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The Changing Structure of Pakistan's Foreign Trade

by Dr Khushi M. Khan, Hamburg *

A high degree of concentration on a few commodities in the export structure of Pakistan during more than a decade of economic planning reflects the typical weakness of many developing countries in generating adequate and stable external resources so badly needed to accelerate their development efforts.

Although a high degree of commodity concentration in the export sector does not necessarily imply that the commodity composition is based on primary products, a formidable quantum of empirical evidence indicates that in most cases there exists a positive correlation between commodity concentration and exports of primary products¹. In addition to the obvious uncertainties regarding the volume and flow of external resources as a concomitant of commodity concentration via price fluctuations, the "terms-of-trade" argument reinforces the need for a diversification in the composition of export structure if national development efforts in the long-term perspective are to get better chances of success. Another supplementary approach is to bring about a regional diversification of exports which tends in general to lessen the negative impact of highly elastic demand related to the primary products in general and can also significantly offset the negative implications of price fluctuations in the short run.

Pakistan has directed its foreign trade policies towards expanding the volume of external earnings both through lessening the commodity concentration of exports as well as through their regional diversification. It is in this context that the following short analysis attempts to look into the structural changes in Pakistan's foreign trade from 1962 to 1972. The period under analysis in fact covers the entire two Five Year Plans (1960–1970) and the selection of 1962 instead of 1960 is primarily due to the statistical convenience neces-

sitated by a change in the Standard International Trade Classification in 1960. It does not, however, distort in consequence the essential elements of the foreign trade analysis of Pakistan. Moreover, the 1972 foreign trade figures of Pakistan are not as *such* comparable with those of the two Five Year Plans but their inclusion still carries some comparative value in locating basic changes, if any, in the newly evolving structure of Pakistan's foreign trade after the separation of the Eastern Wing into the independent state of Bangladesh.

Table 1 depicts the general growth of Pakistan's foreign trade during selective years of the period under analysis. The total exports of Pakistan stood at \$ 695 mn in 1970 as against \$ 397 mn in 1962, indicating an average yearly increase by 9 p.c. Imports, on the other hand, rose from \$ 738 mn in 1962 to \$ 1,171 mn in 1970, reflecting on a yearly average basis an increase of slightly more than 7 p.c. during this period. Thus, whereas exports constituted 54 p.c. of Pakistan's imports in 1962, their share had not increased in 1970 to more than 59 p.c., showing a fundamental disequilibrium in Pakistan's foreign trade. The comparatively higher expansion rates in exports were not adequate enough to compensate for their smaller initial base in 1962. The 1972 figures reflect an emergency situation in which the constraints of foreign aid necessitated to limit the volume of imports with reference to export possibilities of the country.

Commodity Composition of Foreign Trade

Almost 76 p.c. of Pakistan's exports in 1962 consisted of primary commodities. Exports of crude materials (SITC 2) alone accounted for 62 p.c. of this total, and within this latter group raw jute as

* German Overseas Institute.

¹ Alasdair I. MacBean, Causes of Excessive Fluctuations in Export Proceeds of Underdeveloped Countries, Bulletin of the Oxford University Institute of Economics and Statistics, Vol. XXVII, Nov. 1964, and Michael Michael, Concentration in International Trade, Amsterdam, North-Holland Publishing Company, 1962.

Table 1
Growth of Pakistan's Imports and Exports
1962-1972, Selected Years
(in mn \$)

Year	Imports	Exports
1962	738	397
1966	900	601
1970	1,171	695
1972	682	687

Source: UN Commodity Trade Statistics.

a single item claimed 67 p.c. In the total exports of Pakistan the share of jute was 41 p.c. If raw cotton is included, the combined share of these two commodities accounted for 52.4 p.c. of the country's total exports, reflecting not only the nature and level of an underdeveloped economy but also the degree of instability in Pakistan's foreign earnings so crucial for development programmes. The export performance of 1970 witnessed a decrease in the share of primary commodity exports to 43 p.c. and that of the crude materials to 31 p.c. Evidently, the expanding base of industrialisation in the country was retaining larger amounts of raw jute and cotton for domestic use.

The share of manufactured goods (SITC 6+8) in Pakistan's total exports in 1962 constituted 23 p.c. Jute and cotton textiles, including sacks and bags, alone accounted for 67 p.c. of this group of exports. The share of manufactured goods in Pakistan's total exports climbed to a seemingly impressive figure of 56 p.c. in 1970. Here again, this increase was predominantly confined to jute and cotton textiles, including sacks and bags, which constituted 75 p.c. of the total manufactured exports. The relative significance of this expansion of manufactured exports also loses much of its glamour when it is remembered that cotton yarn is included as a *manufactured* good and it alone claimed a share of over 22 p.c. within this group of exports. This reflects a very heavy commodity concentration in the export structure of Pakistan, putting the country into a vulnerable position as the international market for these commodities is characterised not only by heavy competition but also by increased substitution.

An analysis of the commodity composition of Pakistan's exports in 1972 offers an interesting comparison of the country's foreign trade structure after the separation of East Pakistan into a separate independent country. Although 1972 figures are not comparable to the previous ones, it is still relevant to look into the structural changes in Pakistan's foreign trade in 1972, as they throw an

interesting light on the general nature of the problem under analysis.

In spite of the fact that jute exports no longer existed on the export list of Pakistan, primary commodity exports constituted 45 p.c. of the country's exports still in 1972. Raw cotton alone claimed 54 p.c. of the primary commodity exports. The disappearance of raw jute exports had, as it appears, not brought any significant reduction in the overriding weight of primary commodities in the export structure of Pakistan. The share of manufactured goods in the total exports stood at 54 p.c., but again cotton manufactures alone constituted 61 p.c. of these exports. After jute manufactures had disappeared from the export list, cotton manufactures were increasingly replacing these goods. In development terms this means that the nature and level of diversification in the export structure of Pakistan throughout this period was insignificant and without much qualitative change that could generate and stabilise more

Table 2
Commodity Structure of Pakistan's Foreign Trade
1962-1972, Selected Years
(as percentage of total value)

	1962	1966	1970	1972
Percentage Composition of Exports by Commodities:				
Raw Jute	41.1	29.5	19.1	—
Raw Cotton	11.4	7.7	7.7	24.1
Rice	6.1	6.8	3.8	7.3
Fish and Fish Products	5.3	2.3	3.1	3.2
Raw Wool	4.5	1.8	0.9	0.8
Hides and Skins	3.1	0.6	0.6	0.5
Jute Goods	6.6	9.3	16.7	—
Cotton Yarn	0.6	4.0	9.4	20.7
Cotton Piece Goods	2.3	5.6	8.5	12.3
Leather and Goods	1.0	4.9	4.6	6.7
Floor Coverings	0.6	1.3	2.0	3.7
Sport Goods	0.8	0.7	1.0	1.7
Foot Wear	0.1	0.5	0.9	1.0
Bags, Sacks	9.9	12.5	7.5	0.5
Other Exports	6.6	12.5	14.2	17.5
Total	100.0	100.0	100.0	100.0
Percentage Composition of Imports by Commodities:				
Food	8.4	10.5	14.4	25.7
Beverages and Tobacco	0.4	0.3	0.2	0.2
Crude Materials mainly inedible, except fuel	5.1	3.9	4.9	5.7
Mineral Fuels etc.	8.4	5.9	6.4	7.8
Animal and Vegetable Oils and Fats	5.4	4.6	6.1	3.9
Chemicals	8.5	13.3	16.1	11.4
Manufactured Goods	21.9	20.9	17.9	18.5
Machinery and Transport Equipment	39.2	38.0	31.3	23.8
Miscellaneous Manufactures	2.7	2.4	2.5	3.0
Miscellaneous	—	0.2	0.2	—
Total	100.0	100.0	100.0	100.0

Source: Computed from UN Commodity Trade Statistics.

external resources. The question is open as to how far the increasing share of leather goods (6.7 p.c.) and floor coverings (3.7 p.c.) in 1972 could offer adequate and reliable cushions to the shaky export basis of Pakistan.

The commodity composition of Pakistan's imports and its development during this period exhibits in principle the same concentration on a few items. Food imports which claimed 8.4 p.c. of Pakistan's imports in 1962 went up to 14 p.c. in 1970, reflecting an increasing gap between the food production and consumption requirements of the country during the period under analysis. The relative import shares of crude materials and fuels in 1962 stood at 5.1 p.c. and 8.4 p.c., respectively, and their corresponding shares were 4.9 p.c. and 6.4 p.c. in 1970. Chemicals, on the other hand, doubled in their percentage share during this period. Imports of manufactured goods accounted for about one-fourth of the total imports of Pakistan in 1962 and their relative share declined to 18 p.c. in 1970, reflecting the impact of import-substitution programmes. The expanding programmes of industrialisation in Pakistan are reflected in the import share of machinery and transport equipment at 39.2 p.c. and 31.3 p.c. in 1962 and 1970 respectively. The decline in the relative share of this group of imports during this period should not, however, be taken as an increasing substitution through domestic production. As import-substitution programmes advanced, the quantum of imports became primarily a function of the output and not of real income. Consequently, an increasing segment of the import bill was being financed through foreign aid ².

The composition of imports in 1972 does not exhibit any basic changes in its structure. Food imports constituted 26 p.c. of the country's total imports, emphasizing once more the widening gap between the country's increasing food requirements and its inability to feed its population. Manufactured imports (SITC 6 + 8) constituted 18.5 p.c. of the total imports (21.9 p.c. in 1962) whereas the share of machinery declined to almost 23.8 p.c. in 1972.

In short, despite of more than a decade of economic planning Pakistan was importing in 1970 almost one-third of its capital goods requirements and one-fifth of the manufactured goods. That agriculture was persisting as a severe bottleneck is evident from the percentage share of food imports in 1970 which was higher than that of the crude materials and fuels combined.

² For detailed discussion of this point cf. S. N. H. Naqvi, *Devaluation Perspective: An Anatomy of Pakistan's Balance of Payments Problems*, In: *Pakistan Economic and Social Review*, No. 2 (1972), pp. 115-116.

Regional Foreign Trade Structure

An analysis of the geographic concentration of Pakistan's foreign trade reveals that the extent of diversification both in export and import markets during the period under review was too insignificant to bring about any fundamental change in the basic structure of Pakistan's foreign trade. On the export side, the United Kingdom was the major buyer in 1962 with 17.4 p.c., followed by the USA, Japan and the Federal Republic of Germany with 9.1 p.c., 6.3 p.c. and 4.8 p.c., respectively. Whereas the share of the USA climbed in 1970 to 12.1 p.c., the respective shares of the UK and the Federal Republic of Germany decreased to 10.6 p.c. and 3.7 p.c. The Japanese share, on the other hand, remained almost constant during this period. It is interesting to observe that the respective shares of EEC and EFTA decreased from 18.4 p.c. and 19.6 p.c. in 1962 to 13.2 p.c. and 13.1 p.c. in 1970. The share of socialist countries in Pakistan's exports increased from 4.9 p.c. in the fiscal year 1962-1963 to almost 17 p.c. in 1969-1970, pointing to desirable new outlets for Pakistan's exports ³. Within the group of socialist countries, however, the respective shares of USSR and China declined from 20.5 p.c. and 39.1 p.c. in 1962 to 15.4 p.c. and 25.2 p.c. during this period, reflecting the increasing weight of other countries in this group.

Table 3
Percentage Share of Region/Country in Pakistan's Foreign Trade

Region/ Country	1962		1966		1970		1972	
	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.
USA	38.0	9.1	29.1	11.5	30.8	12.1	22.3	5.1
EFTA:	20.1	19.6	19.3	13.1	13.0	13.1	12.2	10.6
UK	17.9	17.4	15.0	11.5	10.2	10.6	9.2	8.0
EEC:	15.7	18.4	19.1	16.1	17.8	13.2	17.2	14.0
FR Germany	9.3	4.8	10.3	4.0	10.2	3.7	8.8	3.8
Asia:	20.6	30.5	20.2	32.6	23.6	31.0	32.0	53.3
Japan	7.9	6.3	8.8	4.3	11.1	6.2	8.0	16.6
Middle East	6.2	7.8	2.7	7.0	5.5	8.3	8.5	10.2

Source: UN Commodity Trade Statistics.

Regarding imports, the USA has been the major market for Pakistan, claiming in 1962 a share of 38 p.c. in its total imports. Next came the UK with 18 p.c., followed by the Federal Republic of Germany and Japan with percentage shares of 9.3 and 7.9, respectively. In other words, almost three-fourths of Pakistan's imports came in 1962 from these four countries. Whereas the percentage shares of the USA and the UK declined in 1970 to 30.8 and 10.2 respectively those of the Federal Republic of Germany and Japan climbed

³ cf. Michael Kidron, *Pakistan's Trade with Eastern Bloc Countries*, New York 1972, p. 72-74.

to 10.2 p.c. and 11.1 p.c. Similarly, whereas the share of EFTA in Pakistan's total imports declined from 20.1 p.c. in 1962 to 13 p.c. in 1970, the relative share of EEC increased from 15.7 p.c. to almost 18 p.c. during the same period. The share of Asia also exhibited an upward tendency from 21 p.c. in 1962 to 24 p.c. in 1970. The year 1972 shows a considerable shift of Pakistan's foreign trade in favour of Asia. Whereas 32 p.c. of its imports came from Asia, over 53 p.c. of its exports went to the same region.

The imports of socialist countries from Pakistan which constituted 2.4 p.c. of the country's total exports in the fiscal year 1962–63 rose to 8.4 p.c. in 1969–70, indicating another dimension in the diversification efforts of Pakistan's foreign trade policy⁴. Within the socialist group of countries, USSR and China were the major customers. But this considerable quantitative expansion of exports during the late 1960s to socialist countries and Asia did not bring about any appreciable reduction in the export concentration of Pakistan as their percentage shares in the exports of Pakistan remained relatively minor.

Contrary to the empirical evidence elsewhere in the world, Pakistan's imports were geographically more concentrated than its exports⁵. This contradictory tendency is explained by the fact that a

major part of its imports was financed through foreign aid of a tied character. Consequently, in the fiscal year 1967–68, for instance, about 64 p.c. of Pakistan's total imports were coming from only four countries, e.g. the USA, the UK, the Federal Republic of Germany and Japan⁶. This situation has partially meant negative implications for export diversification efforts to raise the level of foreign earnings.

Our short analysis indicates that exports of Pakistan have been a weak sector in its development efforts during the period under review. The resulting balance of trade deficits have been financed by foreign aid with negative implications for other sectors of the economy. Efforts at diversification in terms of commodities have remained confined to the jute and cotton textiles with the result that demand and price fluctuations rendered export earnings always uncertain. Even regional diversification efforts have attained very limited success and eventually the efforts to abridge the gap in the commodity concentration of exports and imports so as to overcome underdevelopment have been very limited.

⁴ Ibid.

⁵ A. O. Hirschman, *National Power and the Structure of Foreign Trade*, Berkeley, California, 1945, and Michael Michael, *op. cit.*

⁶ Central Statistical Office, Pakistan, *Foreign Trade Statistics of Pakistan*, Karachi 1964, and various issues of *Monthly Statistical Bulletin*.

German Exports and Economic Development

by Dr Reinhold Sohns, Hamburg *

The influence of the export trade on the economic development since 1974 shows how greatly economic activities in the Federal Republic of Germany depend upon the situation abroad. In this context the author analyses the regional distribution and the goods structure of German exports and discusses their medium-term prospects.

In the past few years the export trade has had a particularly strong effect on the economic development in the Federal Republic. In 1974 when the real gross investment in fixed assets contracted by 8.2 p.c. compared with the preceding year and private consumption (+ 0.2 p.c.) was stagnant it was only by the unusually large increase of the export volume by 13.3 p.c. that a decline of real GNP (+ 0.4 p.c.) was prevented and unemployment was kept down to 2.6 p.c. In 1975 in contrast the volume of exports fell by 8.9 p.c. This led to a 4.8 p.c. decline of gross investment in fixed

assets, a contraction of real GNP by 3.4 p.c. and an unemployment rate (4.7 p.c.) not seen since the mid-fifties.

In 1976 the Federal Republic's economic recovery is once again buoyed by the foreign demand. The volume (at 1970 prices) of orders received from abroad has risen strongly since the middle of 1975. At mid-1976 it was — adjusted for seasonal variation — about 46 p.c. higher than in 1970. Home market orders on the other hand stagnate after a moderate revival in the autumn of 1975. At the middle of 1976 they showed hardly any in-

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