

# MARKET FUNDAMENTALS

Commercial Trade Section  
Developing Economies Branch  
Agriculture and Trade Analysis Division  
U.S.D.A. Economic Research Service



## PAKISTAN: COTTON

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### RECENT POLICY DEVELOPMENTS

#### Private Trade Exports Cotton Freely in 1988/89

The Bhutto government elected in November has made no significant changes in the country's cotton policies or the management of the CEC. However, under the previous government's liberalization, since July 1, 1988, the private sector has been allowed to buy cotton in the domestic market for sale abroad. (In 1987/88 they could buy only from the CEC, and during 1973-86 the CEC was the only exporter.) Private-sector exporters are subject to a minimum export price, a 2-percent deposit to guarantee shipment, and an export duty, but otherwise are completely free to buy cotton domestically and sell it abroad. In this newly deregulated environment, Pakistan remains a competitive exporter of cotton, but tensions in the export regime may force further changes. (ERS, FAS)

Market Fundamentals are updated twice 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.

### Export Prices Remain Competitive

Building on last year's sales experience, the private sector has apparently sold more cotton abroad than the CEC this year. While individual contract prices are not available, the chairman of the KCA, for one, feels that the minimum export price, which is the CEC's price for that day, has been set too low. He seems to imply that the CEC's willingness to sell at this price has kept the private sector from earning a higher price. He cites the sale of 1.9 million bales (about two-thirds of Pakistan's annual cotton exports) in only three months as evidence that "Pakistan cotton has been sold at below its international value." (ERS, FAS, BR)

In the past the CEC sometimes sold cotton at a loss. Such losses were covered by the treasury. Statements by CEC and government officials have made it clear that the CEC has broader objectives than the private sector and will not abandon them simply because the private sector is involved in exporting. These objectives include maintaining a steady flow of foreign exchange and defending the support price. At the margin the private trader may lose sales because the CEC is willing to sell at a loss to earn foreign exchange when the trader might also have made a profitable sale. Thus public sector objectives for cotton trade are likely to keep Pakistan's export prices quite competitive. (ERS)

The private sector has also shown its competitiveness this year. Indeed, Pakistan's cotton export duty had to be modified in mid-season to prevent a sharp drop in revenue. Initially the export duty was all of the price above the minimum export price. In that situation there was no incentive to sell higher-quality cottons at higher prices, since the full difference would be lifted. Some sellers had apparently been supplying higher-quality cotton to buyers, even though their own margins were reduced, in order to attract regular customers. At the recommendation of the KCA, the export duty was changed (at the end of November) to a flat tax. While this should provide better incentives to sell high-grade cotton, it may have also been responsible for an apparent surplus of lower-quality lint left in Pakistan now. (ERS, FAS)

### Government Retains Ultimate Control over Export Quantity

Under the new regime it was not clear at first whether or how the Government would retain control of the quantity exported in order to keep domestic prices down. A confrontation on this issue was probably inevitable once the private sector was allowed to buy and sell cotton freely. On February 26, 1989 the CEC stopped announcing a minimum export price, cutting off exports by the private sector. Since traders can only sell at or above the minimum export price, the absence of an announced price effectively prevents them from selling. The GOP's control of the quantity of cotton exported puts a flexible ceiling on the domestic price, but should have little effect on export sales. Pakistan retains a comparative advantage in cotton production at prevailing world prices. (ERS, BR)

Domestic users of cotton, primarily spinners, had complained of the tight supplies at a time when spinning capacity was expanding, the chairman of APTMA appealing directly to the Prime Minister. Traditionally the CEC allowed the spinners to purchase their requirements first, immediately after harvest. It also ensured that the quantity exported was consistent with low and stable domestic prices, so exporters were probably not surprised when the Government cut off exports. Buying and selling interests are still making appeals regarding further sales by the CEC. (ERS, BR)

### Defaults Are a Potential Problem for the Private Trade

The CEC was founded at a time (1973) when the private sector defaulted on its commitments often enough to require government action. At present there is a 2-percent deposit on export contracts which is not refunded if a contract is not fulfilled. Another solution to the default problem would be to allow traders to use a futures market. Such an exchange used to exist in Pakistan, but is considered inconsistent with Islamic principles. A futures market for cotton functions in New York, but foreign exchange and other constraints prevent its official use by Pakistani firms. Other cotton-exporting countries also lack their own futures markets. (ERS, BR)

### Scandals Have Little Effect on Trade

In the midst of the switch to a new export regime, the public and private sectors have implicated each other in a scandal. The CEC claims the private sector is under-invoicing, while the CEC is accused of selling the carryover of last year's crop at excessively low prices. Despite some spirited namecalling, there seems to have been little damage done to Pakistan's actual exports, although traders may have been forced to promise earlier delivery than otherwise to mollify their anxious customers. To improve communications among the various actors in the cotton sector, the Government decided (in February) to revive the Cotton Board. Its 20 members will be drawn from the CEC, APTMA, the KCA, and other interested groups. (FAS, BR)

### CEC Projected to Return to Profitability

Preliminary figures show that in 1987/88 the CEC is likely to have turned a gross profit on its sales again after two years of not doing so. The CEC's revenues reportedly totalled over \$480 million, of which over \$75 million were paid in duties. Nearly all the remaining profit was also turned in to the treasury. FOB prices returned to a healthier position between "B" index and wholesale prices. With "B" index prices during August-February 1988/89 about 25 percent lower than (the same period) in 1987/88, the CEC's position this year is still an open question. However, duties and some other restrictions do not seem to have prevented the private sector from exporting more cotton than the CEC, presumably at a profit. (ERS, FAS)

## SUPPLY DEVELOPMENTS AND OUTLOOK

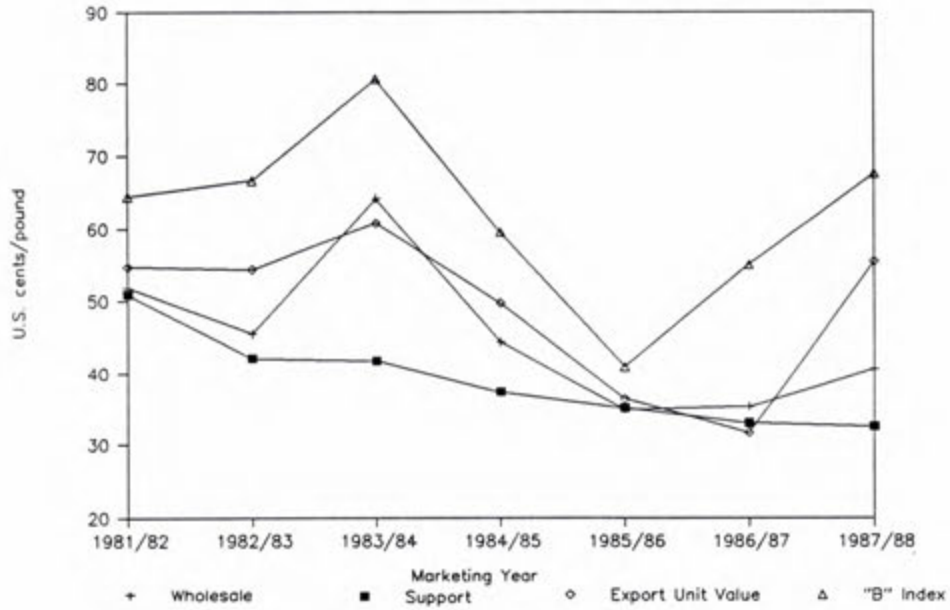
### 1988/89 Crop Near Last Year's Record Despite Floods

Estimates of the 1988/89 crop are being finalized with the last arrivals at ginneries in March. Production is currently estimated at 6.65 million bales, just short of the 1987/88 record. Weather previous to major flooding was not as hot as last year, so cotton plants bore more flowers and heavier bolls. Thus yields are expected to be higher than last year. Ginnery arrivals were slow in October and November, reflecting a later crop, but picked up in December and January. Apparently there was no destructive early frost in December, although unusually cold weather was reported in January. (FAS, BR)

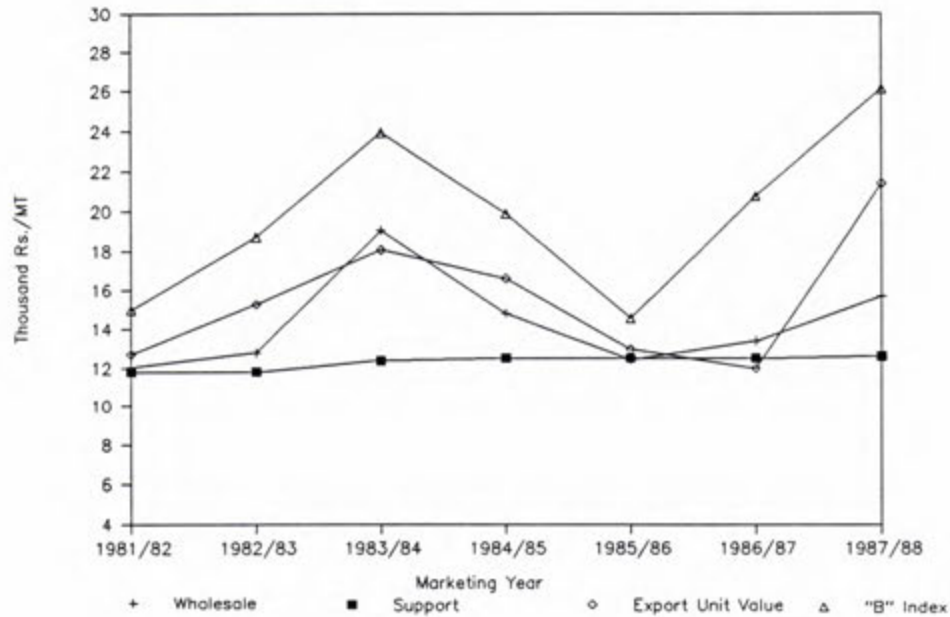
### Effect of Floods

Two major floods occurred in Pakistan in 1988, the worst since 1973. They struck the Sind in August and the Punjab in September and October. Major relief operations were required. Total cotton area was reduced by over 100,000 hectares. Cotton production may

Pakistan: Cotton Prices



Pakistan: Cotton Prices

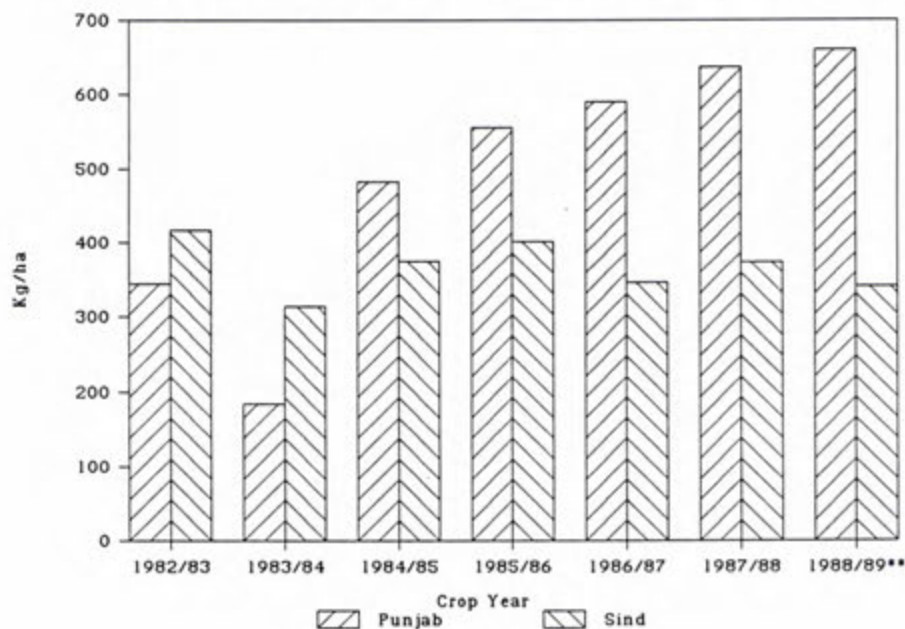


have been reduced substantially. To a limited extent, crops in the immediate proximity of the flooding rivers were completely destroyed. However, the primary problem caused by the floods was standing water, and this seems to have been concentrated in rice areas. As a result the average cotton yield is likely to be above last year's. (FAS, ERS)

**Punjab's Lead in Productivity Continues to Increase**

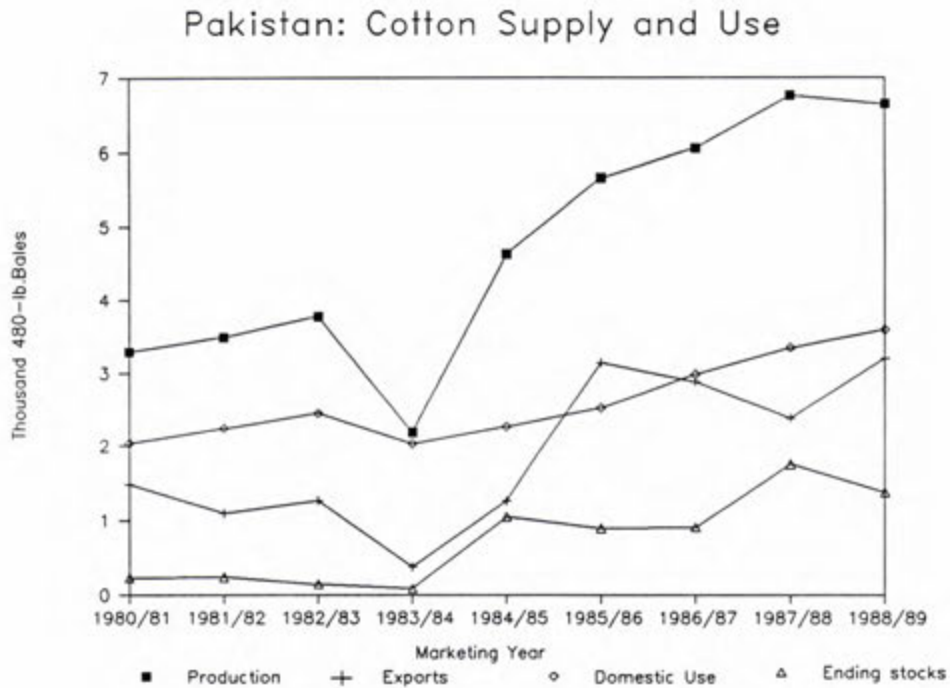
Sind province has not experienced the jump in yields that has occurred in the Punjab since 1983/84. Much of this jump stems from the use of several high-yielding varieties that have been released recently for the Punjab. These give the Punjab cotton farmer the ability to choose a HYV suited to his conditions. The most popular new variety approved for the Punjab, NIAB-78, was approved for use in the Sind after it had already spread there, but initial results have been unremarkable. A new variety, Shaheen, has also been approved for the Sind, but seed quality in the Sind continues to be mentioned as an important issue. Despite floods in both provinces in 1988, average yield apparently rose in the Punjab, but declined in the Sind. (ERS, CO)

Pakistan: Provincial Cotton Yields



**Average Staple Length Continues to Increase**

Revised data from PCCC show that the 1985 and 1986 crops further exemplified the shift from the traditional inch staple to longer growths. Adoption of new varieties like NIAB-78 and CIM-70 since the major shortfall in 1983/84 has raised the average each year. In the 1985 and 1986 crops, about one-fourth of the total production was classified as long staple (1-1/8" and over). Before 1983/84, this category was an insignificant part of Pakistan's production. (ERS)



**DEMAND DEVELOPMENTS AND OUTLOOK**

**Domestic Use May Be Set to Jump**

Official USDA figures show domestic use of cotton climbing to a record 3.6 million bales in 1988/89. While this represents an increase of over 200,000 bales, it also would mean a deceleration from double-digit annual growth in the previous four years to only 7 percent in 1988/89. Based on record exports and domestic use, USDA also projects a decline in stocks from over 1.7 million bales to under 1.4 million. Pakistan's spinners may be prepared to consume even more cotton, however, according to information from APTMA. (ERS)

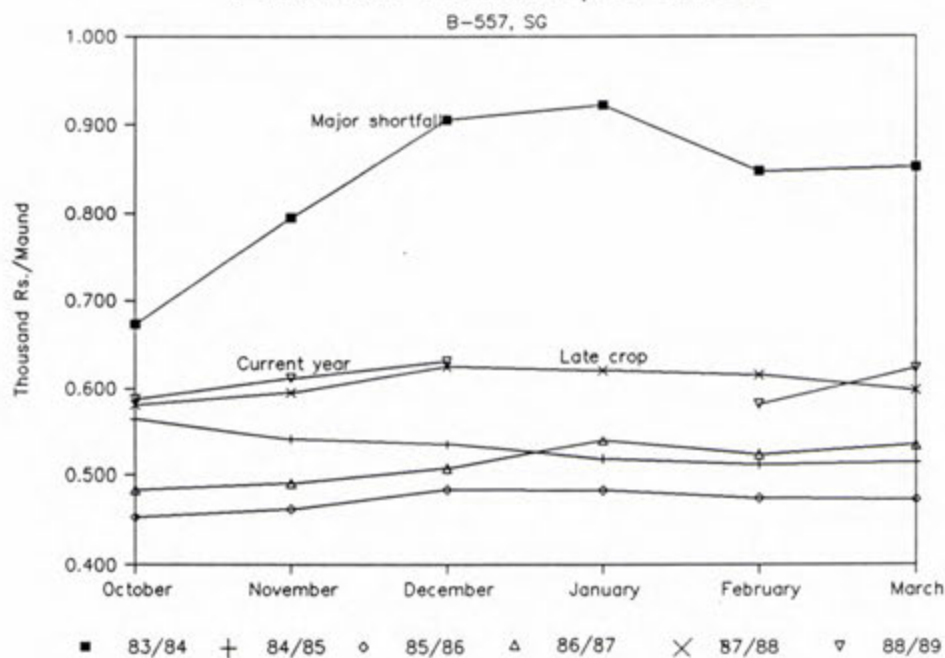
APTMA points out that during the 1980s, spinning capacity increased by only about 200,000 spindles out of 4 million. By contrast, in marketing year 1988/89, due to new facilities under construction, it may increase by over 1 million. This strong growth in spinning capacity is due both to increases in cotton production and the deregulation of spinning, especially the approval-free import of machinery (begun in June, 1987). If APTMA's account of capacity expansion proves true, domestic use could expand considerably. Its own forecast of domestic use in 1988/89 is 3.9 million bales. Depending on the level of exports allowed, this might make a major dent in the structural stock increase that arose when production spurted after 1983-84. (ERS, BR)

**Strong Demand for Pakistani Cotton**

There are many signs of the strong demand for Pakistan's cotton lint. Most recently the chairman of the CEC complained of a "micronaire problem" with regard to exports. While the chairman's main point was the need to establish and maintain grading standards

for Pakistan's cotton, he also emphasized that there was increasingly strong demand by importers for high-quality cotton from Pakistan. APTMA has reported that some mills, especially older ones, have been switching to spinning finer counts because the usually more-common medium and coarse grades have been in very short supply. This year's change in trade policy amounted to a partial relaxation of control on the amount of cotton exported. As a result a record quantity is likely to leave the country, reflecting strong demand for Pakistani cotton. Pakistan's yarn remains sought-after, too, partly because the Government reduced the yarn export duty in early 1988. Together foreign and domestic demand for lint have driven spot prices to their highest levels since the major shortfall in 1983/84. (ERS, FAS, BR)

Pakistan: Cotton Spot Prices



TRADE DEVELOPMENTS AND OUTLOOK

Carryover Pushes 1988/89 Exports to a Record

USDA's official forecast shows Pakistan achieving record exports of 3.2 million bales in 1988/89. About 500,000 bales will have come from the 1987 crop. Whether 3.2 million bales or even more are shipped depends on several factors. One is the Government's decision on allocating supply between exports and domestic consumption. If it allows further exports, substantial amounts might leave Karachi before rough monsoon weather hampers port operations in July and August. If exports from the near-record 1988 crop cannot be shipped by the end of July, they will spill over into the next (USDA) marketing year. This happened last year, when the crop arrived late.

Another factor affecting the export total is the strength of domestic demand, with additional spinning capacity now coming onstream. The Government's decision on exports may also affect the ability of private traders to meet their commitments. (ERS, FAS)

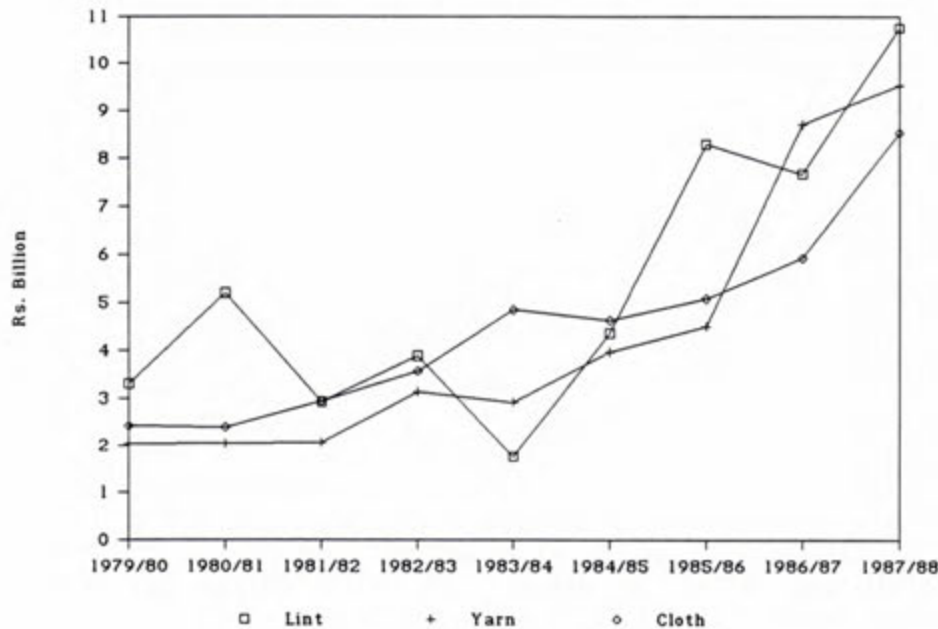
**Record but Late Crop Led to Lower Exports in 1987/88**

Exports in 1987/88 were lower for the second year in a row, reaching only 2.4 million bales. Because initial indications were for a poor crop, export commitments were made cautiously. As the crop came in, domestic purchases proceeded strongly, but there was still a substantial carryover. Pakistan maintained strong sales to most of its traditional customers, most of which are in East and Southeast Asia. Japan's and Taiwan's imports fell, but China made substantial purchases, some of which came through Hong Kong. China also appears to be a strong buyer in 1988/89. Data on export destinations will generally be even more difficult to obtain now that the private sector has entered the export trade. (ERS, FAS)

**Lint Exports Regained Dominance over Yarn and Cloth**

Pakistan's exports of lint and yarn have surged since 1984/85. Cloth exports are subject to more restrictions by importers, but also increased sharply in 1987/88. Excepting years of actual or anticipated crop shortfalls (1983/84 and 1986/87), lint has generally brought in more export revenue than either of the processed products. Raw cotton returned to this dominant position in 1987/88 on the strength of a near-record crop in 1988, carry-over from the record 1987 crop, and strong sales by the private sector.

Pakistan: Cotton Product Exports





## GLOSSARY

CEC.....	Cotton Export Corporation of Pakistan
KCA.....	Karachi Cotton Association
BR.....	Business Recorder (newspaper)
CO.....	Cotton Outlook
APTMA.....	All Pakistan Textile Mills 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)
HYV.....	High-yielding variety
Micronaire.....	A measure of fiber fineness: the higher the number the coarser the fiber

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	
1979/80	2,023	368	3,417	379	4	1,177	2,000	40	2,040	583
1980/81	2,108	341	3,297	583	0	1,488	2,039	119	2,158	234
1981/82	2,215	344	3,495	234	4	1,097	2,242	156	2,398	238
1982/83	2,263	364	3,779	238	4	1,272	2,447	151	2,598	151
1983/84	2,221	214	2,186	151	280	376	2,031	119	2,150	91
1984/85	2,236	451	4,629	91	27	1,263	2,264	169	2,433	1,051
1985/86	2,366	521	5,667	1,051	4	3,146	2,521	160	2,681	895
1986/87	2,505	527	6,058	895	0	2,884	2,986	174	3,160	909
1987/88	2,568	574	6,765	909	0	2,383	3,354	192	3,546	1,745
1988/89	2,440	593	6,650	1,745	0	3,201	3,597	215	3,812	1,382

SOURCE: USDA. All official USDA data.

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

Year*	1983/84	1984/85	1985/86	1986/87	1987/88
Bangladesh	--	52	73	30	91
China	5	--	--	--	138
Hong Kong	40	179	297	315	421
Indonesia	--	51	152	150	138
Italy	5	45	143	200	209
Japan	159	253	397	500	285
South Korea	15	45	232	145	102
Taiwan	10	157	569	375	150
Thailand	--	70	151	200	193
Other**	143	409	1,134	970	883
Total	377	1,261	3,148	2,885	2,611

\* August/July, except 1987/88, which is September/August.

\*\* Including:

in 1986/87: 150,000 to West Germany and 75,000 to Portugal.

in 1987/88: 133,000 bales to Portugal, 84,000 to West Germany,  
83,000 to Spain, and 69,000 to Greece.

SOURCES: ERS estimates; 1987/88 (except Taiwan): Cotton Outlook.  
NOT OFFICIAL USDA DATA.

TABLE 3.

Pakistan: Cotton Area, Yield, and Production by Province

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89**
Area (1,000 hectares)							
Pakistan	2,263	2,221	2,242	2,364	2,502	2,568	2,440
Punjab	1,613	1,563	1,568	1,746	1,860	1,938	1,890
Sind	647	656	671	615	640	630	550
Yield (Kg/ha)							
Pakistan	364	223	450	515	527	573	590
Punjab	343	184	483	555	589	636	660
Sind	417	314	374	401	345	373	340
Production* (1,000 480-lb. bales)							
Pakistan	3,784	2,272	4,633	5,590	6,060	6,764	6,650
Punjab	2,543	1,323	3,477	4,454	5,036	5,663	5,750
Sind	1,238	945	1,153	1,132	1,014	1,078	850

\* Production occurred in first of two years shown.

\*\* Preliminary

SOURCES: Government of Pakistan, ERS estimates. NOT OFFICIAL USDA DATA.

TABLE 4.

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

Fiscal Year (July/June)	Raw Cotton	Cotton Yarn	Cotton Cloth	Total
1978/79	655	1,956	2,135	4,746
1979/80	3,321	2,038	2,416	7,775
1980/81	5,203	2,050	2,390	9,643
1981/82	2,938	2,075	2,949	7,962
1982/83	3,897	3,146	3,579	10,622
1983/84	1,772	2,931	4,856	9,559
1984/85	4,368	3,974	4,638	12,980
1985/86	8,291	4,511	5,083	17,885
1986/87	7,676	8,709	5,931	22,316
1987/88	10,759	9,530	8,540	28,829

SOURCE: Government of Pakistan. NOT OFFICIAL USDA DATA.

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

Marketing Year (Aug/July)	Support Price	Whole- sale Price (Karachi)	Export Unit Value (fob Karachi)	"B" Index (cif N. Europe)	Exchange Rate Rs./\$
1981/82	11,825	12,058	12,719	15,000	10.55
1982/83	11,825	12,788	15,282	18,738	12.75
1983/84	12,400	19,076	18,082	23,957	13.48
1984/85	12,510	14,808	16,608	19,906	15.16
1985/86	12,510	12,437	12,975	14,554	16.13
1986/87	12,510	13,389	11,975	20,804	17.17
1987/88	12,600	15,702	21,425	26,140	17.56

SOURCES: Government of Pakistan, Cotton Outlook, World Bank.  
NOT OFFICIAL USDA DATA.

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

Marketing Year (Aug/July)	Support Price	Whole- sale Price (Karachi)	Export Unit Value (fob Karachi)	"B" Index (cif N. Europe)	Exchange Rate Rs./\$
1981/82	51	52	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	35	32	55	17.17
1987/88	33	41	55	68	17.56

SOURCES: Government of Pakistan, Cotton Outlook, World Bank.  
NOT OFFICIAL USDA DATA.

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	2,565	427	65	3,233
1978/79	205	1,863	584	10	2,662
1979/80	194	2,917	1,094	77	4,282
1980/81	178	1,746	2,217	60	4,201
1981/82	183	1,912	2,243	60	4,398
1982/83	186	1,598	2,810	250	4,844
1983/84	130	1,248	1,102	428	2,908
1984/85	154	1,993	3,038	745	5,930
1985/86	139	1,459	3,704	1,852	7,154
1986/87	130	610	5,257	1,763	7,760

\* Production occurred in first of two years shown.

SOURCE: Government of Pakistan. NOT OFFICIAL USDA DATA.

TABLE 7.  
Pakistan: Characteristics of cotton varieties

Name of variety	Year of release	Ginning percent- age	Staple length (inches)	Micro- naire value	Pressley strength (1,000 lbs/ sq. inch)
PUNJAB PROVINCE					
B-557	1975	34.5	1-1/32	4.5	92.9
MNH-93	1980	36.5	1-1/16	4.7	94.0
NIAB-78	1983	36.6	1-1/32- 1-1/16	4.6	92.5
MS-84	1983	34.0	1-1/4	3.9	91.3
SLH-41	1984	34.0	1-1/32	4.4	95.8
CIM-70	1986	31.2	1-5/32	4.2	92.5
MNH-129	1986	38.5	1-1/16	4.4	95.4
SIND PROVINCE					
M-100 (N.T. Sind)	1963	34.0	1-1/32- 1-1/16	3.5- 4.0	85.0
H-59-1 (Qallandari)	1974	34.0	1-1/8	3.5- 3.7	90.0
S-59-1 (Sarmast)	1975	34.0	1-1/8	3.5- 3.7	92.7
K-68/9	1977	33.0	1-3/16	4.3	96.1
TH-1101 (Rehmani)	1985	35.0	1-1/16	4.0- 4.4	89.0- 90.0

