Some Aspects of Interwing Trade and Terms of Trade in Pakistan

by

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A study of interregional trade in Pakistan affords an interesting case y of the working of an economic union as well as of the development ade relations between a relatively more and a relatively less developed n. The central purpose of this paper is to construct a number of basic tical series bearing on interregional trade in Pakistan and to attempt tical tests, insofar as it is feasible on the basis of available data, of a ber of hypotheses relating to the pattern of interwing trade as well as ovements in the terms of trade of East and West Pakistan *vis-a-vis* utside world and between each other.

VOLUME AND PATTERN OF INTERWING TRADE

The movements of goods between East and West Pakistan prior to 1947/ ., prior to the establishment of Pakistan when both were parts of er economic union, are not recorded. However, from what is known the state of their economic development during that period as well e nature of products produced within each, it seems a legitimate in- ce that the flow of trade between them was very meagre. Since 1948 has been a considerable increase in the absolute volume of interwing e. Moreover, there has been an increase in the relative importance of wing trade *vis-a-vis* foreign trade. The ratio of interwing trade to otal of interwing and foreign trade increased from 6.2 per cent in 1948/49 7 8 per cent in 1959/60. The average ratio during the years 1955-60 was er cent[1]. The increase in interwing trade combined the effects of both e creation" and "trade diversion". There was very little or no trade ion in the sense of new trade created as a result of a redirection of the xisting pattern of economic activities or a reallocation of productive rces away from existing employment in each wing, as dictated by their ctive comparative advantages. Both wings were very poor in terms of strial development and were each producing mainly agricultural commo- s based on their peculiar climatic conditions and characteristics of soil. development of interwing-trade relations did not involve either wing in icting or abandoning any of its pre-existing lines of production and tituting imports from the other wing. However, with the growth of ulation and income in both wings, there was additional demand created

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1. Government of Pakistan, Central Statistical Office, *Statistical Bulletin*, De- ber 1960, No. 12. Vol. 8, p. 1137 and 1674.

for each other's goods and consequently the development of a new inte regional trade depending upon *a*) the relative income elasticities of dema of each for the goods of the other and *b*) the degree of restrictions on imp from abroad as a source of supply.

The volume and pattern of interwing trade represent, therefore, th combined effects of *a*) a progressive substitution of imports from abroad ' means of quantitative restrictions and tariffs, *b*) the pattern of econom development and industrialization of both wings, and *c*) their rela rates of growth of income and population. While total imports from abro have increased, especially in the field of raw materials and investment go domestic production in the field of consumer goods has partially, some cases completely, substituted for imports from abroad. The bined markets of the two wings were large enough for the establishme new industries on the basis of import replacement. In such industri es as paper, newsprint, cement, chemicals, metal products and engineerin g industries, economies of scale are important and a large size of the marke is necessary condition for an efficient production. The evolution of pattern of interwing trade, especially in manufactured goods, has governed by the choice of location of new economic activities as be the two wings. Ideally within an economic union or a free-trade are e- gional specialization should follow the lines of comparative advar ge. As between areas at different stages of economic development, it is the a- mic rather than the static concept of comparative advantage that is impor nt The application of the static concept of comparative advantage p East Pakistan in a number of fields at a disadvantage in terms of cu costs because the basic social and economic overhead facilities suc roads, transportation and communication facilities, supply of p and skill, *etc.*, are yet undeveloped so that the present cost ratios of vari industries in East Pakistan do not reflect their long-run relative efficie *vis-a-vis* similar industries in West Pakistan. This initial disadvant tends to have cumulative effects. New industries in the private sector ha tended to concentrate in West Pakistan with all its advantages and a with its nearness to the seat of government which administer the co mercial and industrial licensing of imports as well as the control of capit issues.

The pattern of economic development of the two wings in the last fe years reveals a number of characteristics relevant to the composition o interwing trade. East Pakistan is relatively less industrialized than West Pakistan. As late as 1957, East Pakistan's share in large-scale manufacturing industry as revealed in the census of manufacturing industries was very lo She had 18 per cent of the total number of establishments covered in th census in 1957, and shared about 30 per cent of their average daily employ-

and from the point of view of efficient and economical production, their location in either wing is dictated by the availability of overhead facilities and by import and licensing policy of the government. Insofar as interwing trade in agricultural commodities is concerned, it is based upon distinctive climatic and physical or natural characteristics or endowments of both the regions leading to a specialization of West Pakistan in cotton, wool and wheat and of East Pakistan in jute, tea and rice.

The relative growth of the total value of imports of East and West Pakistan from overseas and from each other is shown below. However from year to year, imports from abroad have been subject to varying and fluctuating quantitative restrictions depending upon the level of export earnings, foreign-exchange reserves and availability of foreign aid and loans.

TABLE III

(*Annual average in million Rs.*)

Imports from Overseas[a]	*West*	*East*
1948/49 – 1951/52	1,182	471
1952/53 – 1954/55	875	327
1955/56 – 1959/60	1,325	553

Interwing Trade[a]	*Imports of West*	*Imports of East*
1948/49 – 1951/52	49	225
1952/53 – 1954/55	165	303
1955/56 – 1959/60	277	563

(a). C.S.O. *Statistical Bulletin*, December 1960. The period upto 1951/52 when Open General Licence (OGL) was suspended may be considered a period of liberal imports from abroad and is taken as the base period for comparison with subsequent developments. The five-year period, 1955-60, are the years of the First Five Year Plan and hence may be considered another bench-mark for comparison. *See* Appendix, Tables 1 and 2 for more detailed data.

The imports from abroad of East Pakistan are substantially less than that of West Pakistan and the absolute difference between them has increased over time. The rate of increase of West Pakistan's imports from East Pakistan has been higher than that of the imports of East from West[4], but the absolute value of East Pakistan's exports to West was very small in the initial stages. However, average imports of East from West during the first-five-year-plan period were 85 per cent greater than in the period between the suspension of OGL and the beginning of the Plan while the increase was only 70 per cent in the case of West Pakistan's imports from East. Moreover, the absolute deficit of East's interwingtrade has considerably increased over time.

It is difficult from available data to separate the effects on interwing trade of trade diversion from those of the growth of income and population. An attempt is made, however, to obtain a measure of the extent of trade diversion on the basis of *a*) changes in the percentage of total imports of each wing coming from the other and of *b*) changes in the percentage of total exports of each wing going to the other. More specifically, one can also consider the changes in the share of imports of particular commodities originating in the other wing, as well as new commodities, formerly imported from abroad, which are now imported from the other wing. Generally speaking, the importance of West Pakistan as a source of imports for East is not only significant but also has grown over time. The percentage of total imports of East which is derived from West has grown from 34.2 per cent (average of the years, 1948/49 to 1952/53) to 47.6 per cent (average of the years, 1955/56 to 1959/60) whereas the comparable percentage in the case of West has gone up from 5.8 per cent to 17.7 per cent in the same period. The percentage of total exports of West Pakistan going to East has increased from 21.8 per cent during 1948/49 to 1952/53 to 47.9 per cent during 1955/56 to 1959/60, whereas the percentage of total exports of East going to West has increased from 8.2 per cent to 22 per cent in the same period. (Appendix, Tables 1 and 2). It is clear that East Pakistan as a market has been consistently and considerably more important for West Pakistan than West as a market for East. Thus, the diversion of the source of East's imports from overseas to West Pakistan has been of particular importance.

An attempt is made to examine how the substitution of imports into East Pakistan from overseas by imports from West Pakistan has worked in the case of specific commodities. A study of East Pakistan's imports from West Pakistan and abroad of specific item or items which are very similar or are close substitutes reveals that in the case of a number of commodities there has been an absolute decline in imports from abroad

[4] In the interest of brevity and avoiding repetition, the author has used the words East and West for East Pakistan and West Pakistan respectively.

accompanied by a large compensating increase in imports from West Pakistan during the period between 1948/49 and 1959 (Appendix, Table 3). The examples of such commodities are boots and shoes, leather, metals and ores (of certain types), rape and mustard seed oil, provisions and oilman's stores, spices, salt, seeds (rape, mustard and other nonessential), soap, sugar (including molasses), cotton twist and yarn, cotton piecegoods, and manufactured tobacco. In the case of a number of other commodities such as drugs and chemicals, gums and resins, nonessential and non-vegetable oils, other textiles, cement, *etc.*, imports from both sources have gone up, while those from West have gone up faster. Of course, in the case of capital goods and semi-finished raw materials the increase in imports from abroad considerably exceeded that from West.

An examination of the trends of a few East Pakistani export commodities which are important in interwing trade such as tea, tobacco, seeds, spices, drugs and medicines, *etc.*, also shows that the proportion of total exports going to West has increased (Appendix, Table 4). In addition to the changes in the destination of exports and imports, a number of new commodities has been introduced in interwing trade. In most cases, these commodities were either wholly exported to or imported from abroad. To illustrate, the proportion of new commodities (*i.e.*, not exported in 1948/49) in East Pakistan's exports to West Pakistan constituted 15 per cent of total exports to West in 1955/56 and 19.4 per cent in 1959/60. Similarly, the proportion of new commodities in the imports of East from West was 9.2 per cent of total in 1955/56 and increased to 13.5 per cent in 1959/60 (Appendix, Tables 5 and 6).

The considerable extent of diversion of imports from overseas to regional sources resulted from restrictions on imports from abroad. This can be illustrated with reference to the case of imports of East Pakistan from West Pakistan. Let U represent the ratio of East's imports from West to East's imports from abroad, and let Z represent the overseas imports of the whole of Pakistan. Since both the variables reveal trends over time and are serially auto-correlated, a first-difference transformation is used in the regression analysis. Accordingly, the following equation has been estimated[5]:

$$\triangle U = 63.16 - 0.61 \triangle Z$$
$$(0.19)$$
$$R = -0.73$$

The relationship postulated in the above equation is statistically very significant. The composition of East's imports from West also lends support to this hypothesis. Industrial imports constituted 50.3 per cent of the

[5] The June-July figures (instead of calendar year) for the years 1948/49 and 1959/60 have been used.

value of total imports of East from West as early as 1950/51 and the relative importance of industrial goods has recorded an increase reaching 62 per cent in 1953/54 and around 60 per cent in 1959/60. The substitution for foreign imports has taken place mainly in the field of manufactured consumer goods.

INTERWING TERMS OF TRADE

The analysis of gains from interregional trade has two important aspects. First, there is the effect of the diversion of trade from overseas to the other wing in terms of the cost and price of interregional imports, *i.e.*, the extent to which imports from the other wing are higher priced than similar imports from overseas. Secondly, given the development of trade between the two wings, there is the movement over time of export and import prices in interwing trade. As for the first problem it is widely recognized that in many areas of import replacement domestic production has involved higher cost of production and price. It is not only the effect of tariff rates in diverting imports from low-cost foreign sources of supply to higher-cost domestic source located in the other wing, but also the comparison of the prices of imports from the other wing with the prices of similar imports from abroad inclusive of high tariff rates which is relevant. In many cases it is the existence of stringent quantitative restrictions which makes imports from other wing worthwhile since domestic prices of overseas imports under the "quota" restrictions are higher than "landed costs plus tariffs". No attempt has been made here to make any comparison of cost and price of interregional imports with foreign imports at a static level. On the other hand, the problem under study in this paper concerns itself with the extent and nature of the movements in import and export prices of either wing in international as well as in interwing trade, given the initial price-structure of interregional as well as foreign imports and exports. It is to be noted that while the movements of export and import prices in interwing trade have taken place in an environment of common monetary and fiscal policies and in the absence of exchange and trade restrictions, some of the characteristics of international trade are also present such as great distance, inadequate and slow transport and communications, and high costs of movement as well as immobility of factors, especially of labour, between the wings. Moreover, the different stages of economic development of the two wings provide scope for a case study of the movements of terms of trade between a more and a less developed region, as well as of the terms of trade of each with the outside world. In addition, the movements of relative prices of groups of commodities such as agricultural and industrial commodities are examined. East Pakistan, West Pakistan and trading partners of both in the outside world may be arranged in an ascending order of levels of income or stages of development. The movements of interwing commodity terms of trade have important implications for real income in both wings. The income

terms of trade reveal how the purchasing power of exports of each wing in terms of imports from the other has changed. Under these conditions the usual presumptions or hypotheses about terms of trade may be stated as follows:

1) The terms of trade of both East and West Pakistan with the outside world should tend to deteriorate and the terms of trade of East should tend to deteriorate more than those of West; *2)* the terms of trade of East with West should tend to deteriorate over time. It has also often been suggested that the terms of trade of agricultural commodities *vis-a-vis* industrial commodities tend to move against the former. In the following pages, available data are examined or analysed in order to test the above hypotheses.

In the first place, a large number of indices relating to the export and import prices of each wing in interregional trade as well as in foreign trade are constructed. In addition an attempt is made to explain such movements. As is evident from below two sets of terms of trade, one with base in 1950/51 and another with base in 1953/54, were estimated. A number of new commodities such as gunny bag, hessian or gunny cloth and paper and pasteboard, *etc.*, were introduced in the export trade of East Pakistan only since 1953/54. Similarly, in the same year began the import of cement from West Pakistan. For comparison with subsequent years, an index with 1953/54 as a base seems more representative. The commodities included in this index constituted 80 per cent of total imports and 90 per cent of total exports in 1953/54. Similarly, the index based on 1950/51 represented 78 per cent of total imports and 99 per cent of total imports of the year 1950/51.

The movements in the terms of trade of East with West Pakistan are shown in Table IV.

The change in weights from base-year to end-year in both the sets of indices is intended to examine the effects of changes in the relative importance of different commodities on the terms of trade. As is evident from the moving averages, the first set of terms of trade (with 1950/51 as base *i.e.*, Columns (A) and (B)) moved in favour of East Pakistan until 1956/57 and then went down. A linear trend fitted to the series A shows the following results: $A = 99.9 + 7.19t$, indicating a favourable trend. (3.66)
However, the second set of terms of trade (with 1953/54 as base) moved against East Pakistan (Columns (E) and (F)). The linear trend of E is given by $E = 126 - 2.82t$ (4.21). The statistical reliability of this trend is doubtful, specially in view of the shortness of the series. The change in weights does not alter the above conclusions but corroborates the trends revealed in the indices based upon base-year weights.

The separate movements in export and import prices of East Pakistan which lie behind the movements in terms of trade are given in Table V[6].

TABLE IV
INTERWING TERMS OF TRADE[a]

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
1950/51	100		100					
1951/52	100	100	88	94				
1952/53	99	105	93	99				
1953/54	115	128	116	116	100		100	
1954/55	171	157	138	135	129	121	115	111
1955/56	186	185	151	165	134	135	117	129
1956/57	199	175	206	159	142	126	154	122
1957/58	139	152	120	142	102	109	96	112
1958/59	119	141	101	122	83	100	85	97
1959/60	166		146		115		110	

(a). A=Terms of trade with quantity weights of the year 1950/51 which is the base year.
B =Three-year moving averages of A.
C =Terms of trade with same commodities as A but with weights based on the quantities of the year 1959/60.
D=Three-year moving averages of C.
E =Terms of trade with base year 1953/54 and with quantities of 1953/54 as weights; the quantities of E include a number of new commodities introduced in interwing trade only since 1953/54.
F=Three-year moving averages of E.
G=Terms of trade including same commodities as E but weights are the quantities of the year 1959/60.
H=Three-year moving averages of G.

TABLE V

Year	*Export Price*				*Import Price*			
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
1950/51	100				100			
1951/52	91	93			91	93		
1952/53	88	98			89	94		
1953/54	116	119	100		101	94	100	
1954/55	152	142	119	112	89	92	92	93
1955/56	158	171	118	129	85	92	88	95
1956/57	203	177	149	131	102	103	105	106
1957/58	169	172	126	130	122	115	124	122
1958/59	145	130	115	127	121	116	137	127
1959/60	176		139		106		121	

6. The weights are all base-year quantities. A and C are the export price indices with two different base years and their respective commodities. E and G are the import price indices with two different base years and their respective commodities. B=moving averages of A and D=moving averages of C. F=moving averages of E and H=moving averages of G. The figures in the brackets below the coefficients in various equations are standard errors of estimate.

As is evident from the moving averges of import-price index (with 1950/51 as base) it remained more or less stationary except in the last few years while the export-price index was recording a continuous rise until 1956/57. The fall in export price in the last few years was more severe than the rise in import price and was mainly responsible for the deterioration in terms of trade in the latter years. However, over the period as a whole there are positive linear upward trends in both A and E series given respectively by the equations $A = 82.30 + 10.45t$ and $E = 86.4 + 2.58t$.
(2.70) (1.67)
A higher trend in export-price index than in import-price index explains the upward trend in the terms of trade for the whole period. The deterioration in the second set of terms of trade is mainly due to a steeper rise of import price. Though both export- and import-price indices show upward trend as revealed by the equations $C = 107 + 4.18t$ and
(2.80)
$G = 82.6 + 6.75t$ a greater rise in import price caused a decline in terms
(2.23)
of trade. If the first set of indices is converted to a new index with 100 in 1953/54, the same conclusion emerges as from the second set. In other words, in the last two or three years of the period, whichever set is used to indicate the price movements, there has been an adverse movement in the terms of trade. The second set being a shorter series, the impact of decline in the last few years affects the trend in the whole series whereas in the first longer set the rise in terms of trade in the earlier years is sufficiently high to more than offset the decline in the later years.

Insofar as the volume of trade is concerned, there was an increase in the quantum index of both exports and imports of East Pakistan, even though the terms of trade in the latter years moved against East Pakistan. All the indices reveal clear upward trends. This is shown in Table VI.

The income terms of trade of East Pakistan which is the index of purchasing power of exports or of capacity to import shows an improvement owing both to an increase in quantity of exports as well as an improvement in the terms of trade except in the last three years. In the last three years the fall in commodity terms of trade (with 1950/51 as base) has been more than offset by the increase in the quantity of exports with the result that income terms of trade (*i.e.*, quantity of exports X terms of trade) have improved. However, the second index of the income terms of trade (with 1953/54 as base) shows a weaker upward trend because the rise in the quantity of exports is partly offset by the fall in the commodity terms of trade. This is given in Table VII.

TABLE VI

VOLUME INDEX OF EXPORTS AND IMPORTS OF EAST PAKISTAN[a]

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
1950/51	100				100			
1951/52	92	114			91	97		
1952/53	151	132			89	97		
1953/54	154	129	100		101	93	100	
1954/55	182	184	126	124	89	92	90	100
1955/56	217	188	145	135	85	92	109	120
1956/57	165	228	135	153	102	103	160	162
1957/58	301	270	179	172	122	115	217	184
1958/59	346	310	202	180	121	116	174	176
1959/60	284		161		106		136	

(a). A=quantity index of exports with base 1950/51.
B=three-year moving averages of A.
C=quantity index of exports with base 1953/54.
D=three-year moving averages of C.
E=quantity index of imports with base 1950/51.
F=three-year moving averages of E.
G=quantity index of imports with base 1953/54.
H=three-year moving averages of G.

TABLE VII

INCOME TERMS OF TRADE OF EAST PAKISTAN[a]

	(A)	(B)	(C)	(D)
1950/51	100			
1951/52	92	114		
1952/53	149	139		
1953/54	177	212	100	
1954/55	311	297	163	152
1955/56	403	347	194	183
1956/57	328	383	192	190
1957/58	418	386	183	181
1958/59	412	433	168	179
1959/60	471		185	

(a). A=Income terms of trade with 1950/51 base.
B=Moving averages of A.
C=Income terms of trade with 1953/54 as base.
D=Moving averages of C.
The linear trend in A and C is as follows:

$$A = \underset{(5.3)}{38.6 + 45.0t}$$

$$C = \underset{(5.4)}{133.00 + 9.07t}$$

The movements of export and import prices and of the terms of trade are expected to be governed by the reciprocal supply and demand of both the wings for the traded commodities. The facts analysed above reveal that it is not always that an underdeveloped region suffers from a deterioration in its terms of trade with a more developed region nor does its export price show any consistent downward trend. The variations in export and import prices depend upon supply and demand of the specific commodities in both the wings. An attempt was made to explain the movements of export and import prices in terms of supply and demand in both the regions. However, paucity of data has been a serious limitation. An index of production of the items exported to the other wing is expected to indicate the amount of export supply taking into account the extent of absorption within each wing. However, an index of production of only a few of the items entering into interwing trade can be constructed from available data. The indices of production of exportable items as well as some indirect indices of income or growth of demand in both the wings are shown in Table VIII[7]:

TABLE VIII

	(S_E)	(Y_E)	(S_W)	(Y_W)
1951/52	100	100	100	100
1952/53	108	105	120	103
1953/54	116	120	145	112
1954/55	118	111	177	123
1955/56	130	98	205	126
1956/57	112	127	221	133
1957/58	108	122	238	143
1958/59	102	110	250	147
1959/60	106	131	258	154

S_E is the index of production in East Pakistan and consists only of such items as tea, rape and mustard seed, tobacco, masur, matches, indigenous cloth, hessian cloth and gunny bags. S_W, indicating the index of production in West Pakistan, consists of medium, fine and coarse cloth, cement, cigarettes, kerosene oil, cotton, wheat, rice, gram tobacco and rape and mustard seed. These commodities are fairly representative of the commodities entering into trade but do not include all of the latter. Only to the extent that

[7] Production indices are based on data given in *A Measure of Inflation in Pakistan 1951-60*, (Appendices), published by the Institute of Development Economics, Karachi; and in *Economic Survey and Statistics, 1960-61*, (Government of Pakistan, 1961) as well as some unpublished price data from C.S.O. The indices of growth of demand or income are obtained from "A Measure of Economic Growth in East and West Pakistan", *Pakistan Development Review*, Autumn 1961, Pp. 49-54. The production indices are combined indices of agricultural and industrial commodities in West and East Pakistan, weights being the ratio of the value of agricultural to industrial goods in the exports of East Wing to the other. Ideally, the quantity of each individual item should have been weighted by its relative importance in interwing trade.

changes in the production of these commodities are highly correlated with the changes in the excluded commodities, can these indices represent the variations in the domestic supply in each wing of exportable commodities. Moreover, these indices do not reveal anything about the changes in costs of production of the exportable items which influence the terms of trade. The indices of income or growth of demand used in the Table VIII (Y_E and Y_W) are different from national income data since the latter includes income from the government, services, and trade sectors. However, regional income data for East and West Pakistan separately are not published. The quantity indices used here represent the absorption of a large number of commodities, *i.e.*, both consumption and investment goods. Therefore, they represent a large part of regional expenditure which takes place in East and West Pakistan separately and reveal the combined effects of growth of population and income on expenditure and demand. They may, therefore, be taken to act as indicators, not so much of absolute magnitude of regional demand as of changes over time in the relative magnitudes of regional demand. However, reciprocal demand for each other's goods is not only a function of a growth of income but also of a diversion of demand from extra regional to intra regional sources. It is difficult to quantify the extent of diversion of demand by means of a single variable. Attempts have been made to obtain an indirect measure of the diversion by means of such variables as the ratio of the quantity index of imports from West Pakistan to the quantity index of imports from overseas or the ratio of the quantity index of imports from overseas to the index of regional demand or expenditure. The higher is the former ratio or lower is the latter ratio, it is plausible that the greater will be the extent of diversion of trade. This factor, *i.e.*, diversion of import demand from foreign to regional sources, is more important in the case of East Pakistan.

A number of equations involving various combinations of these variables, such as income or expenditure in each region, supply of exportable items and some indirect measure of the diversion of trade, *etc.*, were fitted to the available data in an attempt to quantify the magnitude of these diverse influences in the determination of the export and import prices and hence of terms of trade of East Pakistan in interwing trade. A preliminary examination of data reveals that the index of regional demand or expenditure as well as the supply of exportable items has shown a greater increase in West than in East Pakistan. Given a relatively slow increase in supply of East Pakistani exports and a large increase in demand in West Pakistan, export price of East Pakistan is expected to show a relatively more favourable trend than the import price of East from West. However, the prices of imports of East from West in the latter years have been subjected to the influences of other factors such as the diversion of West Pakistani exports to foreign markets under the inducement of export bonus scheme creating a scarcity

of commodities exported to East and thus raising the import price of East: Even though there has been a relatively slow growth of income and expenditure in East Pakistan, it has been more than adequately reinforced by an increasing diversion of demand from abroad to West Pakistan which has added to the upward pressure on import prices of East Pakistan. Again, the export-price index of East Pakistan, heavily influenced as it is by the export price of tea, and in later years by the prices of paper and jute products, has been affected by a varying export quota on tea which affects the internal price of tea and hence export price to West Pakistan as well as by export bonus scheme which affects the price of jute manufactures. Moreover, the movements of the prices in interwing trade cannot be isolated from the movements of prices of imports from abroad. This is true of both agricultural and industrial prices since imported commodities, including imports under foreign-aid programmes, consist of all kinds of goods. Larger imports of a particular kind from abroad augment domestic supply and thus exercise a downward pressure on domestic prices. Again, the prices of some of these commodities have been subjected to varying degrees of government control and hence have not been very responsive to changes in supply and demand. Many of these influences cannot be quantified and hence have not been taken into account in the equations which have been estimated.

No attempt has been made to estimate the coefficients of an elaborate and large model consisting of a number of simultaneous equations. Instead, experiments are carried out to estimate directly the influences of a number of easily quantifiable price-determining factors in order to explain or assess historically the relative magnitude of price-determining factors in interwing trade. A number of equations explaining the price of imports into East Pakistan have been fitted to the available data and the results are shown below. No satisfactory results are obtained by an equation which seeks to explain price of imports on the basis of total expenditure in East Pakistan and supply in West Pakistan. The better equations estimated by least-squares method seem to be the following:

$$1)\quad \triangle P_m = \underset{(.03)}{1.29} + \underset{(.09)}{.03}\triangle R_E + .32 \triangle \frac{(Q_m)}{S_W}$$

$$R = .89$$

Where all the variables, *i.e.*, P_m (price of imports of East from West), S_w (supply of such commodities in West Pakistan), Q_m (quantity of imports of East from West Pakistan), M_E (quantity of imports of East from overseas), R_E (ratio of the value of imports from West Pakistan to imports from overseas), are expressed in the form of index number. $\frac{Q_m}{M_E}$ and R_E are used to quantify the extent of trade diversion, *i.e.*, diversion of import demand from overseas to West Pakistan.

The following alternative equations do not improve the results.

$$2)\quad \triangle P_m = \underset{(.03)}{29.42 + .05} \triangle \frac{(Q_m)}{M_E} \underset{(.67)}{- .62} \triangle S_W$$

$$R = .61$$

$$3)\quad \text{and } \triangle P_m = \underset{(.04)}{5.31 + .07} \triangle R_E \underset{(.65)}{- .25} \triangle S_W$$

$$R = .55$$

The correlation coefficients of the last two equations are not significant even at 20-per-cent probability level while the first equation is significant at 5-per-cent level.

In the case of East Pakistan the extent of trade diversion is likely to be a more important indicator of demand for imports from West Pakistan, specially since the introduction of the variable indicating income or expenditure does not yield any plausible results. The first-difference transformation of the variables tends to produce better results than the untransformed variables in terms of the expected sign and significance of the coefficients. As it appears from Equations (2) and (3), an increase in supply in West Pakistan is inversely related to the price of imports of East Pakistan while an increased diversion of import demand to West, increasing the demand for the products of the latter, puts an upward pressure on the prices. The magnitude of the influence of the latter factor on price does not appear to be appreciable whereas that of variation in supply on price is of a greater magnitude. However, neither of the coefficients are statistically very significant. The first equation seems to give a best fit to the data in view of a very high multiple correlation coefficient. The variable Q_m/S_W represents the ratio of the quantity of imports to the total production of imported goods. This variable may be assumed to represent relative importance of exports of West Pakistan (*i.e.*, imports of East Pakistan) in the total domestic production and availability of such items in West Pakistan. Changes in this variable will depend upon the relative changes in domestic production and in exports to East Pakistan. The greater is the ratio the greater is the pressure on domestic supply exerted in West Pakistan and the greater will be upward pressure on price. This will happen if domestic supply increases at a lower rate than export or if domestic supply falls while export remains the same or falls or increases at even a slower rate. The coefficient of this variable is very reliable in view of its very low standard error compared with the magnitude of the coefficient.

It has been found more difficult to explain the behaviour of export price of East Pakistan by means of the type of equations which have been used to explain import price. The price-determing equation, *i.e.*,

$P_x = A_1 + a_2 Y_W + a_3 S_E$ does not give good results. The coefficients estimated by least-squares method are[8]:

$$\triangle P_x = \underset{}{-7.95} + \underset{(4.5)}{2.9} \triangle Y_W - \underset{(1.45)}{.0006} \triangle S_E$$

$$R = .28$$

The substitution of $\frac{Q_x}{M_W}$ in place of Y_W does not improve the results where Q_x is the quantity index of exports of East, *i.e.*, imports of West, and M_W is the quantity index of imports of West Pakistan from overseas.

$$\triangle P_x = \underset{}{15.4} - \underset{(.037)}{.099} \triangle \frac{Q_x}{M_W} + \underset{(.96)}{.05} S_E$$

$$R = .77$$

The coefficients are neither reliable nor plausible. The correlation coefficient of the first equation is not significant even at 20 per cent whereas that of the second equation is significant only at 20 per cent. In the absence of the direct estimation of the influences affecting price, an attempt was made to estimate the demand for East Pakistan's exports in West Pakistan by means of a simple demand equation as follow:

$$\triangle Q_x = a_o + a_1 \triangle P_x + a_2 \triangle Y_W$$

$$= \underset{}{26.12} - \underset{(.45)}{1.98} \triangle P_x + \underset{(4.65)}{6.77} \triangle Y_W$$

$$R = .89$$

The correlation coefficient is significant at 5-per-cent level.

The response of demand to change in income and price is important both in terms of reliability and its magnitude. The increase in demand for East Pakistan's exports to West has been the result of not only a greater increase in total expenditure or income in West Pakistan but also of a considerable responsiveness of demand for East Pakistani goods to increase in income in West. This has been confronted by an inelasticity of production or of supply of exportable items in East Pakistan as evidenced by the index of production, *i.e.*, S_E. The ratio of the quantity of exports of East Pakistan to the quantity of production of exportable items has shown an upward trend during these years as shown in Table IX.

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8. P_x = Change in price of exports.
Y_W = Change in aggregate income or expenditure in West Pakistan.
S_E = Index of supply of traded commodities in East Pakistan.
Q_x = Change in quantity of exports.

TABLE IX

	$\frac{Q_x}{S_E}$
1951/52	1.00
1952/53	1.52
1953/54	1.44
1954/55	1.68
1955/56	1.82
1956/57	1.60
1957/58	3.00
1958/59	3.60
1959/60	2.92

where Q_x = quantity index of exports from East Pakistan, and
S_D = index of production of exportable items.

This implies that the rate of increase of exports has been higher than the rate of increase of production and that the pressure of an increasing demand has not been matched by a proportionate increase in supply over the period. The equations explaining the movements of export and import prices have also been fitted in their logarithmic transformations but results are neither plausible nor statistically satisfactory.

The behaviour of the terms of trade between agricultural and industrial commodities which enter into interwing trade is shown in Table X. For this purpose the agricultural exports and imports were combined as were the total industrial exports and imports.

The terms of trade as revealed in the above indices have moved in favour of agriculture over time. The trend is more pronounced in C than in A. The linear trend of A is given by $A = \underset{(1.27)}{80.5+4.86t}$ and that of C is given by $C = \underset{(1.81)}{97+5.96t}$. The change in weights from base-year to end-year (as in E and G) reinforces the conclusion derived from A and C. The behaviour of the prices of the specific agricultural and industrial commodities included in these indices do not lend support to the traditional presumption that terms of trade usually move against agricultural commodities. It is to be noted, however, that the indices do not include a few of the most important agricultural commodities in Pakistan such as rice, sugarcane and raw jute. Accordingly, the indices presented here do not reflect the movements of the relative prices of agricultural and industrial commodities in general.

The separate movements of agricultural and industrial prices which lie behind the movement of terms of trade are shown in Table XI.

TABLE X

TERMS OF TRADE BETWEEN AGRICULTURAL AND INDUSTRIAL COMMODITIES[a]

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
1950/51	100				100			
1951/52	81	88			85	97		
1952/53	82	85			106	92		
1953/54	91	92	100		84	91	100	
1954/55	104	106	106	108	98	93	114	111
1955/56	122	118	119	113	97	100	119	120
1956/57	127	125	115	125	104	109	128	132
1957/58	126	122	140	132	125	118	149	142
1958/59	112	122	140	135	124	116	149	140
1959/60	127		126		98		124	

(a). A=Terms of trade with weights of the year 1950/51. B=Three-year moving averages of A. C=Terms of trade with new commodities and with weights of the year 1953/54. D=Moving averages of C. E=The same prices as in A but with weights of the year 1959/60. F=Moving averages of E. G=The same prices as in C but with weights of the year 1953/54. H=Moving averages of G.

TABLE XI

INDICES OF AGRICULTURAL AND INDUSTRIAL PRICES[a]

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
1950/51	100				100			
1951/52	88	90			109	103		
1952/53	83	91			101	107		
1953/54	101	96	100		111	104	100	
1954/55	104	104	104	104	100	100	98	96
1955/56	107	115	107	113	88	98	90	100
1956/57	133	127	128	127	105	102	111	102
1957/58	142	135	147	143	113	112	105	108
1958/59	131	135	153	114	118	111	109	109
1959/60	131		142		103		113	

(*a*). All indices are constructed with base-year weights. A and C are based on agricultural commodities and quantities of 1950/51 and 1953/54 and B and D are respectively their three-year moving averages. E and G are indices of industrial commodities based on commodities and quantities of 1950/51 and 1953/54 and F and H are their moving averages.

The indices based on the commodities of 1950/51 reveal that while agricultural prices have a consistently rising trend (B), the industrial prices do not have any perceptible trend in any direction (E). The industrial prices fluctuated up and down all through the period. The second set of indices starting from 1953/54, which include a number of new commodities, however, reveal that both agricultural and industrial prices have risen over time but the increase in the agricultural prices has been greater than that in the industrial prices. Even though the terms of trade have moved against industrial goods in interwing trade, the adverse movements in price ratio have been accompanied by an increase in quantities of such goods traded between the wings as well as in the total supply of these specific industrial goods in the economy as a whole, *i.e.*, in both the wings taken together. The quantity indices of agricultural and industrial goods moving in interwing trade are given in Table XII.

TABLE XII

VOLUME INDICES OF TOTAL TRADE IN AGRICULTURAL AND INDUSTRIAL COMMODITIES[a]

	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
1950/51	100				100			
1951/52	118	116			66	82		
1952/53	131	131			80	121		
1953/54	143	129	100		217	186	100	
1954/55	113	131	76	83	260	266	123	122
1955/56	138	139	74	55	321	332	144	153
1956/57	167	189	106	110	417	453	192	196
1957/58	261	266	152	140	622	490	252	215
1958/59	271	260	163	152	432	449	202	300
1959/60	248		142		292		146	

(a). A and C are indices of total trade in agricultural commodities. B and D are their respective three-year moving averages. E and G are indices of total trade in manufactured goods and F and H are their respective moving averages. All indices have base-year weights.

The increase in the volume of trade in industrial commodities has been at a much faster rate than the increase in that of agricultural commodities. However, in the case of agricultural commodities the ratio of increase in the volume of trade has been much greater than the increase in total supply or production. In the case of manufactured goods the rate of increase in production has kept in step with the increase in the volume of trade in them.

The indices of production of agricultural and industrial goods are given in Table XIII.

TABLE XIII
INDICES OF PRODUCTION OF AGRICULTURAL AND INDUSTRIAL COMMODITIES[a]

	(S_1)	Moving average	(S_A)	Moving average	(Y)	(M)
1951/52	100		100		100	100
1952/53	152	161	94	92	104	75
1953/54	231	219	81	92	116	55
1954/55	275	291	100	94	117	56
1955/56	367	351	101	100	112	46
1956/57	411	411	100	101	130	69
1957/58	455	459	103	101	133	57
1958/59	511	513	101	103	128	43
1959/60	568		104		142	67

(*a*). S_1=Index of production of industrial goods; includes cigarettes, medium, fine, coarse and indigenous cloth, cement, kerosene oil, hessian cloth, gunny bag, matches. S_A=Index of production of agricultural goods; includes tea, tobacco, rape and mustard seed, masur, gram, rice (West Pakistan), wheat and cotton. The source for this data is the same as for the production indices of East and West Pakistan quoted earlier. Y= Index of total national expenditure as measured by the absorption of commodities in Pakistan is indicated in "A Measure of Growth....", *Pakistan Development Review op. cit.* M=Value of Pakistan imports from abroad deflated by import-price index based on C.S.O. data.

As is generally known agricultural production has suffered from a stagnation in the past as is corroborated by its index of production. The manufacturing sector has recorded a considerable progress. An increasing demand for agricultural commodities originating from growth of income and population has impinged upon a relatively inelastic supply of agricultural commodities resulting in a relative rise in their prices.

A number of equations are fitted in an attempt to explain and quantify the factors determining the prices of agricultural and industrial commodities in interwing trade. The equation for agricultural prices is as follows:

$$P_A = a_1 + a_2 S_{A-1} + a_3 Y$$

where P_A is the price index of agricultural commodities, S_{A-1} is the index of production of agricultural commodities with one-year lag and Y is the index of total expenditure indirectly purporting to measure the

influence of demand. The coefficients estimated by least-squares method are the following:

$$P_A = 132.40 - \underset{(.76)}{1.02}\, S_{A-1} + \underset{(.31)}{1.80}Y$$

$$R = .93$$

The equation is statistically quite satisfactory in view of the relatively small standard errors of the coefficients. The correlation coefficient is significant at one-per-cent level. Since the variables are expressed in terms of indices, the coefficients of S_{A-1} and Y can be treated as some sort of elasticities of response of prices to changes in production and demand. In the case of manufactured goods no such lag in the influence of supply on price can be postulated and price and supply in the same period is expected to be interrelated. The equation, $P_1 = a_1 + a_2 S_1 + a_3 Y$, does not yield good results. The estimated coefficients are $P_1 = a_1 - \underset{(.20)}{.044} S_1 + \underset{(.74)}{.62}Y$. The results after a first-difference transformation show no improvement.

$$\triangle P_1 = a_1 - \underset{(.26)}{.11} \triangle S_1 + \underset{(.51)}{.40} \triangle Y$$

$$R = .42$$

In addition to the effects of income changes, demand for manufactured goods in interwing trade has also been influenced by a diversion of demand from abroad. It is difficult to take both these factors into account in terms of one variable. The ratio of interwing trade to import from overseas imports as a variable does not improve the result either. The ratio of quantity index of overseas imports to the index of expenditure, *i.e.*, $\frac{M}{Y}$ is alsotried as an explanatory variable with the following results:

$$\triangle P_1 = 0.6 - \underset{(.26)}{.19} \triangle S_1 + \underset{(.31)}{.11} \triangle \frac{M}{Y}$$

$$R = .32$$

A further step in the search for a satisfactory explanation of the movements of the prices of manufactured goods is to test a nonlinear relationship between the variables of the form $P_1 = AS_1^{a_1} Y^{a_2}$. The equation is estimated

in its logarithmic transformation so that

$$\log P_1 = \log A + a_1 \log S_1 + a_2 \log Y$$
$$= a_0 + a_1 \log S_1 + a_2 \log Y$$

where $\log A = a_0$

and the results are

$$\log P_1 = .425 - .27 \log S_1 + 1.50 \log Y$$
$$(.10) \qquad (.51)$$
$$R = .77$$

The relationship as indicated by the coefficients and their standard errors are statistically quite satisfactory. The correlation coefficient is significant at 10-per-cent level. The total national expenditure representing an index of demand for manufactured goods as indicated by Y has an important influence on price. This is plausible in view of the fact that a large and increasing amount of excess demand emanating from urbanization, changes in the distribution of income and in the structure of demand faced relatively a much slower or no increase on the supply side. The large coefficient of Y can be said to include also the influence of trade diversion since the index of trade diversion, *i.e.*, $\frac{Q_m}{M_E}$ appears to be highly correlated with Y.

EXTERNAL TERMS OF TRADE

The next step has been to calculate the terms of trade of East and West Pakistan with the outside world separately. The terms of trade have been calculated from two different sources. One set has been computed from the indices of unit values of individual export commodities and from indices of the unit values of three different groups of import (food, drink and tobacco, raw materials, manufactures) as available from published sources[9]. The exports of East Pakistan included in the index are jute, tea, and hides and skins and those of West include wool, cotton, and hides and skins. The indices of unit values have been weighted by the respective values of exports and imports of these commodities in 1948/49. Another terms-of-trade series have been computed directly from the published data on values and quantities of exports and imports for the calendar years 1955-60[10].

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[9] C.S.O., *Statistical Bulletins*, January and December 1960.

[10] C.S.O., *Foreign Trade Statistics of Pakistan, 1955-60*. The 1960 figures relate to six months January-June 1960.

The first set of terms of trade along with the indices of export and import prices are shown in Table XIV:

TABLE XIV

INDIRECT ESTIMATE OF TERMS OF TRADE OF EAST AND WEST WITH OUTSIDE WORLD

Year	East Pakistan			West Pakistan		
	Terms of trade	Index of export price	Index of import price	Terms of trade	Index of export price	Index of import price
1949/50	100.0	100	100	100	100	100
1950/51	98.3	104	106	150	158	106
1951/52	98.6	117	119	124	148	119
1952/53	63.6	62	98	106	104	98
1953/54	60.0	64	106	88	94	106
1954/55	68.5	69	101	92	92	100
1955/56	56.0	86	149	72	106	148
1956/57	56.0	98	176	65	115	178
1957/58	54.0	100	187	57	107	190
1958/59	50.0	94	189	48	93	193
1959/60	47.0	90	191	52	101	195

It appears from above that the terms of trade of both East and West Pakistan have deteriorated. Compared with the base year the terms of trade of West Pakistan, though declining over time, have been at a higher level than those of East Pakistan in each of the years. The extent, *i.e.*, absolute magnitude of deterioration in the terms of trade of East Pakistan over the years has been greater than that of West Pakistan. Though indices of import prices of both East and West Pakistan have gone up and indices of export price of both have declined, index of export price of West Pakistan has consistently stayed at a higher level than that of East Pakistan, *i.e.*, decline has been less in West than in East. This difference in the movement of export prices occurs inspite of the fact that exports of both are nonindustrial goods. The quantity of exports, however, has recorded an increase in

East Pakistan whereas in the case of West Pakistan there is no discernible clear trend in exports as is seen below in Table XV:

TABLE XV

Year	East Pakistan		West Pakistan	
	Quantum index of exports	Income terms of trade	Quantum index of exports	Income terms of trade
1949/50	100	100	100	100
1950/51	185	182	38	58
1951/52	148	146	110	137
1952/53	165	105	148	156
1953/54	160	96	121	106
1954/55	204	140	94	87
1955/56	192	112	124	81
1956/57	147	83	107	70
1957/58	157	85	72	41
1958/59	149	74	84	41
1959/60	191	90	118	61

Note: The value of exports is obtained from C.S.O. *Statistical Bulletin*, November 1960, p. 1471 and has been deflated by respective price indices to arrive at quantity indices. The quantity index cannot be directly calculated in the absence of quantity data. The value of exports of East and West Pakistan has been deflated by export-price index of East and West Pakistan (as given in the previous table) in order to obtain the value in constant prices, *i.e.*, volume of exports and this has been used as the basis for quantity index of exports.

The increase in the quantity of exports of East Pakistan has partially offset the declining commodity terms of trade with the result that income terms of trade has fallen less in the case of East Pakistan than in the case of West Pakistan. The linear trends in income terms of trade of East and West Pakistan are given by the following equations $-Y_1 = 148 - 6.30t$ (2.54) (East) and $Y_2 = 126 - 6.80t$ (2.97) (West). Even though the quantity index of exports of West Pakistan does not have any discernible trend, in many cases the nature of fluctuations in commodity terms of trade and in the volume of exports is such that often years of severe decline in the volume of exports are accompanied by a sharp rise in commodity terms of trade and *vice versa* so that downward trend in income terms of trade is not as great as it will otherwise be.

The second set of terms of trade which have been directly estimated have been available only for the calendar years, 1955-60. (*see*, Table XV).

TABLE XVI

DIRECT AND INDIRECT ESTIMATES OF TERMS OF TRADE WITH OUTSIDE WORLD[a]

Year	East Pakistan		West Pakistan	
	(A)	(B)	(A)	(B)
1955	100	100	100	100
1956	85	76	83	70
1957	84	73	77	74
1958	73	82	60	92
1959	69	68	59	95
1960		85		97

(a). A=Indirect estimate explained above. Weights are volume of exports and imports of 1955 (*Foreign Trade Statistics, 1955*).

B=Direct estimate with weights of 1955. Direct estimate includes a larger number of commodities and uses a different set of weights.

While the indirect estimate of terms of trade shows a consistent downward trend in the case of both, the direct estimate reveals that in the case of East Pakistan there is no strong trend one way or the other, and that in case of West Pakistan the terms of trade fell in 1956 and since then it has been slowly but continuously rising. The indices in any case are too short to allow the derivation of a statistically meaningful trend. Moreover, the fact that the index of 1960 is based on price data for only six months of 1960 vitiates its comparability with earlier years.

The above analysis of the behaviour of terms of trade demonstrates that it is difficult to generalize, irrespective of time periods or of nature of commodities, about the movements of the aggregate terms of trade between any two regions or between one region and the rest of the world on the basis of their stages of development or levels of income. It is equally difficult to generalize about the movements of terms of trade between groups of commodities such as agricultural and industrial commodities. It all depends upon the nature as well as the extent and elasticity of demand and of supply of specific commodities which move in trade or are included in the particular indices of terms of trade in question. With a change in number and nature of commodities included in the indices and with a change in base year there are corresponding changes in the trends of terms of trade. East Pakistan—a relatively underdeveloped and less diversified economy—experienced an upward trend in her interregional terms of trade over the period, 1950/51 to 1959/60 as a whole, but suffered a decline in the last three years or so. If a number of new commodities which were intro-

duced in interwing trade in 1953/54 are included in a new set of index beginning 1953/54, the new index of the terms of trade reveals a downward trend. In overseas trade East Pakistan's terms of trade suffered a steady and continuous decline. Compared with the base year, East Pakistan's terms of trade fell more and stayed at a lower level than those of West Pakistan throughout the whole period. Export prices of both wings in overseas trade rose and then fell but compared with the base year the magnitude of fall was greater in East than in West. The changes in the volume of exports sometimes partially offset the changes in terms of trade as it has happened in the case of both East and West Pakistan in foreign trade and sometimes such changes reinforce those in terms of trade as illustrated in the case of East Pakistan in interregional trade.

It is to be noted, however, that the period covered in this study has been rather short. The longest series did not exceed 12 years. It is not easy to look for a meaningful trend in many of the shorter series so that a generalization about long-term movements in terms of trade is severely handicapped. In both the cases of international and interregional terms of trade there have been year-to-year fluctuations—sometimes considerable fluctuations at that. The explanation of variations in export and import prices in interregional trade has been sought by means of a number of factors which govern short-run demand and supply of the commodities in question. It has not been always possible to obtain satisfactory explanation in the absence of data on a number of factors and in view of the inherent limitation of the statistical methods employed.

APPENDIX

TABLE 1

EAST PAKISTAN'S IMPORTS AND EXPORTS

(Value in '000' Rs.)

Year	Total imports	Imports from West Pakistan	% Ratio of (3) to (2)	Total exports	Exports to West Pakistan	% Ratio of (6) to (5)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1948/49	421,536	139,230	33.0	448,183	19,100	4.3
1949/50	619,916	235,070	37.9	678,458	49,580	7.3
1950/51	724,701	271,760	37.5	1,272,861	61,790	4.9
1951/52	1,017,375	253,920	25.0	1,152,801	65,870	5.7
1952/53	584,820	218,460	37.4	791,115	1,48,650	18.8
1953/54	680,556	386,790	56.8	794,662	1,49,600	18.8
1954/55	625,177	304,960	48.8	928,131	1,96,560	21.2
1955/56	694,476	333,890	48.1	1,277,946	2,36,660	18.5
1956/57	1,350,388	531,850	39.4	1,152,134	2,42,760	21.1
1957/58	1,437,316	701,690	48.8	1,267,149	2,69,090	21.2
1958/59	1,238,918	685,120	55.3	1,165,204	2,84,250	24.4
1959/60	1,218,700	563,430	46.2	1,432,476	3,52,900	24.6
First five-year's average		..	34.16			8.20
Last five-year's average		..	47.56			21.96

Source: C.S.O. *Statistical Bulletin*, December 1960.

TABLE 2

WEST PAKISTAN'S IMPORTS AND EXPORTS

(*Value in '000' Rs.*)

Year	Total imports	Imports from East Pakistan	% Ratio of (3) to (2)	Total exports	Exports to East Pakistan	% Ratio of (6) to (5)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1948/49	1,195,877	19,100	1.6	667,739	139,230	20.9
1949/50	,961,799	49,580	5.2	800,252	235,070	29.4
1950/51	1,228,843	61,790	5.0	1,614,242	271,760	16.8
1951/52	1,539,761	65,870	4.3	1,175,847	253,920	21.6
1952/53	1,165,912	148,650	12.7	1,085,853	218,450	20.1
1953/54	973,882	149,600	1.4	1,027,763	386,790	37.6
1954/55	979,610	196,560	20.1	96,348	304,960	38.3
1955/56	1,201,113	236,660	19.7	1,076,304	333,890	31.0
1956/57	1,758,798	242,760	13.8	1,230,068	531,850	43.3
1957/58	1,583,433	269,090	17.0	1,135,284	701,690	61.8
1958/59	1,303,858	284,230	21.7	1,129,497	685,120	60.7
1959/60	2,158,607	352,900	16.3	1,326,565	563,430	42.5
First five-year's average		..	5.76			21.76
Last five-year's average		..	17.70			47.84

Source : Same as Table 1.

TABLE 3

IMPORTS INTO EAST PAKISTAN FROM WEST PAKISTAN AND FROM OVERSEAS

(Value in '000' Rs.)

Commodities	1948/49		1955		1959	
	West Pakistan	Over-seas	West Pakistan	Over-seas	West Pakistan	Over-seas
Apparel	50	189	—	14	—	278
Books & printed matter	96	45	312	134	616	1,321
Boots and shoes	40	10,306	5,037	—	7,874	—
Chemicals and drugs	4,735	11,107	5,451	16,872	17,479	27,403
Dyeing and tanning substances	582	156	—	—	—	—
Fruits and vegetables	1,986	69	608	74	2,486	140
Grain, pulses and flour	40,613	9,176	13,976	4	137,680	59,856
Gums and resins	49	—	421	126	2,065	901
Hardware	1,406	1,602	6,215	2,998	3,164	11,090
Leather	2	556	168	282	617	2
Machinery and mill work	—	4,267	1,322	60,185	4,128	97,357
Matches	3,108	1,086	—	—	70	—
Metals and ores	1,550	4,467	737	30	5,089	78
Rape and mustard seed oil	5,282	1,604	7,612	—	24,663	—
Other vegetables, nonessential oil	2,322	12,222	10,319	1,345	26,471	31,111
Provisions and oilman's stores	2,937	3,252	3,483	2,429	6,083	2,795
Salt	8,185	14,913	5,467	—	7,492	—
Seeds	19,409	84	33,973	12	59,785	2,276
Soap	52	545	3,304	242	8,311	5
Spices	1,950	5,837	1,129	552	2,208	3,134
Sugar including molasses	2,084	2,511	956	—	11,600	—
Cotton, raw	6,585	1,373	15,621	675	45,102	7,631
Cotton, twist and yarn	8,941	106,110	118,946	3,974	70,881	2,631
Cotton piecegoods	3,204	10,960	27,090	10,141	86,669	1,128
Other textiles	437	1,748	35	4,144	1,655	2,143
Tobacco manufactured	67	5,423	15,133	13	24,447	161
Tobacco unmanufactured	—	55	12,385	—	22,408	—
Cement	—	—	31	3,503	7,918	8,152
Instruments	—	2,194	2,383	—	3,360	—
Liquors	—	597	263	220	256	451
Oils, nonvegetables	—	11,020	398	33,800	3,005	60,967
Paper and pasteboard	—	3,767	77	2,284	2,817	2,708
Stationery	—	398	—	530	7,461	905
Rubber manufactures	—	291	760	1,395	1,254	3,006
Dyes and colours	582	509	1,856	5,017	1,870	7,896

Sources : *Statistical Abstract for East Pakistan, Vol. I*;
Foreign Trade Statistics of Pakistan, 1955, 1959 ;
C.S.O. *Bulletin*, May 1959, September 1959 and March 1960.

TABLE 4

DISTRIBUTION OF SOME EXPORTS OF EAST PAKISTAN IMPORTANT IN INTERWING TRADE AS BETWEEN WEST PAKISTAN AND ABROAD

Commodities exported from East Pakistan to West Pakistan and abroad	1948/49		1955		1959		1948/49	1955	1959
	To West Pakistan value (a_1)	To abroad value (b_1)	To West Pakistan value (a_2)	To abroad value (b_2)	To West Pakistan value (a_3)	To abroad value (b_3)	$\left(\frac{a_1}{b_1}\right)$	$\left(\frac{a_2}{b_2}\right)$	$\left(\frac{a_3}{b_3}\right)$
Drugs and medicines	16,000	3,000	61,000	3,68,417	17,43,000	64,707	5.333	.166	26.936
Fruits and vegetables	27,000	3,000	21,85,000	8,92,753	15,33,000	19,437	9.000	2.447	78.870
Hardware and cutlery	2,000	28,000	1,32,000	7,644	3,467,00	3,89,356	.071	17.268	8.904
Hides and skins	1,000	1,81,27,000	4,43,000	1,51,28,261	8,00,000	3,47,03,891	.00005	.029	.023
Leather	75,000	..	77,43,000	..	2,76,40,000	14,22,958			
Matches	69,000	..	53,26,000	..	2,40,49,000	..			
Paper and pasteboard	..	..	1,88,98,000	..	3,15,22,000	57,714			
Provisions and oilman's stores	4,000	51,000	60,000	..	13,93,000	2,27,197	.129		6.131
Seeds	12,18,000	5,35,000	14,41,000	26,54,642	1,06,69,000	6,71,721	2.277	.543	15.883
Spices	30,37,000	60,56,000	96,63,000	44,302	1,96,23,000	30,10,361	.501	218.117	6.518
Jute manufactures	2,37,000	9,000	5,24,01,000	6,33,69,897	5,67,08,000	20,40,58,107	26.333	7.82	.278
Tea	1,05,73,000	4,42,42,000	7,09,88,000	3,16,88,350	8,81,46,000	2,64,70,678	.239	2.240	3.330
Tobacco	2,03,000	4,47,000	31,38,000	6,988	32,75,000	..	.454	449.056	

Note: The values of exports of the above items to West Pakistan for 1948/49 are obtained from C.S.O., *Pakistan Statistical Yearbook, 1955*. Exports abroad for the same year are obtained from *Statistical Abstract for East Pakistan*, Table 95. The figures for 1955 and 1959 are obtained from C.S.O., *Foreign Trade Statistics of Pakistan*, 1955 and 1959.

TABLE 5

INTRODUCTION OF NEW COMMODITIES IN INTERWING TRADE

Exports of East Pakistan to West Pakistan

Commodities exported from East Pakistan to West Pakistan in 1948/49 (Pakistan merchandise)	Value in '000' rupees	New commodities exported from East Pakistan to West Pakistan in 1955/56 (Pakistan merchandise)	Value in '000' rupees	New commodities exported from East Pakistan to West Pakistan in 1959/60. (Pakistan merchandise)	Value in '000' rupees
(1)	(2)	(3)	(4)	(5)	(6)
Grand total	18,185	Grand total	219,312	Grand total	351,597
Drugs and medicines	16				
Dyeing & tanning substances	41				
Fruits & vegetables, dried salted or preserved	27	Fresh fruits	592		1,118
Hardware & cutlery	2	Fresh vegetables	629		94
Hides & skins, raw	1	Pulses	773		337
Leather (hides, dressed and tanned)	75	Mats & mattings	64		325
Matches	69	Paper & paste-board	15,085		42,932
Cocoanut oil	16	Gunny cloth	11,224		7,733
Groundnut oil	1,027	Rope & twine	3,910		6,916
Provisions & oilman's stores	4	Coil manufactured (including rope)	161		18
Seeds, essential	20	Cordage & rope of vegetable fibre (excluding jute & cotton)	129		114
Seeds, nonessential	1,198				
Betelnets	2	Other grains	28		5,820
Chillies	3,018	Other jute manufactures	48		2,155
Ginger	3				
Turmeric	9			Cardamoms	7
Other spices	5			Other cotton	546
Tea	10,573				
Cotton piecegoods	1,393				
Gunny bags	237	Total	32,643 =14.9%	Total	68,115 =19.4%
Other textiles	23				
Tobacco manufactured (including cigarettes)	2				
Tobacco unmanufactured	201				
Wood and timber	35				
All other articles	188				

Source: The source data are the same as those for Tables 3 and 4.

TABLE 6

INTRODUCTION OF NEW COMMODITIES IN INTERWING TRADE

Imports of East Pakistan from West Pakistan

Commodities imported into East Pak. from West Pakistan in 1948/49. (Pakistan merchandise)	Value in '000' rupees	New commodities imported into East Pakistan from West Pak. in 1955/56. (Pakistan merchandise)	Value in '000' rupees	New commodities imported into East Pakistan from West Pak. in 1959/60. (Pakistan merchandise)	Value in '000' rupees
(1)	(2)	(3)	(4)	(5)	(6)
Grand total	1,36,490	Grand total	3,05,047	Grand total	5,21,171
Apparel	50				
Books & printed matter	96				
Boots & shoes	40				
Chemicals & chemical preparations	1,657	Gram	1,041		5,210
Drugs & medicines	3,078	Other sorts of grains	298		4,713
Dyeing & tanning substances	582	Machinery and mill works	1,401		6,070
Fruits & vegetables, dried salted or preserved	1,046	Other textiles	293		946
Other sorts	358	Tobacco unmanufactured	19,260		25,358
Pulses	742	Instruments	2,178		3,537
Rice	38,986	Liquors	150		255
Wheat & wheat flour	885	Mineral oil	117		233
Gums & resins	49	Other kinds of oil	65		902
Hardware	1,406	Paints & colours	1,620		2,391
Leather	2	Paper & pasteboard	68		2,691
Matches	3,108	Other cotton manufactures	820		4,257
Metals & ores	1,550	Tallow & stearing	780		61
Rape and mustard seed oil	5,282	Cement	—		10,588
Other vegetable non-essential oils	2,322				
Ghee	98				
Other provisions	2,839			Stationery	2,177
Salt	8,185			Rubber manufactures	1,213
Rape & mustard seeds	18,695				
Other sorts	714				
Soap	52				
Chillies	26	Total	28,091 =9.2%	Total	70,602 =13.5%

Source : The source data are the same as those for Tables 3 and 4.

TABLE 7

WEST PAKISTAN'S TERMS OF TRADE WITH OUTSIDE WORLD

Period	Average indices of unit values of exports (April '48 - March '49=100)			Index of unit values of exports	Average indices of unit values of imports (April '48 - March '49=100)			Index of unit values of imports	Terms of trade
	Cotton	Wool	Hides & skins		Food drink & tobacco	Raw material	Manu-facture		
1949/50	101.8	102.4	81.9	100.0	90.0	85.3	76.2	100.0	100.0
1950/51	158.7	205.5	124.4	158.4	98.4	86.3	80.7	105.7	149.9
1951/52	154.7	128.4	99.3	147.6	108.2	100.4	90.5	118.8	124.2
1952/53	101.2	151.2	91.5	103.6	91.5	81.0	74.3	97.7	108.0
1953/54	88.5	159.7	94.1	93.8	106.8	77.0	81.6	106.2	88.3
1954/55	87.8	149.3	86.3	91.8	121.0	72.2	73.3	99.9	91.9
1955/56	101.3	186.5	97.4	106.5	179.5	93.0	111.5	148.2	71.9
1956/57	108.3	222.4	101.2	115.0	173.7	98.2	143.7	177.9	64.6
1957/58	101.6	179.5	107.5	107.4	176.4	99.8	156.0	189.9	56.6
1958/59	84.8	160.0	111.5	92.6	176.6	96.2	159.9	192.9	48.0
1959/60	86.7	182.9	165.7	101.5	166.5	101.6	163.1	195.2	52.0

Note : The indices of unit values of individual exports and of three categories of imports are taken from C.S.O. *Bulletins*, January 1960, and December 1960.

The values of exports and imports of these items for East and West Pakistan separately during April 1948 to March 1949 have been used as weights as available in *Statistical Abstract for East Pakistan*, (Government of East Bengal, Provincial Statistical Board and the Bureau of Commercial and Industrial Intelligence), Vol. II, 1955, Table 95, pp. 340-344.

Export weights: April, 1948 to March 1949	('000' rupees)
Cotton	4,45,418
Wool	33,622
Hides & skins	57,271

Import weights: April 1948 to March 1949	('000' rupees)
Food, drink and tobacco	1,12,041
Raw materials	1,26,978
Manufactures	6,45,860

TABLE 8

EAST PAKISTAN'S TERMS OF TRADE WITH OUTSIDE WORLD

Period	Average indices of unit values of exports (April '48 - March '49=100)			Index of unit values of exports	Average indiees of unit values of impots (April '48 to March '49=100)			Index of unit values of imports	Terms of trade
	Jute	Tea	Hides& skins		Food, drink & tobacco	Raw material	Manu-facture		
1949/50	82.9	104.3	81.9	100.0	90.0	85.3	76.2	100.0	100.0
1950/51	85.9	100.9	124.4	103.9	98.4	86.3	89.7	105.7	98.3
1951/52	98.3	82.0	99.3	117.1	108.2	100.4	90.5	118.8	98.6
1952/53	50.4	84.3	91.5	62.2	91.5	81.0	74.3	97.8	63.6
1953/54	51.4	91.7	94.1	63.6	106.8	77.0	81.6	106.2	59.9
1954/55	54.8	144.0	86.3	69.3	121.0	72.2	73.3	101.2	68.5
1955/56	69.1	158.1	97.4	86.4	179.5	93.0	111.5	149.2	57.9
1956/57	90.1	135.0	101.2	98.2	173.7	98.2	143.7	175.7	55.9
1957/58	81.4	151.1	107.5	100.4	176.4	99.8	156.0	186.6	53.8
1958/59	75.7	171.2	111.5	93.8	176.6	96.2	159.9	189.1	49.6
1959/60	71.6	146.6	165.7	89.9	166.5	101.6	613.1	190.8	47.1

Note : Same as in Table 7.

Export weights:

	('000' rupees)
Jute	13,87,100
Tea	44,242
Hides & skin	18,127

Import weights:

	('000' rupees)
Food, drink & tobacco	41,853
Raw materials	44,461
Manufacture	1,66,217