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# Pakistan

# Agricultural Situation

# 1999

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**Report Highlights:** Pakistan's economy performed well during PFY1997/98 with a growth rate of 5.4 percent. Agriculture grew at 5.9 percent while industry at 6.2 percent. During MY1998/99, wheat production is forecast at 18.7 million metric tones (MMT), rice at 4.65 MMT, sugarcane at 50.9 MMT and cotton at 7.2 million bales. Pakistan will continue to be a major wheat market and a potential market for the U.S. soybeans.

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Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
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## Situation and Outlook: General Economy

Pakistan's economy performed well in Pakistani Fiscal Year (PFY) 1997/98 (July-June), compared to the previous year. The real growth rate for 1997/98 was 5.4 percent, which was very close to the target. Agriculture recorded a growth rate of 5.9 percent, industry grew by 6.2 percent and the service sector by 4.8 percent. Inflation, as measured by the consumer price index (CPI), declined to 7.8 percent in 1997/98, compared to 11.8 in 1996/97 and the current accounts deficit declined from 6.2 percent of GDP in 1996/97 to 3.2 percent. The Asian financial crisis has had a negative impact, particularly on export revenues. Developments in May 1998, when Pakistan conducted nuclear tests, also had a major negative impact on the economy by reducing investors' confidence and constraining capital inflows. Since late 1997, the Pakistani rupee has depreciated 12 percent against the U.S. dollar since late 1997.

**Balance of Payments Situation**

Following nuclear tests, the imposition of financial sanctions by a number of countries has reduced capital inflows (both in the form of project financing and programmed lending by multilateral agencies), which is likely to increase the gap in Pakistan's balance of payments.

The trade deficit declined by 60.3 percent to $1,403 million in 1997/98, compared to $3,532 million in 1996/97. This decline resulted from the combined impact of a 15.3 percent fall in imports and a 3.6 percent rise in exports. Following the imposition of sanctions, the Government of Pakistan implemented a number of fiscal measures to moderate the effect of the sanctions. These measures include increases in the prices of petroleum products, adjustments in the telephone tariffs and a cut in expenditures. In the external sector, a 4.2 percent devaluation of the Pakistani rupee was supplemented by the introduction of a dual exchange rate. In addition, temporary exchange restrictions became necessary to maintain minimal foreign exchange reserves and some repayments were suspended.

Pakistan has adopted a liberal trade policy. Its aim is to integrate its economy with the global economy. As a result, most non-tariff barriers have either been abolished or substantially reduced. Tariffs, rather than quantitative restrictions, are used to regulate trade. The maximum tariff has been reduced to 45 percent.

**Foreign Exchange Policies and Reserves**

Pakistan maintained a managed floating exchange rate system until July 21, 1998. Since then, a multi-exchange rate system comprising of an official rate, a floating interbank rate and a composite rate has been introduced. The official exchange rate continues to tie the rupee to the dollar. The floating interbank rate (FIBR) is a step toward a market determined exchange rate system.

The State Bank of Pakistan manages the exchange rate in a manner that strikes a balance between the requirements of maintaining competitive exports while containing inflationary pressures. The Pakistani rupee was devalued by 8.0 percent on October 15, 1997 and by 4.2 percent on June 27, 1998. As of mid-January, 1999 the rupee/dollar exchange rate stood at rupees 46.00. As a part of foreign exchange reforms aimed at establishing a market-determined rate of foreign currencies, the State Bank of Pakistan abolished the mandatory control for setting exchange rates of all foreign currencies, other than the U.S. dollar, effective February 5, 1998. As a result of this action, individual banks and authorized dealers were allowed to determine their own exchange rates for various currencies (except the U.S. dollar) depending upon market conditions.

After Pakistan's nuclear tests, a state of emergency was declared and foreign currency accounts were frozen. The ensuing financial sanctions imposed by a number of countries lead to an increase in speculative demand for dollars, further intensifying pressure on the Pakistani rupee, which touched a record low level of 62.5 per U.S. dollar.

Following the tests, foreign exchange receipts declined from export sales, worker remittances, and private capital investment. In July 1998, the GOP made a policy decision to default on some debts by delaying payments and accumulating arrears. By late November 1998, official foreign exchange reserves had fallen to 400 million dollars.

**Political Issues Affecting the Business Climate**

As a result of new elections, the Nawaz Sharif government was formed on February 3, 1997. This government has introduced a number of measures to maintain the confidence of the business community. Trade policy has been revised to increase exports by 15 percent to USD 9.575 billion. A number of concessions to encourage exports, including a special package of duty reductions, a package of agricultural policy reforms and other measures to revive the economy were introduced. These measures are designed to improve the business situation in the country, attract foreign investments and provide security to domestic and foreign investors. However, despite these efforts, continuing sectarian and judicial crises led to a deterioration of law and order, which reduced investor confidence and led to lower domestic and foreign investment.

**Situation and Outlook for the Agricultural Sector**

Pakistan covers a total area of 79.61 million hectares, of which 21.6 million hectares is cultivated. The irrigation system to support this cultivation is one of the largest in the world. There are two principal crop seasons: the "Kharif" season starts in April-June and ends in October-December while the "Rabi" season starts in October-December and ends in April-May. The major crops are wheat, cotton, rice, sugarcane, gram, corn, sorghum, barley, rape seed and mustard and tobacco while the minor crops include pulses, potatoes, onion, chillies, and garlic. Agriculture remains the dominant sector of the economy and accounts for around 24 percent of GDP, half the employed labor force, and a large share of foreign exchange earnings. Agricultural production also provides basic inputs for key industries, including textiles and sugar.

Pakistan is a net importer of agricultural commodities. Annual imports total about two billion dollars and include wheat, edible oils, sugar, pulses and high-value, consumer-ready food products.

During 1997/98, the agricultural sector grew by 5.9 percent. Production of major crops grew by an estimated 8.4 percent. The fertilizer usage increased 7 percent to 2.032 million nutrient tons and agricultural credit disbursement increased 19 percent to rupees 23.328 billion, compared to last year. The following table compares input utilization for the past three years.

Table 1: Agricultural Input Use

| | 1995/96 | 1996/97 | 1997/98 |
|---|---|---|---|
| Cropped Area (million hectares) | 22.59 | 22.93 | 22.93 |
| Water Availability (million acre ft) | 30.85 | 132.85 | 133.28 |
| Fertilizer Usage (‘000 mt) | 2,507.70 | 2,409.08 | 2,032.27 |
| Nitrogen | 1,983.55 | 1,985.10 | 1,602.80 |
| Phosphorous | 494.45 | 419.51 | 414.86 |
| Potash | 29.70 | 4.47 | 15.10 |
| Pesticide imports (mt) | 3,047.90 | 30,855.90 | 18,195.20 |
| Improved Seed Distribution (000 mt) | 76.25 | 66.00 | 66.00 |

In an attempt to arrest deteriorating growth in the agriculture sector, the GOP has announced a comprehensive package of incentives to boost agricultural production. This package includes increases in support prices for various crops, relief in the prices for key agricultural inputs, improved availability of agricultural credit, better irrigation and drainage facilities, and measures to check the adulteration of fertilizers and pesticides. These steps are expected to lower food imports.

## Situation of Major Crops:

**Wheat:** Pakistan’s Marketing Year (MY)1998/99 (May-Apr) wheat production forecast is 18.7 million metric tons (MMT). The increase is mainly the result of a 2.3 percent increase in area, combined with a substantial increase in yield.

Table 2: Wheat Area ('000 ha) and Production ('000 MT) by Province

| Wheat | MY 1997/98 | | MY 1998/99 (Forecast) | |
|---|---|---|---|---|
| Province | Area | Production | Area | Production |
| Punjab | 5,840 | 12,371 | 5,935 | 13,807 |
| Sindh | 1,107 | 2,444 | 1,120 | 2,659 |
| NWFP* | 843 | 1,064 | 918 | 1,356 |
| Balochistan | 320 | 771 | 382 | 872 |
| Total | 8,110 | 16,650 | 8,355 | 18,694 |
| *NWFP is North West Frontier Province | | | | |

Source: 1997/98: Ministry of Food, Agriculture and Cooperatives.
1998/99: FAS/Islamabad.

Pakistan will continue to be a major U.S. wheat market in MY 1998/99 and for the foreseeable future. Pakistan requires an average of two million metric tons of wheat imports annually to supplement domestic supplies in order to maintain an acceptable level of reserves, and to cope with rising domestic consumption requirements. The primary suppliers of wheat to Pakistan are the United States and Australia.

Competitors are offering improved credit terms and financing schemes to market their wheat to Pakistan. At the same time, the GOP will keep its door open for alternative suppliers to minimize reliance on a few sources. Thus far, the availability of GSM-102 credit guarantees has been used very effectively to counter attempts to negotiated purchases from other sources.

Sources expect Pakistan's import requirement will become more diverse in the future to include harder wheats needed for specialty products. The opening of a number of fast food franchises in Pakistan has increased demand for high quality flour. Mills have traditionally supplied this market with marginal quality flour produced from local wheat. Bakers have used imported gluten to improve local flour. Local bakers are increasingly looking to import flour or hard wheat to better serve this market.

Pakistan's FY 98 GSM-102 allocation was sufficient to meet MY1997/98 import requirements. Early indications from the Ministry of Food are that Pakistan will require more than $250 million of GSM-102 for wheat in FY 99.

**Rice:** MY 1998/99 rice production is estimated at 4.65 MMT, compared to 4.33 MMT in 1997/98. Increased production is attributed to improved yields due to timely planting, the lack of insect problem, and a decline in soil salinity due to summer rains.

Table 3: Rice Area ('000 ha) and Production ('000 MT) by Province

| | Area | | | Production (milled basis) | | |
|---|---|---|---|---|---|---|
| Province | 1996/97 Estimate | 1997/98 Prelim | 1998/99 Forecast | 1996/97 Estimate | 1997/98 Prelim | 1998/99 Forecast |
| Punjab | 1,355 | 1,410 | 1,450 | 1,864 | 1,948 | 2,114 |
| Sindh | 702 | 689 | 704 | 1,962 | 1,841 | 1,990 |
| N.W.F.P. | 65 | 67 | 68 | 124 | 130 | 132 |
| Balochistan | 130 | 151 | 152 | 356 | 414 | 414 |
| Total | 2,252 | 2,317 | 2,374 | 4,306 | 4,333 | 4,650 |

Source: Ministry of Food, Agriculture and Cooperatives
FAS/Islamabad

Pakistan is famous for its long grain aromatic Basmati rice. In addition there are sizeable quantities of IRRI rice exports. Pakistan ranks 5th among rice-exporting countries. Export earnings from rice exports are estimated at about 5 percent of the annual foreign exchange earnings from the export of goods. Pakistan faces competition from Thailand, and Vietnam in the export of coarse rice and from India in the Basmati rice trade. Pakistan is not a market for U.S. rice.

**Cotton:** Pakistan's MY1998/99 cotton production is estimated to have increased marginally despite a decline in area due to better yields.

Table 4: Cotton Area ('000 ha) and Production ('000 MT) by Province

| | 1996/97 (Revised) | | 1997/98 (Revised) | | 1998/99 (Forecast) | |
|---|---|---|---|---|---|---|
| Province | Area | Prod. | Area | Prod. | Area | Prod. |
| Punjab | 2,540.0 | 1,208.0 | 2,348.4 | 1,159.5 | 2,314.0 | 1,263.8 |
| Sindh | 601.0 | 383.0 | 600.3 | 397.0 | 630.2 | 297.7 |
| NWFP | 0.3 | 0.1 | 0.5 | 0.1 | 0.5 | 0.2 |
| Baloch. | 6.9 | 3.4 | 10.5 | 5.2 | 10.5 | 5.1 |
| Total | 3,148.2 | 1,594.5 | 2,959.7 | 1,561.8 | 2,955.2 | 1,566.8 |

Source: 1996/97 and 1997/98: Ministry of Food and Agriculture.
1998/99: FAS/Islamabad.

Cotton consumption for MY 1998/99 is forecast stable at 7.2 million bales due to higher domestic prices and increased consumption of polyester. MY 1998/99 exports are forecast at 75,000 (480 lbs.) bales.

**Sugarcane:** MY 1998/99 sugarcane production is forecast at 50.93 MMT. Growing conditions reportedly have been poor due to the lack of monsoon rains and inadequate irrigation supplies. Thus, despite an increase in area, production is expected to decline.

Table 5: Sugarcane Area (‘000 ha) and Production (‘000 MT) by Province

| | Area | | | Production | | |
|---|---|---|---|---|---|---|
| Province | 1996/97 | 1997/98 | 1998/99 | 1996/97 | 1997/98 | 1998/99 |
| Punjab | 604.2 | 685.2 | 800.0 | 24,010 | 32,111 | 31,000 |
| Sindh | 251.2 | 261.6 | 272.1 | 13,110 | 16,000 | 15,000 |
| N.W.F.P. | 108.4 | 108.6 | 109.0 | 4,842 | 4,957 | 4,900 |
| Baloch. | 0.7 | 0.7 | 0.7 | 36 | 38 | 35 |
| Total | 964.5 | 1,056.2 | 1,181.2 | 41,998 | 53,106 | 50,935 |

Source: Ministry of Food and Agriculture
FAS/Islamabad

MY 1998/99 refined sugar production of 3.64 MMT (raw value basis) is expected to be below MY 1997/98's output as a result of lower cane production and lower recovery rates. MY 1998/99 exports of sugar are forecast to increase to 700,000 as a result of adequate production, large carry over stocks and government incentives designed to enhance exports to earn needed foreign exchange.

**Oilseeds**: MY 1997/98 oilseed production is forecast to increase 17 percent to 3.90 million tons. MY 1997/98 cottonseed production, a major oilseed crop, is expected to increase 18 percent to 3.5 million tons based on normal weather conditions and decreased losses from disease. Sunflower cultivation is likely to increase 12 percent to 95,000 MT in MY 1997/98. MY 1997/98 rapeseed production, the second major oilseeds crop, is forecast to increase 3 percent to 350,000 MT.

Based on better prospects for oilseed production, MY 1997/98 oilmeal production is expected to increase 16 percent to 1.56 million tons. There is currently a shortage of soybean meal in the country. Available supplies are about half of the actual requirements of 250,000 MT. Post is interested in using PL-480 (Title I) to market soybeans to Pakistan.

Domestic production of edible oils during MY 1997/98 is likely to increase 11 percent to 424,000 MT. Total consumption requirements are calculated at 1.8 million tons. The country needs to import about 1.4 MMT of edible oil to meet domestic requirements.

The GOP has been trying various programs to increase domestic production of edible oil seed crops. However, Pakistan will remain a major oil and meal importer for the foreseeable future.

Pakistan has emerged as a new market for U.S. soybeans. The GOP now allows duty-free import of soybeans. Post will continue to facilitate imports of soybeans in FY 99 to increase availability of feed protein and vegetable oil through value-added trade incentives.

**Fisheries:** 1997/98 production of marine and inland fish is estimated at 590,000 MT. Marine fish account for 70 percent of total fish production. Pakistan's fish product exports increased 37 percent to rupees 7.27 billion during 1998. The GOP has taken a number of steps to increase fish production, including strengthening infrastructure, improving extension services, and introducing aquaculture techniques.

**Livestock:** During 1997/98, livestock's production contributed about 38 percent to value-added agricultural production and about 10 percent to GDP. Principal products are milk, beef, mutton, poultry, and wool. It is estimated that during 1997/98 about 22 MMT of milk, 1,082,000 MT of beef, 1,075,000 MT of mutton and 324,000 MT of poultry meat were produced.

During 1997/98, the livestock population increased 3.1 percent to 126.4 million. In an effort to enhance milk and meat production, the GOP recently launched a comprehensive livestock development project with assistance from the Asian Development Bank.

Poultry production grew by more than 10 percent during 1997/98. Poultry is an increasing popular alternative to beef and mutton. Modern poultry production in Pakistan is constrained by high flock mortality, a high incidence of disease, poor quality of day old chicks and the high cost of feed, combined with an inefficient marketing system.

**Forestry:** Pakistan's forests cover an estimated 4.20 million hectares or 5 percent of the total area. The forest sector contributed about 0.2 percent of GDP during 1997/98. Principal forestry products are timber used in house construction, furniture and firewood. Under a massive reforestation program, 250 million saplings are being raised by the provincial Forest Departments for supply to public and private sector organizations. To increase Pakistan's forestry resources, the government provides a number of incentives, including subsidized planting stocks, partial payments of planting cost and free protection of planted areas.

## Situation and Outlook for the Commodity Grouping

Most of the issues addressed in this section have been reported in the scheduled and alert commodity reports. Other required issues are discussed in "Agricultural Outlook and Policy Changes" sections of this report. The remaining issues are discussed below.

### Feed Grains

Higher profitability for competing crops, including cotton, rice and sugarcane in irrigated areas, have confined feed grains production primarily to the rainfed areas. The only exceptions are the large cotton farmers in the Punjab, who prefer to keep land fallow after cotton or to plant spring hybrid corn.

Owing to their lower profitability, feed grains generally are considered a marginal crop. Sorghum and millet are grown mainly on rainfed areas or planted in areas with no other alternative. Input usage generally is minimal. Corn is the only feed grain which has attracted the interest of researchers and farmers due to its increasing industrial utilization and good returns. A number of private sector companies are doing extensive work on the adoption of higher yielding hybrid varieties. In addition to industrial uses of corn for glucose, starch and corn gluten, feed grains, demand by the poultry sector has increased substantially. Corn is primarily planted in the North West Frontier Province (NWFP) under rainfed conditions and in some irrigated areas of Punjab Province. Sorghum and millet are mainly grown in Sindh Province.

Table 6: Feed Grain Area (‘000 ha) and Production (‘000 MT)

| | Area | | | ProductIon | | |
|---|---|---|---|---|---|---|
| Feed Grain | 1995/96 | 1996/97 | 1997/98 | 1995/96 | 1996/97 | 1997/98 |
| Corn | 881.0 | 872.0 | 868.6 | 1,238.0 | 1,260.0 | 1,251.2 |
| Sorghum | 418.0 | 370.0 | 390.3 | 255.0 | 219.0 | 231.3 |
| Millet | 407.0 | 303.0 | 460.0 | 162.0 | 146.0 | 211.3 |

**Pulses**

Pulses are grown under rainfed conditions on marginal lands with low input use. MY 1996/97 pulse production increased marginally over the previous year to 921,000 MT. Pulses are a minor crop in Pakistan and their production is heavily dependent on planting weather.

Table 7: Pulse Area (‘000 ha) and Production (‘000 MT)

| Commodity | Area | | | Production | | |
|---|---|---|---|---|---|---|
| | 1995/96 Est | 1996/97 Prelim | 1997/98 Forecast | 1995/96 Est | 1996/97 Prelim | 1997/98 Forecast |
| Garbanzos | 1,118.9 | 1,120.0 | 1,102.3 | 679.6 | 680.0 | 767.1 |
| Beans | 257.3 | 260.0 | 244.0 | 119.0 | 120.0 | 114.7 |
| Peas | 142.0 | 142.0 | 140.3 | 78.3 | 79.0 | 81.8 |
| Lentils | 65.5 | 65.0 | 64.8 | 34.0 | 34.0 | 37.1 |
| Others | 15.3 | 15.5 | 12.8 | 7.7 | 8.0 | 6.7 |
| Total | 1,599.0 | 1,602.5 | 1,564.2 | 918.6 | 921.0 | 1,007.4 |

Pakistan imports more than 100,000 MT of pulses annually. Afghanistan, Australia, Turkey, Canada, Syria and China are the major suppliers. Pakistan is expected to remain an importer for the foreseeable future. A market opportunity may exist for U.S. exporters of chick peas and lentils. U.S. exporters should note that Pakistan is a price sensitive market.

Pakistan is a regular importer of pulses. The major constraints to U.S. exports include: (a) relatively high FOB prices, (b) higher freight charges compared to other suppliers, © the United states lack adequate supplies of Tyson Chickpeas (which are preferred by Pakistani consumers), and (d) the need for foreign exchange risk coverage for six months under GSM-102.

**Composition of Trade**

Wheat accounts for more than 90 percent of U.S. agricultural exports to Pakistan, followed by cotton, livestock and products, planting seeds, tobacco, and forest products. Pakistan will continue to be a growing market for imported agricultural commodities, especially grains, livestock products, and soybeans. Pakistan also has emerged as a new market for U.S. soybeans and soybean meal. During 1996, 10,000 MT of U.S. soybeans were commercially imported and 32,000 MT under the PL-480 (Title I) program.

**Changes in Policy**

The government intends to provide a framework to increase agricultural productivity. The government has designed and introduced the following policy measures to attain these development objectives:

**Tariffs and Import Levies**

Imports of most agricultural products are allowed under the government's official import policy for FY 1997/98. For 1997/98, the GOP reduced the maximum tariff rate from 65 percent to 45 percent. Import duty is charged on almost all agricultural products at varying rates. However, the GOP allows duty-free import of sensitive commodities, including wheat, and sugar. The GOP also allows the duty-free import of oilseeds, including soybeans, in order to utilize the idle capacity of the processing industry and increase domestic production of oilseeds.

Pakistan also imports substantial quantities of high value products (i.e., cereals preparations, vegetables, fruit, and tobacco products) from various countries, including the United States. The tariff rate on these products varies from 15 - 45 percent with a sales tax of 15 percent.

**Trade Barriers**

Pakistan maintains a complex system of indirect taxes in the trade sector. High basic tariffs, additional surcharges, a variety of excise taxes and a sales tax with different applicability on domestic and foreign goods combined to distort prices in domestic markets and to protect domestic infant industries. In June 1997, the GOP reduced the maximum tariff from 65 to 45 percent. These tariff rates still impede commercial imports of many agricultural products. Imports of most agricultural commodities that compete with domestic production are regulated through frequent upward and downward revisions in tariff rates to protect domestic producers from foreign competition and to save scarce foreign exchange.

The government has opened trade to the private sector but restrictions still exist in the form of prohibitive import duties. These duties are being reduced or removed on a case by case basis . Several items are still banned from import but mostly for religious reasons. The imports of pork, liquor, and other products deemed offensive to Muslims are restricted or banned. The importation of most high value products is permitted but the public is generally unaware of these products and traders have yet to explore this potential market. U.S. dairy products are one example of a potentially attractive market.

There are no discriminatory trade barriers for the import of agricultural commodities from the United States. Rather, in many cases, the GOP follows U.S. standards for grades and classes in making import decision and fixing minimum specification to be met by the private sector.

Pakistan is a strong supporter of trade multi-literalism and has signed the charter of new World Trade Organization (WTO). Pakistan has initiated steps to liberalize its economy with a view to integrating it with the global economy.

**Exchange Rates:**

PFY 1996/97 1$U.S.= Rupees 39.00
PFY 1997/98 1$U.S.= Rupees 43.18
Current 1$U.S.= Rupees 46.23
1 Pak cotton bale = 375 lbs. or .7807956 of a 480-lb. bale.