable risks. There also exists an important financial obstacle which greatly limits the size of the business. Most of the primary intermediaries are self-financed with very limited funds so that they cannot operate on a large scale. As a result of the small size of their business, they earn very small profit which limits their ability to expand the size of their enterprise. So there exists a vicious circle which can only be broken by extending credit facilities to the primary intermediaries. But the *beparis* and *farias* are seldom credit-worthy, so that problem becomes infinitely complicated.

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4. DUSERB Study, p. 154.

To improve the marketing system physical limitation in the form of primitive transportation, shortage of storage facilities and the prevalence of evil marketing practices will have to be overcome. Although the persons interviewed by the Dacca University group did not show great enthusiasm about licensed warehouses it is believed that such warehouses would be useful if credit would be made readily available against warehouse receipts and if grading could be done in the warehouses. It must be emphasised that the warehouses will be used by the traders only if the charges are comparable to what they pay for existing services.

Attempts should also be directed at training the primary intermediaries, fixing price according to grade and standardising the weights used in the market. In East Pakistan jute markets one *seer* varies from 60 *tolas* to 85 *tolas*. The deficiency in the existing state of the dissemination of market information should also be removed.

It has been claimed by the authors of the Dacca University study that "the present system of marketing is not quite as inefficient as is commonly believed"<sup>5</sup>. In support of this claim it is said that the marketing cost is not high and that with the limitations the middlemen work under, "namely, inadequate facilities of transport and communications, lack of credit and the high degree of risk involved in the trade particularly on account of visual estimation of grades and fluctuations of price, it is doubtful if they or any other agency could perform the services any cheaper"<sup>6</sup>. This claim is not entirely admissible. Compared to the few processings that are done, the marketing cost (28% of the price paid by the consumer) is not low. The ratio of marketing cost to price received by the growers has increased considerably since 1941. Lastly, it must be emphasised that low marketing cost is by no means a reliable indicator of marketing efficiency.

The DUSERB study is primarily concerned with the *description* rather than the *analysis* of the marketing structure of jute. It tells nothing about some dynamic aspects of jute trade in East Pakistan. For example, nothing is said about the effects of changes in export price on the earnings of various intermediaries and on the price received by the growers. Again, no useful information is available about how growers and traders anticipate consumers' demand for raw jute. Nothing is said about the response of supply to change in the price of raw jute. These are very important questions and answers to them would be of very great value to the economists as well as policy makers.

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5. *Ibid.*, preface, page IV.

6. *Ibid.*, preface, page IV.

The importance of this study is based on its empirical nature. It contributes greatly to our knowledge about a vital problem of Pakistan. The findings of the study can serve as guides in formulating public policy for the improvement of jute marketing process.

Of the 4 million rupees provided in the Second Five-Year Plan for the improvement of agricultural marketing as a whole, the share of jute is not known<sup>7</sup>. The plan envisages survey in jute marketing, enforcing the weights and measures regulations and establishing stations for jute grading<sup>8</sup>. Nothing is provided for the improvement of jute storage facilities to the lower intermediaries. The timely publication of the DUSERB study may enable the policy makers to appraise their decisions in this area in a more revealing light.

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7. Even if the share is big, the absolute amount remains small.

8. *Second Five-Year Plan*, Planning Commission, Karachi, 1960. p. 148.