

MARKET FUNDAMENTALS



Commercial Trade Section
Developing Economies Branch
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U.S.D.A. Economic Research Service

PAKISTAN: COTTON

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RECENT POLICY DEVELOPMENTS

Government Announces Additional Flexibility for Private Exporters

- * According to an announcement by the Federal Minister for Commerce, Finance, and Planning, effective July 1, 1988 the private sector is allowed to buy cotton in the domestic market for sale abroad. Traders no longer must buy from the CEC. The export duty of 10 percent will remain in effect. No additional details are available at this time. There was speculation that the CEC would be abolished, but no such announcement was made. It is unclear whether the CEC and the private sector can coexist as competitors. In past years when the CEC sold cotton at a loss (to insure a flow of foreign exchange), its losses were covered by financial assistance from the treasury. The ability of the private sector to compete with the CEC under these conditions is questionable, unless exports by both the CEC and the private sector are subject to a minimum export price. (ERS)

Market Fundamentals are updated four times a year. All information in this report is from sources believed to be reliable. Not all data are U.S.D.A. official data. Official U.S.D.A. data are clearly indicated. Sources for statements in text are indicated in parentheses at the end of each paragraph. See glossary for acronyms.

- * The Government of Pakistan had announced last year that, for the first time since 1973, the private trade would be allowed to export cotton on its own account. Beginning in September, 1987, the private sector was allowed to buy cotton from ginneries and sell it abroad, subject to a minimum export price determined by the KCA, the SBP, and the CEC. Almost half a million bales were sold this way. However, the CEC was apparently not comfortable with this arrangement and at the end of 1987 convinced the Government to modify it. For the remainder of the 1987-88 marketing year, traders could export on their own account, but the source (CEC stocks), minimum price, grade, and availability of cotton were determined by the CEC. The trader was guaranteed a fee above his costs, but any profits above this fee were lifted by the Government as a variable export duty. The CEC also paid this duty. (ERS)

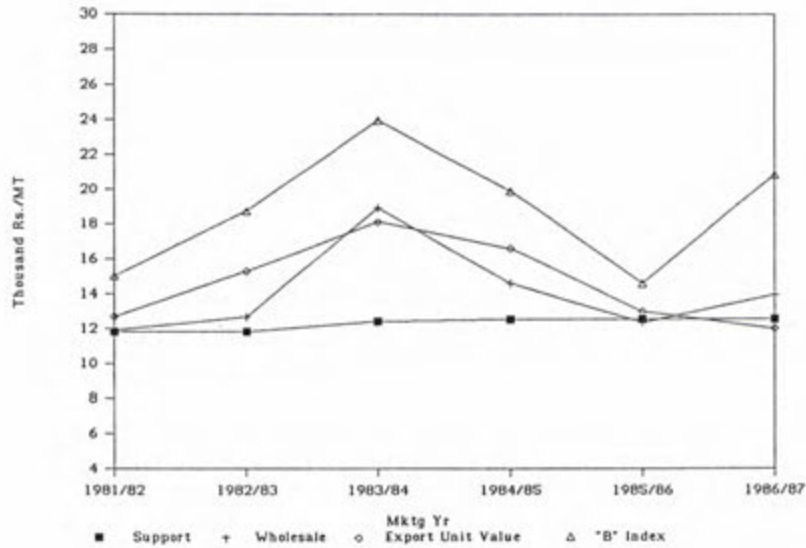
Cotton Sector Deregulation Poses Problem for Policymakers

- * The economic philosophy prevailing in Pakistan is generally deregulatory. Many trade and domestic policies have been reshaped to reduce government intervention and protectionism. Under the new trade policy, many non-tariff barriers have been replaced with tariffs. Some policies affecting the cotton sector have followed this path. For example, the use of pesticides is now virtually free of subsidies, and fertilizer prices and trade are being gradually deregulated. (ERS)
- * The Government has been reluctant to give up control of cotton trade, however. Input policies directly affect cotton production, but have minor effects on other important economic variables like employment, foreign exchange earnings, and government revenue. Because cotton and cotton products are the most important export commodity group, control of cotton trade has given the Government some more direct control over these key economic variables. Through the CEC, the Government can isolate the domestic textile industry from international price fluctuations, and ensure the industry of low prices for its main raw material. There is no reason to doubt the intentions of the Government regarding private exports; on the other hand, it may yet be some time before the private sector plays a major role in Pakistan's cotton exports. (ERS)

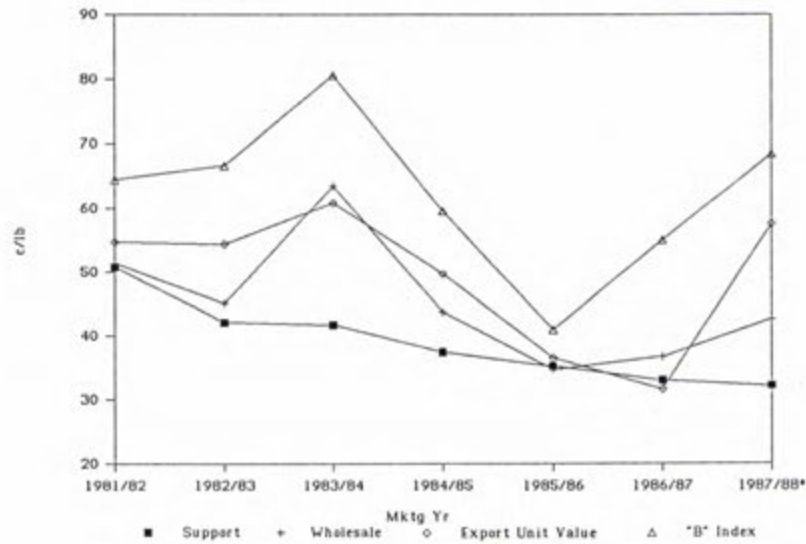
Impact of Government Policies

- * Support prices for producers are set by the Government. Internal market prices are kept higher than the support price because the CEC defends the floor through actual purchases. However, the support price has generally been set low enough to allow the CEC to maintain an ample domestic supply (via restricted exports) without causing prices to fall to the support price. (ERS)
- * Producer subsidy equivalent calculations show that typically cotton producers have been (implicitly) taxed by the Government's trade and price policies. In general, output-related policies, in particular restriction of exports, have taxed producers more than input policies have subsidized them. Output policies have kept cotton prices low, subsidizing domestic yarn and cloth manufacturers. (Taxes and subsidies implied by subsidy equivalent calculations are generally based on price comparisons and do not refer to cash payments to or from farmers.) (ERS)
- * In 1985/86, however, because of unusually low world prices, Pakistan's cotton producers received the equivalent of a small subsidy. The domestic output price was close to the world price, while various inputs remained subsidized. Figures for 1986/87 have not been fully analyzed, but the return of world prices to a more normal level and the depreciating rupee seem to mean a return to significant implicit taxation for Pakistani cotton farmers. Trading losses incurred by the CEC (as in parts of 1985/86 and 1986/87) are covered by the treasury. (ERS)

Pakistan: Cotton Prices



Pakistan: Cotton Prices



Fertilizer Trade Liberalized, Some Prices Decontrolled

* Recently the Government began allowing the private sector to import phosphatic fertilizer, which was previously imported only by FDFI. However, subsidized retail prices for phosphatic and potassic fertilizers are still set by the Government, so imports by the private sector are likely to remain limited. The Government has also decontrolled the prices of nitrogenous fertilizers, in which Pakistan has recently been self-sufficient. Virtually all domestic marketing costs had been covered by the Government for both imported and domestically produced fertilizers, and prices had been uniform around the country. The Government continues to subsidize the use of natural gas by fertilizer producers. (ERS)

- * The subsidy on fertilizer prices was traditionally a large part of the Government's agricultural budget. Since 1980, however, the Government has been gradually phasing out fertilizer subsidies. While this has not yet been accomplished, the farm price of nitrogen rose by 75 percent between 1979/80 and 1983/84 (and little since then), while between 1979/80 and 1986/87 the price of phosphorus more than doubled. Thus the value of transfers due to the Government's fertilizer policies has fluctuated without increasing, but the value of all input subsidies has generally increased due to higher subsidies on irrigation, credit, and electricity. While higher domestic fertilizer prices seem to have caused total fertilizer consumption to plateau in 1987/88, cotton farmers may still have increased their use of fertilizer in conjunction with their continuing adoption of new high-yielding varieties. (GOP; ERS)

SUPPLY DEVELOPMENTS AND OUTLOOK

1988/89 Crop Forecast to At Least Match Last Year's

- * The outlook for 1988/89 is for another crop at least as large as that of 1987/88. The crop could exceed USDA's official forecast if either yield sets another record or if farmers increase plantings based on now higher yield expectations. Producer price incentives are another open question. The Government has announced that the private sector will be allowed to buy cotton freely in the domestic market, but export mechanisms have not yet been worked out, and support prices are not likely to be announced until after planting. (ERS)

Unusual Weather Delays, Then Enhances Crop in 1987/88

- * The 1987/88 crop is estimated at a record 6.8 million bales, more than 10 percent above the previous year's record. High temperatures during the peak flowering period (August/September) resulted in reduced pollination and flower shedding. Initially, fewer bolls were formed. In addition many leaves dried up in November, causing the second set of bolls to open prematurely, with lower yields. However, warm weather in December and January encouraged more late boll production, and picking continued much longer than normally. As a result, yield was up almost 9 percent. (ERS)
- * Estimates of the crop rose over the harvesting period because of the delays caused by weather and also because farmers and ginners were holding cotton off the market in the hope of obtaining a better price. Support prices, which were announced well after planting, were virtually unchanged again, although in the early part of 1988, the CEC relented and paid a higher price for a short period. In dollar terms the support price continued to decline with the depreciation of the rupee. (ERS)

Sind Stagnates, Punjab Progresses

- * The Sind has lagged the Punjab in both area and yield increases in recent years. The most popular new variety approved for the Punjab, NIAB-78, was approved for use in the Sind in 1987/88, but initial results were unremarkable. In addition a new variety, Shaheen, has been approved for the Sind by the Provincial Seed Council. It apparently has very good lint quality and ginning outturn, but nothing further is known regarding its yield or adoption. (ERS)

DEMAND DEVELOPMENTS AND OUTLOOK

Foreign Yarn and Cloth Demand Spurs Domestic Consumption

- * Domestic and export prices for yarn and foreign orders remained strong, and domestic consumption surged to an estimated 3.4 million bales in 1987/88, another record. Cotton yarn exports began to climb in 1986/87, rocketing to Rs. 8.8 billion from Rs. 4.6 billion the previous year; yarn's share of cotton product exports shot up from about 30 percent in previous years to almost 40 percent in 1986/87. The Government imposed an export ceiling on yarn and an export duty.
- * Although spinners have contended that the yarn export duty and export restrictions have resulted in a stock buildup, both duty revenues and foreign exchange earnings from yarn exports are likely to remain substantial. In 1988, the Government withdrew the yarn export ceiling and reduced the duty. Based on data for the July, 1987-March, 1988 period, raw cotton, yarn, and cloth are each projected to achieve over Rs. 9 billion in exports in 1987/88; the value of cotton cloth exports is projected to increase by 60 percent over 1986/87. Despite high rates of domestic use, stocks are likely to rise sharply in 1987/88 to 1.4 million bales as a result of record production and initially cautious export commitments. (GOP; ERS)
- * Since 1986/87 foreign demand for yarn and cloth seems to have been a major factor affecting the CEC's allocation of raw cotton between domestic use and exports. If foreign demand continues strong, domestic consumption will easily reach 3.6 million bales in 1988/89. Ending stocks should decline to 1.1 million bales, a reasonable level equivalent to a little more than 3 months' consumption. (ERS)

TRADE DEVELOPMENTS AND OUTLOOK

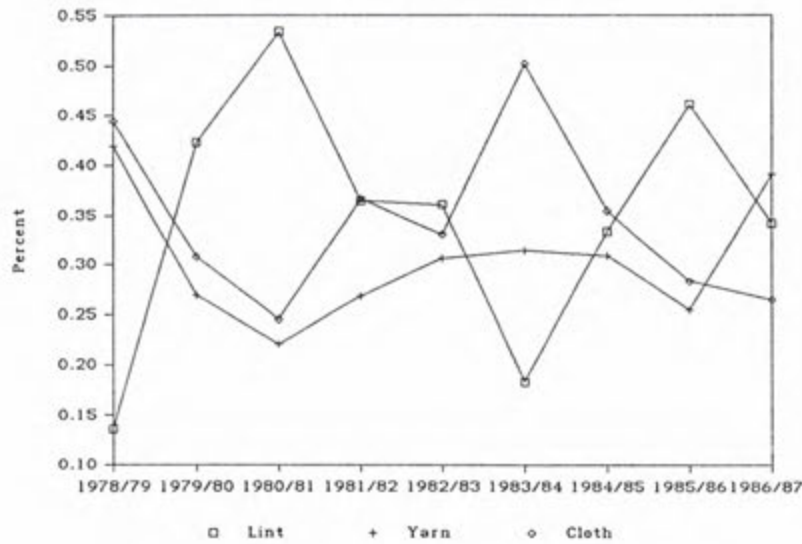
Record Exports Forecast for 1988/89

- * Because Pakistan's cotton is likely to remain competitive in both price and quality, exports in 1988/89 are currently forecast at 3.2 million bales. Exports could go even higher if production were greater or if stocks were reduced more. Volume might also increase if the private sector were given complete freedom to export. (ERS)
- * USDA's official estimate shows Pakistan's cotton exports in 1987/88 dropped slightly to about 2.8 million bales despite the record crop. Because of cotton's importance to Pakistan in generating foreign exchange, the Government devotes considerable effort to maintaining exports. However, in the early part of the marketing year, the CEC was cautious in making commitments because the crop was felt to be poor. Moreover domestic demand remained vigorous due to unusually strong foreign demand for cotton products, especially cloth. (ERS)
- * The quality of Pakistani lint, particularly its strength and cleanliness, has made it very popular in Pakistan's traditional Far East markets like Japan and Hong Kong, and in previously U.S.-dominated markets like Taiwan and Korea. The combination of new varieties and grading and cleaning programs has been pushing the average quality of Pakistan's cotton exports from "B" Index toward "A". Moreover, the CEC has a good record with regard to honoring its export commitments, including shipment of higher qualities when those promised are not available. (ERS)

GLOSSARY

CEC.....Cotton Export Corporation of Pakistan
 KCA.....Karachi Cotton Association
 SBP.....State Bank of Pakistan
 FDFI.....Federal Directorate of Fertilizer Imports
 PARC.....Pakistan Agricultural Research Council
 PCCC.....Pakistan Central Cotton Committee
 ADBP.....Agricultural Development Bank of Pakistan
 Bale.....480 pounds (U.S. net bale; in Pakistani statistics, 375-lb. bales are used)

Pakistan: Cotton Product Export Shares



Pakistan: Cotton Supply and Use

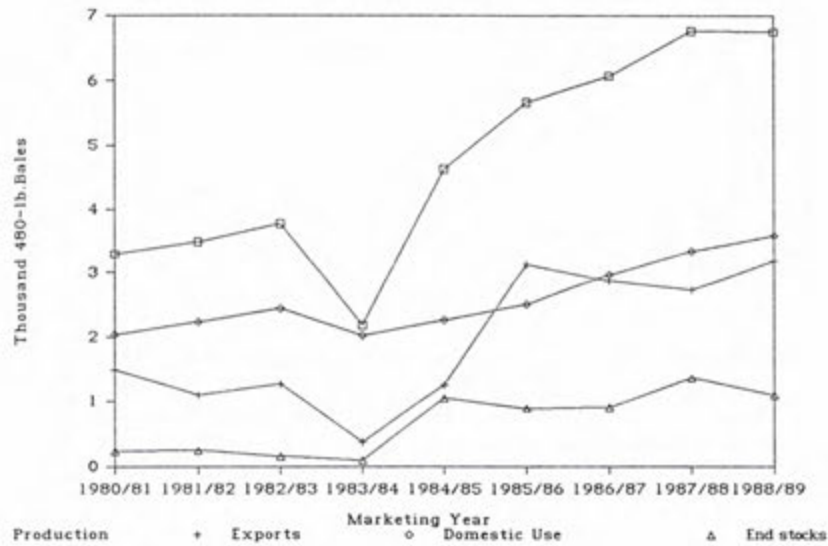


TABLE 1.
Pakistan: Cotton Supply and Use
(1,000 480-lb. bales)

Marketing Year (Aug/July)	Area 1,000 ha	Yield kgs/ha	Produc- tion	Opening stocks	Imports	Exports	Disappearance			Ending stocks
							Use	Loss	Total	
1978/79	1902	244	2132	379	4	246	1890	0	1890	379
1979/80	2023	368	3417	379	4	1177	2000	40	2040	583
1980/81	2108	341	3300	583	2	1490	2042	118	2160	235
1981/82	2215	343	3494	235	5	1097	2238	158	2396	241
1982/83	2263	364	3781	241	4	1273	2450	150	2600	153
1983/84	2221	214	2188	153	279	377	2030	120	2150	93
1984/85	2236	451	4628	93	26	1261	2264	172	2436	1050
1985/86	2366	522	5669	1050	6	3148	2503	161	2664	913
1986/87	2505	527	6060	913	2	2884	3007	173	3180	911
1987/88	2568	573	6764	911	2	2750	3355	195	3550	1377
1988/89	2570	572	6750	1377	2	3200	3600	215	3815	1114

SOURCE: USDA.

TABLE 2.
Pakistan: Cotton Exports by Destination
(1,000 480-lb. bales)

Year*	1983/84	1984/85	1985/86	1986/87
Bangladesh	--	52	73	30
China	5	--	--	--
Hong Kong	40	179	297	315
Indonesia	--	51	152	150
Italy	5	45	143	200
Japan	159	253	397	500
South Korea	15	45	232	145
Taiwan	10	157	569	375
Thailand	--	70	151	200
Other**	98	409	1134	970
Total	377	1261	3148	2885

* August/July

** Including, in 1984/85: 69,000 bales to Belgium;
in 1985/86: 89,000 bales to West Germany, 95,000 to Belgium,
106,000 to Eastern Europe, and 86,000 to Portugal;
in 1986/87: 75,000 bales to Portugal and 150,000 to West Germany.

SOURCE: ERS estimates.

TABLE 3.
Pakistan: Cotton Area, Yield, and Production by Province

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88
Area							
Thousand hectares							
Pakistan	2215	2263	2221	2236	2366	2502	2568
Punjab	1573	1613	1563	1568	1760	1860	1938
Sind	638	647	656	671	671	640	630
Yield							
Kg/ha							
Pakistan	343	364	214	451	522	527	573
Punjab	313	343	178	482	559	589	636
Sind	420	416	302	374	373	345	373
Production*							
Thousand 480-lb. bales							
Pakistan	3494	3781	2188	4628	5669	6060	6764
Punjab	2259	2541	1275	3473	4520	5036	5663
Sind	1231	1237	911	1152	1149	1014	1078

* Production occurred in first of two years shown.

SOURCES: Government of Pakistan, ERS estimates.

TABLE 4.

Pakistan: Exports of Cotton, Cotton
Yarn, and Cotton Cloth
(Rs Million)

Marketing Year (Aug/July)	Raw Cotton	Cotton Yarn*	Cotton Cloth	Total
1978/79	655	2,014	2,135	4,804
1979/80	3,321	2,108	2,416	7,845
1980/81	5,203	2,151	2,390	9,744
1981/82	2,938	2,156	2,949	8,043
1982/83	3,897	3,308	3,579	10,784
1983/84	1,772	3,047	4,856	9,675
1984/85	4,368	4,046	4,638	13,052
1985/86	8,291	4,572	5,083	17,946
1986/87	7,676	8,766	5,931	22,373
1987/88**	9,755	9,963	9,510	29,227

*Includes thread

** Estimate based on 9 months' data.

SOURCE: Government of Pakistan.

TABLE 5.
Pakistan: Cotton Prices
(Rs./MT)

Marketing Year (Aug/July)	Support Price	Wholesale Price (Karachi)	Export Unit Value (fob Karachi)	"B" Index (cif N. Europe)	Exchange Rate (Rs./\$)
1981/82	11,825	11,953	12,719	15,000	10.55
1982/83	11,825	12,677	15,282	18,738	12.75
1983/84	12,400	18,898	18,082	23,957	13.48
1984/85	12,510	14,595	16,608	19,906	15.16
1985/86	12,510	12,360	12,975	14,554	16.13
1986/87	12,510	13,900	11,975	20,804	17.17
1987/88*	12,600	16,621	22,483	26,775	17.75

* Export unit value and wholesale price based on 9 months' data;
B index based on 11 months' data; exchange rate estimated.

SOURCES: Government of Pakistan, Cotton Outlook, World Bank.

TABLE 5., continued
Pakistan: Cotton Prices
(c/lb)

Marketing Year (Aug/July)	Support Price	Wholesale Price (Karachi)	Export Unit Value (fob Karach)	"B" Index (cif N. Europe)	Exchange Rate (Rs./\$)
1981/82	51	51	55	64	10.55
1982/83	42	45	54	67	12.75
1983/84	42	64	61	81	13.48
1984/85	37	44	50	60	15.16
1985/86	35	35	36	41	16.13
1986/87	33	37	32	55	17.17
1987/88*	32	42	57	68	17.75

* Export unit value and wholesale price based on 9 months' data;
B index based on 11 months' data; exchange rate estimated.

SOURCES: Government of Pakistan, Cotton Outlook, World Bank.

TABLE 6.

Pakistan: Production of Cotton by Staple
 (1,000 375-pound bales)

Year*	Short (under 13/16")	Medium (13/16-1")	Medium- Long (1-1/32"- 1-3/32")	Long (1-1/8"- 1-5/16")	Total
1977/78	176	2565	427	65	3233
1978/79	205	1863	584	10	2662
1979/80	194	2917	1094	77	4282
1980/81	178	1746	2217	60	4201
1981/82	183	1912	2243	60	4398
1982/83	186	1598	2810	250	4844
1983/84	130	1248	1102	427	2907
1984/85	154	1515	2625	1636	5930
1985/86	179	1840	4106	1138	7263

* Production occurred in first of two years shown.

SOURCE: Government of Pakistan.