

Trade Between East and West Pakistan at World Prices, 1960/61-1969/70

by

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The costs and prices of the commodities traded between East and West Pakistan are an aspect of interwing trade. It has been argued that domestically produced goods often involved greater costs of production and higher prices and therefore imports from one region to the other have been higher priced than similar goods from overseas. However the extent of the price differential between the domestic and world market varies from commodity to commodity because of the unequal degree of protection or subsidy given by the Government. In other words the implicit exchange rate is not the same for all commodities and it differs considerably between different goods.

This paper is an exercise to derive the value of interwing trade in terms of world prices i.e., the commodities traded between the two regions are evaluated at the prevailing world prices instead of their actual domestic prices. Since the variations between the domestic prices and the world prices are different for different commodities entering interwing trade, it seems appropriate to determine the value at world prices separately for each commodity.

The above approach, however, presents some difficult problems. Many of the commodities traded between the two wings had several varieties of varying quality, design and brand etc., with significant price differentials. International prices for all the varieties are difficult to obtain. Besides the available commodity classification of interwing trade is not sufficiently detailed and in many cases an article does not represent a single commodity or even an aggregate of fairly homogenous commodities.

Given the limitation of the data, the following methodology was adopted for estimating the value of interwing trade in world prices. First we selected those commodities which were common in interwing trade and Pakistan's exports i.e., those commodities which one region exported to the other region as well as to foreign countries. There were a number of such commodities but some of them were not comparable because, in the interwing trade statistics, the commodity classification was not as detailed and comprehensive as in the foreign trade statistics of Pakistan. However, some commodities were fairly comparable and easily identifiable; such as tea, gunny bags,

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- gunny cloth, raw cotton, cotton yarn and cement. These commodities constituted a very large part of the trade between the two wings. For these commodities we used the unit f.o.b. value (at Karachi or Chittagong) as the competitive world price. In case any of these commodities had more than one variety, with a price difference, we applied the average unit value.

Next, we dealt with those primary commodities which were not given any export subsidy or bonus, but which entered interwing trade. These were identified as rice, wheat, gram and other grains. Coarse rice was a major item in interwing trade and large quantities were exported from West Pakistan to East Pakistan. East Pakistan imported coarse rice from foreign countries also and so c.i.f. values (at world prices) were available [7]. To obtain unit f.o.b. value we deflated the c.i.f. figures by 5 percent to allow for freight and insurance.¹ Wheat, gram and other grains were relatively less important in interwing trade. Since these three commodities were not given any subsidy or bonus, their domestic prices were assumed as equivalent to world prices. In some empirical work done [2,8] f.o.b. prices have been approximated by the amount of export subsidy, therefore, zero subsidy implies (according to this approximation) that domestic price is equivalent to world price. Also Nurul Islam [2] has pointed out that the implicit exchange rate for foodgrains is the official exchange rate because foodgrains are not only imported at the official exchange rate but also are imported duty free.

The remaining commodities in interwing trade were broadly divided in two categories (a) primary commodities (b) manufactured goods. For these commodities we approximated the differential between the domestic price and world price by the amount of subsidy originating from the export bonus scheme. This might, somewhat, under-state the amount of subsidy or price differential, because in addition to the export bonus there were other export incentives such as export performance licensing and exemption from indirect taxes. However, the crucial instrument in the export promotion strategy was the export bonus scheme. When the scheme was introduced in 1959, there were several bonus rates, but in general the primary goods were given (with some exceptions) 20 percent and manufactured goods 40 percent bonus with the important exception of jute and cotton. Jute manufactures were given 20 percent and cotton goods 30 percent. In 1964 all bonus rates were reduced to two basic rates i.e., 30 per cent and 20 per cent. In 1967, however, the bonus rates were raised to 40 per cent for manufactured goods and 30 percent for primary and other goods. Using these bonus rates we derived the world prices for the remaining primary and manufactured goods, in the following way.

$$P_d = P_w (1+rb) \quad = P_w + P_w r b$$

$$P_w = \frac{P_d}{(1+rb)}$$

where

- P_d = domestic price
- P_w = world price (f.o.b.) ✓
- b = bonus rate
- r = rate of premium on the bonus

¹ This 5 percent rate was used by Dr. Nurul Islam in [1]. Also this seems to be the practice with the Pakistan Tariff Commission.

During the years of the export bonus scheme the premium on bonus vouchers widely fluctuated but it averaged around 150 per cent of the face value. This rate was employed in various research works [3,8].

In the case of first category i.e. primary commodities, the above approach seems appropriate because the major exports of Pakistan were primary commodities, therefore the domestic prices of the primary commodities were largely determined by the price of foreign exchange received by exporters.

In the case of the second category, i.e. manufactured goods, however, the above procedure might somewhat understate the price differentials. This is because some of the manufactured goods included in this category were import competing goods, and import restrictions presumably raised their domestic prices substantially above the world prices. Therefore even after deflating domestic prices by the amount of the export bonus there might be a slight overstatement of the world prices for some of the manufactured goods.

Jute and cotton manufactures (n.e.s.) were considered separately from the other manufactured goods partly because they had different bonus rates, and partly because of their importance in interwing trade.

A distinction was made in interwing trade between 'Pakistani merchandise' and 'Foreign merchandise'. Pakistani merchandise comprised of all goods that were produced or manufactured in Pakistan. They accounted for more than 95 per cent of the total interwing trade. Foreign merchandise referred to goods first imported into Pakistan from foreign countries and then exported to the other region. They accounted for less than 5 per cent of the interwing trade. Thus our analysis is confined to 'Pakistani merchandise'. However, for a rough idea, we have given a separate table showing the balance of trade on foreign merchandise. In the absence of a suitable deflator we have given the balance on 'Foreign merchandise' at the actual (undeflated) prices.

Interwing trade statistics were recorded on a c.i.f. basis, therefore the published data included domestic prices plus freight and insurance charges. To obtain the values at domestic prices for the purpose of our present inquiry we deflated the c.i.f. values to an extent of 5 per cent.

The following table gives a comparison of the interwing trade at domestic and world prices, both converted into dollars at the prevailing official rate of exchange. This shows that during the 10 years period from 1960/61 to 1969/70. West Pakistan had a favourable trade balance of U.S. \$977 millions at domestic prices and US \$767 millions at world prices. This indicates that West Pakistan's favourable trade balance with East Pakistan at world prices was about 21 per cent less than at the domestic prices. The above figures do not include trade balance on account of foreign merchandise

TABLE I
INTERWING EXPORTS

(in thousand dollars)

Years	At domestic price			At world price		
	West Pakistan	East Pakistan	Balance	West Pakistan	East Pakistan	Balance
	(1)	(2)	(1) — (2)	(1)	(2)	(1) — (2)
1960/61	160,174	67,214	92,960	120,972	46,850	74,122
1961/62	185,133	78,968	106,165	139,726	54,064	85,662
1962/63	183,580	93,089	90,491	124,707	56,222	68,485
1963/64	168,906	101,758	67,148	134,451	75,941	58,510
1964/65	170,414	107,255	63,159	126,264	73,487	52,777
1965/66	238,048	130,000	108,048	156,584	80,638	75,946
1966/67	261,028	144,113	116,915	188,624	92,631	95,993
1967/68	243,383	155,779	87,604	180,671	103,344	77,327
1968/69	271,335	173,866	97,469	188,017	114,220	73,797
1969/70	330,580	183,293	147,287	245,834	140,638	105,196
Total:	2212,581	1235,335	977,246	1605,850	838,035	767,815

- Notes:**
1. The figures do not include "foreign merchandise".
 2. Values at domestic price are the published figures deflated by 5 percent to allow for freight and insurance.
 3. The C.S.O. figure for 1968-69 covered from July to March, we made an upward adjustment to cover the remaining months of the financial year 1968/69.

Sources: [4,5]

TABLE II

INTERWING EXPORTS OF FOREIGN MERCHANDISE

(in thousand dollars)

Years	West Pakistan (1)	East Pakistan (2)	Balance (1)—(2)
1960/61	5,008,	1,518	3,490
1961/62	5,160	1,454	3,706
1962/63	7,940	1,232	6,708
1963/64	10,209	517	9,692
1964/65	3,548	217	3,331
1965/66	3,765	411	3,354
1966/67	4,037	3,729	308
1967/68	3,326	1,272	2,054
1968/69	3,195	238	2,957
1969/70	2,939	1,469	1,470
Total:	49,127	12,057	37,070

Note: The values are at their actual prices (undeflated) and expressed in dollars by converting at the official exchange rate.

Source: [4].

TABLE III

INTERWING TRADE IN TERMS OF WORLD PRICES
(Commodities Exported from West Pakistan to East Pakistan) (in thousand dollars)

Commodities	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69*	1969/70
Cotton raw	17539	25493	16869	16535	15903	10108	15494	22907	25800	34206
Cotton twist and yarn	21350	20274	1771	20534	9635	8847	4169	68	3637	9166
Cement	159	3092	1527	538	3	1705	3289	4840	3908	4190
Rice	9842	2250	23893	18385	2387	20720	28489	21373	8599	54202
Wheat	53	567	985	54	1147	8920	2056	36	1737	9134
Gram	1315	1466	1129	833	1566	2771	3903	2577	2442	2298
Grain (other)	676	773	2420	108	586	927	1241	306	799	4894
Cotton manufactures	20905	22421	22234	20851	24326	24312	30505	24397	22245	30323
Other manufactured goods	26848	39407	33268	33621	46724	44108	66231	55933	39166	60805
Other primary goods. ✓	22285	23983	20611	22992	23987	34766	33247	48234	24074	36616
Total	120972	139726	124707	134451	126264	156584	188624	180671	132407	245834

Source:—See Table I

* The figures for 1968/69 are from July 1968 to March 1969, ^{1067.24} ^{1058.34} ^{992.51} 1157.92 1157.25 1452.04 1161.28 1058.66 1443.37
 1875.77 1583.56 1600.26 2926.06 2699.54 3152.59 2662.41 1864.30 2894.22
 2943.01

79/1031
952
852

800.5

TABLE IV
INTERWING TRADE IN TERMS OF WORLD PRICES
 (Commodities Exported from East Pakistan to West Pakistan) (In thousand dollars)

Commodities	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69*	1969/70
Tea	16547	11829	14633	19419	19314	17932	23868	27335	22079	30006
Gunny bags	6489	10169	8099	19311	14998	18911	18179	21007	14998	35578
Gunny clothes	1319	1377	1973	3517	3091	4017	5730	2532	4777	6190
Hides and skins	160	97	856	115	12	2	9	21	6	3
Grains (other)	35	62	5	2	4	182	328	49	151	4949
Jute products n.e.s.	897	1592	1007	1240	1399	1754	2200	2360	2011	2229
Cotton manufactures	64	195	182	144	927	490	1987	301	259	201
Other manufactured goods	16433	21373	21711	22336	26713	30623	30886	42453	36162	55179
Other primary commodities	4906	7370	7756	9857	7029	6727	9444	7286	4796	6303
Total:	46850	54064	56222	75941	73487	80638	92631	103344	85239	140638

* The figures for 1968-69 are from July 1968 to March 1969.

Source: See Table I.

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