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Aptitudes of Pakistani rice industry with respect to global trade

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Abstract

Economy of Pakistan based on agriculture, owing to the export of agricultural commodities is major source of foreign exchange earnings. Export of rice play a vital role in country's economy. However, trade policies influenced the performance of agricultural sector, as there are some gaps of technical advancement in system, financial irregularity, as well as other constitutional regulatory factors. Pakistan is following three years Strategic Trade Policy Framework (STPF) since 2009, to enhance the performance and efficiency of trade sector. Since last few years, trade of rice is decreasing due to traditional markets, energy crises and lack of research and development in agricultural sector. Thus, Pakistan has lost its more than 30% share from Gulf market via rice export during previous three decades. The transaction cost to imports is significantly lower than the exportation, which is negatively affecting the competitiveness of country's exports. So, it's prior need to pay attention in the export chain sector, to approach the Europeans markets for encouraging trade performance of rice sector, as well as, improve the reforms in trade policies to compete in the international market for maximum foreign exchange revenues.

Keyword: Trade strategies, Export competition, Rice export

Introduction

Agriculture sector is backbone for Pakistan's economy, and contribute 21 percent in GDP and absorb almost 44 percent employment. The agricultural production is generally divided into two types, such as food crops and cash crops. Food crops are those which cultivated by farmers for their own usage and cash crops cultivated for commercial purpose. Rice is the second staple food after wheat and it is contributing 3.1 percent to agricultural and 0.7 percent to GDP (Farooq & Wasti, 2014).

As the economy of Pakistan is mainly relay on agriculture, the sector was facing difficulties in free trading of agriculture products in most of the develop countries due to non-liberalization trade policies of develop countries. Recently, the government of Pakistan has taken steps for the development of agricultural sector to enhance the quantity and quality of agricultural produce in the country to meet international food safety and security standards which enables to enhance foreign reserved by increasing exports of agriculture commodities. Rice is playing a vibrant role in Pakistan's economy, because it is a main source of staple food, rural employment and foreign exchange earnings. The stable growth of rice production has helped Pakistan to meet increasing locally demand and export earnings. Pakistan is in top ten rice exporting country in the world its export performance has an average increased in last two decades but have experienced large annual variations due to some reasons (Sharif, Javed, Abbas, Hassan, & Salam, 2008).

Agricultural exports stood at US\$5.6 billion in 2013; rice is the single most important product, with exports amounting to US\$2 billion. Agricultural imports amounted to US\$6.3 billion in 2013, with palm oil (US\$1.8 billion) being the main imported product. Pakistan has traditionally been a net food importer, but for the first time in many years it incurred a surplus in food products in 2013, amounting to over US\$500 million (Klau, Pedersen, & Khilji, 2015). Rice contribute 2.7 percent in agricultural and 0.6 percent in GDP of Pakistan, Rice is second staple food grain and cash crop that's why in recent years it has been a major source of foreign exchange earnings in Pakistan. It provides 21 percent of global human per capita energy and 15 percent of per capita protein. Furthermore, it also provides vitamins, fiber and minerals.

Basmati rice is being liked in world markets due to its long grain variety, flavor and fragrance. World rice market has been dominated by a few exporters, such as Pakistan, India, Thailand and Vietnam because 60 to 70 percent exports are from these countries. Pakistani rice exports shows decline of 19 percent in 2013, UAE is a major importer of rice after Iran and Saudi Arabia with market share of 13 percent, 7 percent and 6 percent respectively (Memon, 2013).

The study of Anwar *et al.* (2010) described that Pakistan come to be a competitor in international market after joining WTO trade liberalization in 1980. According to Pakistan economic survey European Union (EU), grant access to Pakistan for free trade in their markets as per Generalized Scheme of Preferences plus (GSP +) qualified goods, owing to this export of Pakistan grow slightly in last few years. In the period of 2013-14, food group contribute 19 percent in total exports, share of rice export alone contribute 47 percent within food group and its shows a remarkable growth of 16.4 percent. However, total export grew only 0.71 percent and this share is almost negligible in generally export performance (Farooq & Wasti, 2014).

The study of Shei & Thompson (1977) described that for the improvement of international agricultural trade, emphases must be focus on the relaxation of trade barriers and hurdles among countries which has greater global benefits for every country of the world. By doing free trade (trade without international hurdles and barriers) will facilitates human beings to develop a world as global village in true sense this will also improve social welfare and facilitate more efficient resource use and Price-stabilization.

Akmal *et al.* (2014) Analyzed that Pakistan has decreased 15 percent share of basmati rice in world market due to relying on only a few import markets. The reason behind this decline is that Pakistan didn't maintain its comparative advantage position of Basmati rice export in market and didn't explore new markets. Agricultural commodities of Pakistan have good reputation in the international market but due to some issues such as lack of knowledge about trade trends, market access, licensing and transport issues export is not increasing uniformly (Kemal *et al.* 2007).

In this study, we investigate the problems of Pakistani exporters facing in international markets and the share of rice export in country's economy. Significance of Pakistan trade strategies and its impact on exporters we also explore why export of rice is declining and how to enhance international trade of agriculture commodities? In last section we describe the conclusion and suggestions for trade policies and export of agriculture commodities from Pakistan.

Background of the Study

Trade Policies of the government (Objectives and strategy)

Until 2008 Pakistan modify and declared its trade policy on yearly basis, however after that it adopted three year strategy for trade policy which is called Strategic Trade Policy Framework (STPF). The first STPF was announced for 2009-2012, while second for 2012 to 2015. The objectives of STPF 2012-2015 are to enhancing export competitiveness, lessening the cost of doing trade, attaining the greater market access in traditional as well as new markets for its products, which contribute to the Pakistan's economy through trade liberalization and facilitation by following these objectives through regional, unilateral, multilateral, and bilateral agreements.

The STPF 2012-2015 was announced in January 2013, for the achievement of target the government forecast export of US\$95 billion during this period as likened with STPF 2009-2012, and they identified major areas of focus such as: regional trade; establishing the institutional framework for awareness of exports; increasing exports from less developed areas; promotion of local trade; establishment of controlling efficiencies; and reinforcement the monitoring and evaluation network. Trade agreements formulation and implementation is the responsibility of Ministry of Commerce, there are different departments in the Ministry. WTO wing deal with all kinds of issues and agreements related to trade liberalization. Ministry has formed a Leather Export Promotion Council and establishment of an EXIM Bank is underway.

To boost up exports, the establishment of Services Trade Development Council (STDC) also including in the STPF 2012-2015, the major responsibilities will be to having efficient, economical, time-saving mechanism for trade disputes solving. STDC examines the policies and agreements of WTO for protecting Pakistan's interests while meeting its multifaceted commitments and ensures inter-ministerial and inter-provincial coordination. The Government also consider the suggestions and advices from the private sectors for example, Federation of Pakistan Chambers of Commerce and Industry, Rice Associations of Pakistan (REAP) representing specific products or industries.

Pakistan has following three years process of rationalization to decrease maximum tariff and barriers, that's why trade policy reforms focus on simplifying tariff rates, SROs that establish special rates in 4,000 products as well as provide competitive environment and improving trade relations (Klau *et al.*, 2015).

Agriculture sector policy of Pakistan

The main objectives of Pakistan's agriculture sector policy are to achieve food safety, development and bring the country's food insecurity to zero by 2050. Increasing the growth rate of agriculture and promoting the exports of agriculture products are the major goals of STPF 2012-2015. Pakistan is a colleague of G-20, G-30 groups of agriculture countries those are striving for agriculture development and it also member of Cairns Group, and Friends of Fish. Pakistan also participates in the Doha Round to support and negotiation for abolitions of export subsidies on agricultural products, because it demands considerable reduction in domestic support and enhancement of market access. Pakistan also support the suggestion of G-33 group which concerns about the livelihood of rural areas through enlargement of Green Box programs such as farmers settlement programs, land rehabilitation etc.

Rice

Rice is a very important cash crop and export earning of Pakistan, in 2013 export of rice contribute US\$5 billion in national economy. Mostly rice export belongs to Rice Exporters Association of Pakistan which maintains Basmati rice mandatory quality and certification of the exporter. Prices of rice depends on the varieties and markets such as US\$1,500 for Super Basmati, US\$ 1,300 for Basmati, and US\$1, 000 for IRRI-9 per metric tons. The MFN tariff for rice imports is 10% (1% for seed rice). In 2008, Mexico imposed ban on imports of rice due to the khapra beetle that's why Pakistan raised up a Specific Trade Concerns (STC) for export of rice, however, owing to this in 2010, Mexico removed absolute restraints by partial restrictions (Klau *et al.*, 2015)

Rice Production

According to Trade Development Authority, Pakistan is world's 3rd leading exporter and 12th largest producer of rice. Furthermore, with the average of 6 million tones, country supply 25 percent world's paddy rice output every year. Rice is the major source of livelihoods of the rural population and second staple food after wheat, with respect to quality and flavor lots of varieties grown in Pakistan. Production of fine (Basmati) and coarse types are 40 percent and 60 percent respectively.

Punjab and Sindh provinces are major producer of Basmati rice due to their agro-climatic and soil conditions; owing to this these provinces contribute 88 percent of total rice production. In the production of Basmati rice Punjab main districts are Sheikhpura, Nankana Shaib, Hafizabad, Gujranwala, Okara, Jhang and Sialkot produce more than 70% in the society. In recent years hybrid varieties have been introduced, due to better yields and shorter maturity periods as compared to basmati variety, however these varieties have influenced the timing of sowing and transplanting. Hybrid varieties are sown in early March and April instead of June and July, that's why Basmati production showing decreasing trend in early years but it has reversed in last two years (Abedullah *et al.* 2007).

Rice industry has different priorities and interests, because farmers want early maturity and better yield which provide them high profit and enough time for sowing next crops. On the other hand, traders and miller's prefer good looking grain in terms of shape, size and whiteness (Khan & Khan, 2010b).

Varieties of rice grown in Pakistan

According to the priorities and interest of different sectors of rice industry Pakistan grow varieties of rice most prominent varieties of Basmati rice are: Basmati-2000, 385, 198, 370, Supper, Kernal and Shaheen. However, other coarse varieties such as IRRI-6, IRRI-9, KS 282, and PG IRRI have also grown in Pakistan (Khan & Khan, 2010b).

Table 1: Area, Production and Yield of Rice

Year	Area		Production		Yield	
	(000 Hectare)	% Change	(000 Tonnes)	% Change	(Kg/Hec.)	% Change
2010-2011	2,365	-	4,823	-	2,039	-
2011-2012	2,571	8.7	6160	27.7	2396	17.5
2012-2013	2,309	-10.2	5536	-10.1	2,398	0.1
2013-2014	2,789	20.8	6798	22.8	2437	16.3
2014-15 (P)	2,891	3.6	7005	3.0	2423	-0.6

Source: (Farooq & Wasti, 2015)

Rice production in 2014-15 is expected to increase at 1.5 percent than last year after three consecutive years of floods in Pakistan, this expectation of rise in production is mainly due to increase in area and soil nutrient after floods (Hamilton & Raza, 2014). We can analyze the last five years performance of area under cultivation, production and yield with their increase/decrease trend change percentage in Table-1.

Consumption of rice

Wheat is Pakistan's staple food and rice is not staple food like other South Asian countries, however approximately 45% rice crop is also being consumed at domestic level. Traditionally, rice is a cash crop in Pakistan that's why mostly it sown for the commercial purpose. At domestic level mostly fine (Basmati) rice is preferred for foodstuff but this variety is high in price so for price variations individuals also use other coarse varieties. Since several years the domestic prices of rice is increasing due to increase in export. Almost 0.2 million tons of broken rice every year is used for animal and poultry feed (Hamilton & Raza, 2014). We can analyze last five years domestic consumption in table-2.

Trends in export:

Pakistan's export has been vacillating around US\$ 24-25 billion since a number of years. In July- April 2014-15, export was expecting to increase but unfortunately it shows decline of 5 percent than last year. Pakistan needs to explore new markets and increase number of exports base products because only cotton group contribute 55 percent and other rice, leather, synthetic made ups contribute to 14 percent in export. New markets should be explored in African, Eastern Europe, Russia and South American countries. Currently, our export destination is only few countries such as Middle East, European Union and North America. In July-April 2014-15 all major groups of exports recorded adverse growth two percent decline is recorded by Food group in this period. In Food category main decline is due to export of Basmati rice which observed 22.5 percent decline in terms of quantity, however other varieties of rice show a growth of 7.1 percent. If we see in terms of prices the Basmati rice value is 18.5 percent down and other varieties growth is only 1.0 percent so overall export of rice grew adverse by 5.4 percent in spite of its export quantity improved by 2.2 percent (Farooq & Wasti, 2015). Pakistani rice export have increased in number of countries like Iran, Afghanistan, Saudi Arabia, Qatar, Kenya etc. however Pakistan also has share in Sri Lanka, Australia, Malaysia, Indonesia, Philippines, Senegal, Kuwait, USA, South Africa and Turkey markets.

Factors affecting the export:

Khan & Khan (2010a) specified that the main reasons behind the decline of exports are energy crises, increase in cost of production, lack of research and Development and decrease in international prices of commodities because When international prices of cotton and rice decrease it affects adversely Pakistan's exports. As the average unit price of non-basmati rice which set up 70 percent of Pakistan's rice export by value, decreased two percent, in the same way the AUP of cotton and yarn have deteriorated by 78 and 10 percent respectively. Cost of production increased due to increase in energy and other input costs. Energy deficiency problem is a major problem for both industrial and agricultural sectors. Pakistan has failed to produce the new high yielding varieties of rice and cotton during last three decades, on the other hand India has developed lots of basmati and non-basmati brands which are look like basmati brands that's why occupy on markets (Farooq & Wasti, 2015).

Table: 3. Performance of Pakistani Rice Export

Market Year	Domestic Consumption	Growth Rate
2010	2447	-16.08 %
2011	2548	4.13 %
2012	2317	-9.07 %
2013	2600	12.21 %
2014	2800	7.69 %

Unit of Measure= (1000 MT)

Source: (Trade-Development-Athourity-of-Pakistan, 2011-15).

Although Private sector is participating in Pakistan's export of rice, however government not providing subsidies like other exporting countries (Thailand, Vietnam and India). The exporters have also faced issues in the repayment of loans due to cash flow problems (Khan & Khan, 2010b). Sultani & Khan (2014-2015) stated that increase in export prices decrease the imports because whenever export prices becomes expensive to the importers then as a result importers may decrease their imports. Increase in export prices may also result in a decrease in the nation's competitiveness with respect to other exporting nations. So a negative impact of export prices is expected on rice exports. Abolagba *et al.* (2010); Nwachuku *et al.* (2010); Yusuf & Edom, (2007) have proved this import and export price relationship.

Khoso *et al.* (2011) describes in their study that Economists who project the market effects of the WTO and other trade liberalization effects sometime have a credibility problem. They follow a projection molds through which we can see differences in policy specification or parameters, that's why we can understand easily the markets effects on rice policy changes imposed by URAA through this projection molds.

Table: 3 Major Pakistani Basmati rice importing countries in 2014-15

Name of Country	Export Quantity (MT)
Australia	15,972.24
Bahrain	12,105.53
Belgium	39,154.15
France	13,825.71
Netherlands	17,723.19
Spain	32,430.96
Italy	19,938.02
Germany	8,291.59
U.K.	76,486.23
USA	19,080.03

Source: (Sultani & Khan, 2014-2015)

Conclusion and Suggestions

Pakistan is following three years STPF, the aims of policy is to increase regional trade from 17 percent to 25 percent, Pakistan should explore new markets access especially in European Union and United States. The transaction cost to imports is significantly lower than the exportation which negatively affects the competitiveness of country's exports. Government should urgently look at policies for trade facilitation in Pakistan. To increase the exports government should introduce initiatives to help Pakistani exporters form the potential risks in upcoming days from negative policies of competitors in international markets. Pakistan

should actively participate in the negotiations on issue related to WTO and IMF trade agreements, Intellectual Property Rights to protect home interest.

Pakistani rice has liked by all over the world, unfortunately through its export we are not reaping all the benefits of rice export as it expected, because of just focusing on a few traditional markets with traditional varieties of rice. On the other hand our competitors have introduced lots of varieties of Basmati and Non-Basmati (looks like basmati) rice which have prodigious influenced our rice value and decrease the demand of our rice in the markets.

Pakistan should actively enable its Research and Development department for introducing new high yields varieties of both Basmati and Non-Basmati rice to fulfill the increasing national population food demand as well as to support country's economy.

Government should also provide subsidies to farmers because cost of production is very high in Pakistan that's why production of rice is not growing as compared to the population of the country. Pakistan is facing Energy crises which have severely influence the industrial and agricultural sectors, increase in cost of production, lack of Research and Development and decrease in international prices of commodities have decreased the export of Pakistan. So Pakistan should take some serious steps to overcome these problems.

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