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No. 2

Pakistan's Barter Trade

By

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The decline of about 44 percent, in the index of Pakistan's income terms of trade,¹ between 1952/53 to 1960/61, has made necessary vigorous measures to promote and diversify exports, so that an increasing amount of foreign exchange could be made available through domestic efforts. One aspect of export policy directed toward this end has been the conclusion of bilateral agreements designed to make possible the import of more capital goods by improving the balance of payments position.

Prior to 1958 important agreements were signed with India, Italy, Austria, Egypt, Poland, Japan, Spain, Switzerland, Ceylon, West Germany and France. These agreements however, were mostly of the permissive type in which the two governments attempted to promote trade and commercial relations under the rules and regulations prevailing in the respective countries. Consequently, export and import licenses up to certain quantities or monetary limits were made available without any firm commitment to buy these amounts, and payments were to be settled mostly in pound sterling. In case of agricultural commodities agreements were applicable only for normal crop years.

Since 1958 Pakistan has entered into a number of trade agreements of the barter type. Of these some were with countries belonging to Communist bloc, with whom any sizeable trade outside bilateral agreements is not likely. Others were with countries with whom Pakistan had regular trade relations.² It appears that the world recession of 1958 encouraged the conclusion of these trade agreements, characterised by a strict form of bilateralism.

The purpose of this paper is to study those bilateral agreements since 1958 which involve a strict form of negotiated trade and payments regulations between governments to achieve a predetermined quantitative ratio between their respective exports. Henceforth, these will be referred to as barter agreements. An attempt will be made to evaluate the consistency of Pakistan's barter trade policies with the general economic policy of the country. Accordingly an analysis is undertaken of the extent to which barter trade has affected the magnitude and direction of total trade with barter countries, and also the extent to which it has been successful in changing the structural pattern of our exports. Finally, an attempt is made to speculate on the future prospects of barter trade and its composition, especially with Communist countries.

1 Index of Export Earnings, base for the numerator and denominator is 1952/53, and denominator is the average of quarterly indices shown in Central Statistical Office, Statistical Bulletins.

2 The following are countries with whom important barter agreements have been concluded:

Communist countries: Czechoslovakia, USSR, China (Mainland), Poland, Hungary, Yugoslavia.
Non-Communist countries: Lebanon, Holland, Portugal, Austria, Egypt, Syria.

Mr. Matlub Hussain, Staff Economist of the I.D.E. (currently on leave at Vanderbilt University), collaborated with the author in the initial stages of this study. The present author is deeply indebted to Dr. John H. Power, Research Adviser I.D.E., for making many valuable comments and suggestions on an earlier draft of the paper, but the author alone, however, is responsible for the views expressed in this study.

II

In Pakistan's barter trade negotiations, the commodities involved are specified in detail and periods or dates of shipment are fixed. The prices of Pakistan's imports are normally settled in advance (especially with communist countries), while those of exports are usually left to be negotiated separately between importers and exporters. The Government, however, exercises its influence to ensure that export prices are competitive and in accordance with the terms and conditions of world market. The prices are expressed mostly in pound sterling and the shipments are invoiced accordingly. The payments are made through non-convertible accounts, which is supposed to ensure an eventual bilateral balance. In case the balance is not reached within the stipulated period, the defaulter normally pays an interest charge on the accumulated non-convertible balance.

Normally barter agreements are on a Government-to-Government basis and represent the bulk requirements of certain essential commodities and the requirements of some government or semi-government departments which get separate foreign exchange allocations. Thus barter agreement may be negotiated at a departmental level or through some central agency which circulates these requirements and the commodities offered in exchange to the representatives of the various countries who are interested in barter agreements.

Though all agreements are negotiated on a government-to-government basis, some do not represent entirely the requirements of government or semi-government organizations. Participation of private businessmen to fulfil the quantities agreed in barter deals is often invited. The government, however, protects the interests of private businessmen by exercising its influence where needed.

III

Barter trade plays a very small role in the total trade of the country. The share of exports under barter agreements amounted to only 2.0 per cent of total exports in the year 1959, and that of imports to 1.8 per cent. In the year 1960, the share of barter in total trade was only slightly higher at 3.4 per cent of total exports and 2.05 per cent of

total imports. The year 1961 saw a considerable decline in this percentage as the share of agreed barter exports and imports to total exports and imports declined to less than 1 per cent.

While, barter trade is a small fraction of total trade, because of the trading practices of some countries, especially those belonging to the communist bloc, barter trade forms a significant portion of Pakistan's total trade with them. In 1959 and 1960, trade with Czechoslovakia was substantially in the form of barter agreements. For the year 1959, agreed barter imports from China amounted to 20 per cent of Pakistan's total imports from China. In 1960, barter imports amounted to 19.1 per cent of total imports from Hungary, 25 per cent of total imports from USSR, and 21 per cent from Yugoslavia. Furthermore, these are countries whose international trade has been growing very rapidly.

In 1959 the percentage share of communist countries in Pakistan's barter trade was 94.7 per cent though it declined to 45.8 per cent in 1960, and in 1962 49.1 per cent. Although the share of non-communist countries in barter trade was equal to that of communist countries in 1960 and 1962, its percentage in their total trade was low, so as to suggest no significant impact of barter trade on their total trade with Pakistan.

The figures shown in Table 1, help to clarify the relation of trade under barter agreements to total trade. We will be concerned especially with communist barter countries. For the study of barter trade in relation to overall tradewith barter countries, the years 1953-61 have been divided into t three periods i.e., predevaluation (1953-55), post-devaluation to depression of 1958 (1956-58), and barter period after 1958 (1959-61), thus avoiding the effects of erratic annual fluctuations in data. Table 1 shows that Pakistan's total exports have been increasing over the entire period 1953-61. It also shows that exports to barter countries increased only very slightly from the first period to the second but much more rapidly from the second to the third when barter trade was introduced.

Table 1

Pakistan's Foreign Trade with Barter and Non-Barter Countries
(Index based on 1953-55 = 100)

(Value in million rupees)

Period Exports/Imports	BARTER COUNTRIES								Total Non-Barter Countries		Total Trade	
	Communist Countries		Non-Communist Countries		Total Barter Countries		Value	Index	Value	Index		
	Value	Index	Value	Index	Value	Index						
1. 1953-55												
1. Exports	309	100	104	100	413	100	3733	100	4146	100		
2. Imports	28	100	72	100	100	100	3249	100	3349	100		
Balance	281		32		313		484		797			
2. 1956-58												
1. Exports	299	97	132	127	431	104	4209	113	4640	112		
2. Imports	107	378	150	210	257	257	5633	176	5890	176		
Balance	192		-18		174		-1424		-1250			
3. 1959-61												
1. Exports	346	112	228	219	574	139	4720	126	5294	128		
2. Imports	183	644	195	272	378	378	7471	230	7849	234		
Balance	163		33		196		-2751		-2555			

Source: Central Statistical Office Bulletin 1953-62.

Furthermore, the increase in exports to barter countries from the second to the third period was greater than the increase to non-barter countries. Therefore, it is tempting to suggest that barter deals in 1959-61 were responsible for increasing exports to barter countries.

Pakistan's imports from barter countries increased much more in the second period than the third when barter deals were concluded. However, the increase in imports in the third period from barter countries was greater than the increase from non-barter countries.

The effect on the magnitude of total trade with barter countries can however be more closely analyzed by examining trade with communist and non-communist countries. We can not determine from the data however, the extent to which barter deals were an addition to or diversion from exports to non-barter countries.

Table I suggests that the effect of barter deals on the magnitude of trade with communist countries was felt mostly on imports. Table 2 shows that the absolute increase in imports in 1959-61 was almost matching to agreed barter imports. However, imports also increased by about the same absolute

Table 2
(In million rupees)

	Increase in Exports 1959-61 over 1956-58	Increase in Imports 1959-61 over 1956-58	Agreed Barter Trade
Communist countries	47	76	77
Non-Communist countries	96	45	36

Source: Table I

magnitude in 1956-58, suggesting that the increase in 1959-61 might have taken place even without barter deals.

Increase in exports to Communist countries in 1959-61 fell short of agreed barter trade, suggesting that a significant portion of the increase might have been made under other trading arrangements. However, exports to communist countries had declined by 3 per cent in 1956-61. And yearly data in Table 3 shows that total exports to communist countries declined substantially in 1959 and barter exports being

46.8 per cent of total exports, might have arrested further decline. In 1960 and 1961 total exports to Communist countries were substantially above the

Table 3

Barter and Non-Barter Exports to Communist Countries

(In thousand rupees)				
Year	Non-Barter Exports	Barter Exports	Total Exports	Percentage of barter to total exports to Communist countries
1955	131971		131971	
1956	100344		100344	
1957	97253		97253	
1958	101222		101222	
1959	33319	29379	62698	46.8
1960	121409	29299	150709	19.4
1961	114379	18600	132279	14.0

Source: CSC Bulletin and unpublished data.

level of previous years, and non-barter exports, were slightly above the average of 1955-59. Hence, barter exports might have arrested further decline in 1959 and in 1960 and 1961 might have only slightly increased the level of total exports to Communist countries.

Table 2 shows that the increase in exports to non-Communist countries in 1959-61 was far in excess of agreed barter trade, suggesting that other causes such as the Export Bonus Scheme were important. However, table I shows that exports to non-communist countries in 1959-61 increased much more than to all non-barter countries, suggesting that barter trade did have some influence on the level of exports to non-communist countries.

Increase in imports from non-Communist countries in 1959-61 was a little more than agreed barter trade, but was considerably less than the increase in 1956-58.

IV

Balance of Trade

It is perhaps instructive to describe the balance of trade with Communist countries. Pakistan had an export balance with communist countries over the entire period 1953-61. However, previous to 1959, balances were

settled in convertible currencies. The export balance with communist countries was reduced in 1959-61 and this may have been due to barter deals which aim at maintaining a trade balance. If, however, out of the present (1959-61) export balance a part is of barter trade, it amounts to a capital outflow from Pakistan. It is not possible to estimate capital flows in either direction in Pakistan's barter deals, however, since we lack adequate information.

V

Table 4 shows that the composition of exports to non-barter countries was heavily biased towards jute and cotton in 1953-55. However, the percentage share of 'other commodities' in total trade of non-barter countries increased somewhat in period two and three, due mainly, to an absolute decline in raw cotton exports and to an absolute increase in the exports of 'other commodities'. However, the pattern of exports as to primary versus other commodities, to barter countries, changed relatively little, except that, the share of raw cotton declined, while that of raw jute increased over 1953-62. Within barter countries, non-Communist countries had a larger share of 'other commodities' than Communist countries over 1953-62, although the percentage increase of 'other commodities', in 1959-62, was higher to Communist countries than to non-Communist countries.

The composition of exports under barter agreements, has been even more concentrated in traditional products such as raw jute and raw cotton. Manufactured products have had only a very small share in the barter trade whereas other primary commodities, such as goatskin, raw wool and cotton yarn, had a significant share only in 1959. Barter agreements concluded in 1962, did not include manufactured products or primary commodities other than jute and cotton. It is also interesting to compare the weight of jute and cotton in barter trade with that in total trade from 1959-62. Table 5 and 6 show that it was much higher in barter trade than total trade. Barter deals apparently have not helped in diversifying Pakistan's exports.

It may be suggested that barter deals were concluded so as to increase total demand for raw jute, thus counteracting the export demand lag for raw jute in the world market. It however, remains to be seen whether an export demand lag for jute actually existed during the years barter deals were

-8-
Table 4

Composition of Pakistan's Exports (Average Annual Rate)
(1953-55 = 100)

(Value in thousand rupees)

Period Commodity/Index	BARTER COUNTRIES							
	Communist countries		Non-Communist Countries		Total Barter Countries		Non-Barter Countries	
	Value	Per cent of the total	Value	Per cent of the total	Value	Per cent of the total	Value	Per cent of the total
I. 1953-55								
1. Raw Jute ..	28,614	27.8	20,213	58.3	48,827	35.5	5,52,360	44.5
Index ..	100		100		100		100	
2. Raw Cotton ..	69,249	67.3	6,747	19.4	75,996	55.2	4,29,043	34.6
Index ..	100		100		100		100	
3. Other Commodities ..	5,096	4.9	7,730	22.3	12,826	9.3	2,59,608	20.9
Index ..	100		100		100		100	
II. 1956-58								
1. Raw Jute ..	54,455	54.7	29,086	66.1	83,541	58.2	7,07,275	50.4
Index ..	191		143		171		127	
2. Raw Cotton ..	43,518	43.7	1,592	3.6	45,110	31.2	2,66,896	19.1
Index ..	62		23		59		60	
3. Other Commodities ..	1,633	1.6	13,310	30.3	14,943	10.6	4,28,899	30.9
Index ..	32		172		116		164	
III. 1959-62								
1. Raw Jute ..	72,220	70.8	51,361	70.8	123,581	71.8	6,43,352	41.2
Index ..	240		248		253		116	
2. Raw Cotton ..	22,337	22.4	2,813	3.9	25,650	13.7	1,33,234	8.4
Index ..	33		41		33		31	
3. Other Commodities ..	6,934	6.8	18,401	25.3	25,335	14.5	7,91,621	50.4
Index ..	135		238		197		304	

Source: Central Statistical Office Bulletin 1953-62.

Table 5

Composition of Pakistan's Exports Under Barter Agreements

Year	Total Exports under Barter Agreements	RAW JUTE		RAW COTTON		MANUFACTURED PRODUCTS		OTHER COMMODITIES			
		Value of Exports	Exports under barter agreements as per cent of total jute exports	Per cent of total barter trade	Value of Exports	Exports under barter agreements as per cent of total cotton export	Per cent of total barter trade	Value of Exports	Per cent of total barter trade	Value of Exports	Per cent of total barter trade
1959	30,979	14,650	2.1	47.1	11,829	9.8	37.4	400	1.3	4,100	14.2
1960	63,864	44,231	3.4	69.2	13,624	9	21.1	3,708	5.8	2,301	3.9
1961	18,600	18,600	2.1	100	-	-	-	-	-	-	-
1962	14,298	7,024	1.9	49.9	8,274	3.3	51.1	-	-	-	-
Total	1,27,741	84,505		66	32,727		25	4,108	3.8	6,401	5.2

Source: Ministry of Commerce.

TABLE 6

Share of Raw Jute and Raw Cotton in Pakistan's Total Exports

Year	Total Exports	Raw Jute	% of the total	Raw Cotton	(In 'thousand' rupees)
					% of the total
1959	15,27,127	6,80,137	44.5	1,32,670	8.6
1960	18,72,984	8,06,283	43.4	2,30,276	12.3
1961	19,04,042	8,96,454	46.5	1,03,275	5.4
1962	16,72,225	6,89,000	44.4	2,00,000	11.8
Total 1959-62 (weighted average)	69,76,378	30,71,874	44	6,66,221	9

Source: Central Statistical Bulletin 1959-62.

concluded. A recent study³ concludes that the case of Jute 'fits nicely into the Nurksian theme of demand deficiency'.

Table 7

Statistical Position of Jute Since 1956/57.
(Million bales of 400 lbs.)

Year	World Production	Pakistan's Production	Percentage of (3) to (2)	Domestic Utilization	Pakistan's Exports	World Trade	Percentage of (6) to (1)	Price (£ per L. ton)
1	2	3	4	5	6	7	8	9
1956-57	12.8	5.5	43.7	1.10	4.07	4.20	96	114
1957-58	13.9	6.2	44.4	1.24	4.57	4.86	94	110
1958-59	15.5	6.0	38.7	1.51	4.09	4.62	88	111
1959-60	14.4	5.5	38.9	1.80	4.00	4.52	88	141
1960-61	15.6	4.5	28.8	2.1	2.4	N.A.	-	129

Sources (3,5,6)= Jute situation, Ministry of Agriculture, Government of Pakistan, (2,7)=FAO Trade Yearbook-1961, (9) = Economic Bulletin for Asia and the Far East-1961.

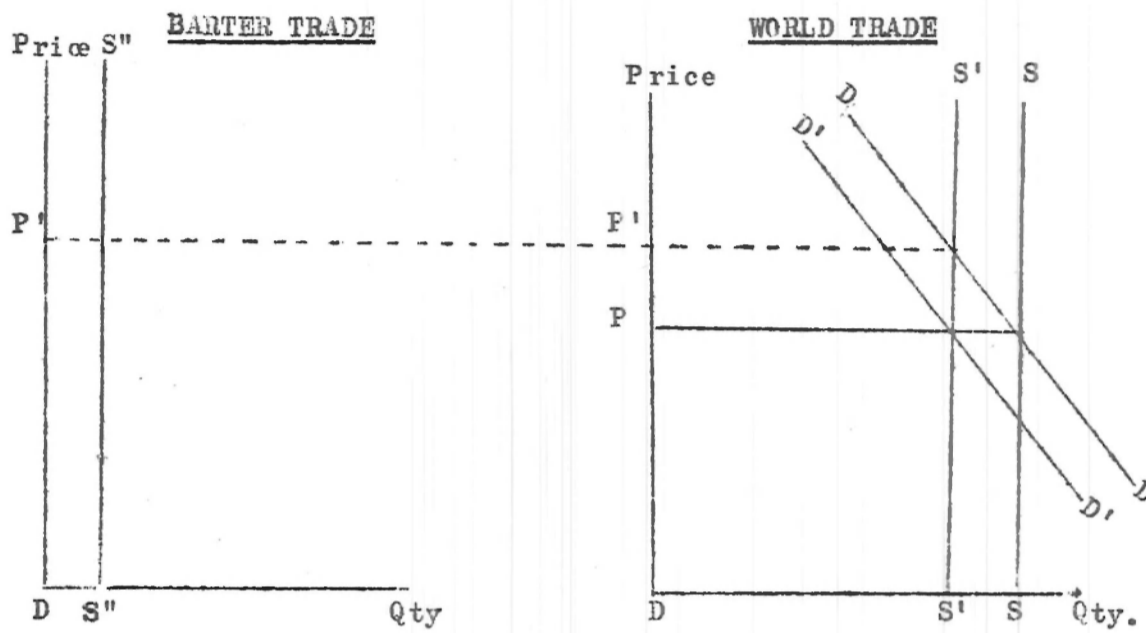
A study of the statistical position of jute since 1956-57, however, suggests an alternative explanation of the export lag. Pakistan's production of raw jute has declined since 1955-56 when it was 6.5 million bales. The decline was relatively sharp during 1959-60 and 1960-61: Pakistan's utilization of raw jute increased in the same period, further affecting the exportable surplus. While total world trade in jute has declined, Pakistan's share in world trade has also decreased. Jute prices, moreover, have increased since 1956-57. It therefore seems that the export lag for Pakistan's Jute is the result of supply deficiency caused by an increase in domestic utilization and reduced production; and, given the monopolistic position of Pakistan, this has resulted in a rise in price.

Since Pakistan's share in world jute trade has declined while prices have gone up, exports under barter deals were apparently a diversion from the world market. At a given level of Jute export prices barter

³
I.D. Pal, *Economia Internazionale*, November 1961, 'Pakistan: A Case of an Export Lagging Economy'.

deals cannot be recommended on a large scale since that will divert supplies from the world market.

Even if no export demand lag for raw jute exists, given Pakistan's monopoly position, barter deals might still be helpful in raising export price, if these were an addition to rather than a diversion from world demand. Assuming an absolutely inelastic supply SS in the short run and fairly inelastic demand DD , price before the conclusion of barter agreements will be settled at P , in Diagram 1.



The conclusion of barter deals will reduce the supply to S'' from the world market and the new price will be settled at P' . Moreover, it will be possible to negotiate barter deals at the new export price, since in most of the agreements it is guaranteed that barter prices will be in accordance with world prices. However, if barter purchases are simply a diversion from the world market, the demand schedule will have shifted to the left as much as the supply schedule and the world price will not be raised. This is shown by the intersection of DD with S'' (assuming barter countries demand has zero elasticity).

It may be suggested, then, that barter deals were concluded so as to increase total demand for jute, and the increase in prices were a consequence of that. But, even if we assume that these were an addition to world demand, prices could not be affected significantly as barter deals were a very small proportion of total jute exports. Moreover, if we look at the overall imports of raw jute of the communist countries these increased only very slightly during the relevant years, as shown below,

while Pakistan's exports of raw jute declined very substantially. It may, therefore, be concluded that it was not the increase in demand,

Table 8

Year	Total raw jute imports of the Communist countries, '000' metric tons	Exports of raw jute by Pakistan, '000' metric tons
1958	80.5	905.4
1959	84.1	809.4
1960	83.0	757.8

Source: FAO Trade Yearbook.

but the reduction in supply to the external market that increased prices during these years.

The above diagrammatic analysis applies only to the short run, but the repercussions of prolonged barter agreements are likely to be different. For instance, if barter means some demand creation, the higher price of raw jute is likely to accelerate the rate of substitution to substitute materials. Furthermore, the diversion of trade via barter deals may lead to a loss of traditional markets. It may however, be pointed out that long range barter agreements may help to stabilize export earnings of traditional products. It is important to note, however, that once the traditional markets are lost to other exporters, it will not be possible to negotiate these deals from a position of strength. Also we will not be able to take the advantages of any upward swing in the world markets as during 1959-61, when prices of our jute exports were exceptionally favourable.

The impact of barter deals on non-barter trade is likely to be different for a commodity such as cotton in which the country has to compete in the world market. The speculative tendencies due to these agreements may artificially raise price in the domestic market. And under the assumption of competition in the world market the danger is that Pakistan may lose its share of the world market even in the short run.

An important contribution of barter agreements could be preferential access to particular foreign markets for manufacturing industries which at this stage cannot compete freely in the international market. This may lead to trade diversion, as the two countries may have to pay higher prices

-14-

for their respective imports. However, the application of the conventional analysis of trade diversion versus trade creation may be prejudicial to the development efforts of the underdeveloped countries, since what is presently trade diversion may ultimately become trade creation. A high cost industry may eventually develop a comparative advantage when given access to foreign markets through barter arrangements if the industry is on a decreasing cost curve. For these new products in the initial stages barter agreements provide a protected foreign market.

In the present circumstances with the operation of the Export Bonus Scheme it is not possible to include manufactured products under the barter deals, since no bonus is available for barter exports. Therefore, it appears necessary that a subsidy be provided to the manufactured products exporters to offset the possible loss of the export bonus. It however, still remains to be seen whether manufactured products will be accepted in barter deals by communist and other barter countries.

VI

Composition of Imports under the Barter Agreement

The composition of imports is heavily biased towards machinery, raw materials and fertilizers. In the year 1959, the percentage import of machinery to total barter trade was 67.3 whereas that of raw materials 30.9. In 1960, the share of machinery declined to 11 % that of raw materials increased to 43.1 per cent, and fertilizers to 42.3 per cent. Barter agreements of 1962 include machinery and fertilizers with almost equal shares in total barter imports.

As pointed out earlier, imports under the barter agreements have been a very insignificant portion of total imports. These, therefore, have not contributed substantially in the import content of capital formation. It may be added, however, that the proceeds of barter exports have not been utilized for the imports of consumer or non-essential goods.

VII

A gain from barter trade may possibly arise if terms of trade under barter agreements are more favourable than world terms. Unfortunately, no data on barter prices is available. It may however, be worthwhile to compare the unit values of raw jute and raw cotton exports to barter and non-barter countries. It is evident from Table 9 that unit values of exports of raw jute to barter countries were higher than to non-barter countries during the entire period under study. This presumably reflects a difference in grades of jute goods exported. The key point is, however, that the ratio of barter country unit values for jute exports to non-barter country unit values was virtually constant over the entire period. Hence, there is no evidence that barter trade

affected jute export prices.

The unit values for raw cotton with barter countries as against non-barter countries were higher in 1959-61, and 1956-58 but lower in 1953-55. The ratios of barter countries unit values for raw cotton in 1959-61 to non-barter countries was higher than the ratio in 1953-55, but it was lower than the ratio in 1956-58, suggesting, again that barter deals did not influence the unit values of raw cotton with barter countries.

On the import side little meaningful data is available either. As an illustration, however, the unit values of coal for three years for the world (excluding the Communist countries) and the Communist countries are shown in Table 9. Over these years the unit values of coal imports from Communist countries were higher than from the rest of the world. It is, however, important to note that for a commodity such as coal transport cost forms a very significant portion of total cost. In Table 9, the unit values for the world are lower because a substantial part of Pakistan's coal imports come from India which has a lower transport cost. If therefore, barter deals divert the source of supplies to Communist countries, it involves a loss to be paid in terms of higher unit values.

In short there might at times be some advantage in barter trade on the export side but this may be offset by higher import price.

VIII

With continuing liberalization of world trade among developed countries, multilateral trade will increasingly be substituted for bilateral trade. It seems, given current and prospective trading practices, the countries available for the future negotiation of barter agreements will be mostly from the Communist bloc or alternatively under-developed countries with balance of payments difficulties. If no new exports are involved the possibilities of any substantial increase in barter trade with underdeveloped countries appears remote since they are not likely to be customer's for Pakistan's traditional exports.

Table 9

Index of Unit Value of Exports and Imports
for the Barter and the Non-Barter Countries

Year	Raw Jute	Ratio to Non-barter Unit Values	Raw Cotton	Ratio to Non-Barter Unit Value	Year	Unit Value of Coal Import					
						World excluding Communist Countries	Communist Countries	Poland	China	USSR	
<u>1953-55</u>											
I. Barter Countries	781.1	1.22	2477	.94	1958	44.0	88.0	80.0	78.7	81.3	
a. Communist Countries	778.5	1.22	2541	.95	1959	37.5	76.7	77.6	76.5	-	
b. Non-Communist Countries	780.9	1.22	1900	.72	1960	41.2	69.9	77.6	54.3	77.5	
II. Non-Barter Countries	635.4		2663								
<u>1956-58</u>											
I. Barter Countries	1055.4	1.22	3385	1.2							
a. Communist Countries	1061.6	1.33	3374	1.2							
b. Non-Communist Countries	1046	1.11	3441	1.2							
II. Non-Barter Countries	936		2666								
<u>1959-61</u>											
I. Barter Countries	1363	1.23	2566	1.0							
a. Communist Countries	1394	1.25	2558	1.0							
b. Non-Communist Countries	1330	1.20	2734	1.1							
II. Non-Barter Countries	1108		2453								

Source: Central Statistical Office Bulletin 1953-61.

In so far as the decision to negotiate barter agreements is politically motivated in the Communist countries, the future of barter trade with them, is equally uncertain. An expansion of barter trade on this basis may then be expected only when these countries have political axes to grind. However, while it may be possible for them to achieve political gains with certain countries, the future basis of the overall trade of the Communist countries is likely to be economic. It may, therefore, be suggestive to note that the exports of the centrally planned economies to the rest of the world increased by 5 per cent in 1959 and by 13 per cent in 1960, whereas imports increased by 7 and 13 per cent in the two years, respectively.

Table 10

Trade of the Centrally Planned Economies
with the Rest of the World
(Millions of dollars)

<u>Rest of the World</u>				
Year	Exports	Percentage change	Imports	Percentage change
1958	3444		3429	
1959	3640	+ 5	3683	+ 7
1960	4138	+13	4370	+18
<u>Asia and Far East</u>				
1958	591		423	
1959	530	-10	507	+20
1960	606	+14	535	+ 5

Source: World Economic Survey 1960- UN.

The Communist countries have increased their exports to Asia and Far East from 591 million dollars in 1958 to 606 million dollars in 1960. And also imports from 423 million dollars in 1958 to 535 million dollars in 1960. The rise is mainly accounted for by the trade of Eastern European countries which enlarged their imports from the ECAFE region by 58 per cent in 1960 and exports by 15 per cent. In short growing participation of the centrally planned economies in the world trade can hardly be explained on the political grounds alone.

Although the demand for our exports by the Communist countries may rise, and these exports have been rising since 1953-55, the composition of demand is also important when trade

is to be expanded on some bilateral arrangement. The present trend in the composition of Pakistan's total exports suggests that the share of traditional exports will steadily decline. But an analysis of the commodity composition of imports of the centrally planned economies requires speculation on the future pattern of their domestic economic policies. It appears safe to assume that these countries for some time to come will go on diverting their resources to the accumulation of capital goods. Hence imports from the Western countries are likely to continue for items such as machinery and chemicals whose domestic production is yet insufficient for their technological needs. The following table shows that the net deficit with the rest of the world in machinery and chemicals has increased from 75.1 million dollars in 1958 to 222.2 million dollars in 1960.

Table II
Composition of Trade of Centrally Planned
Economies with Rest of the World
(millions of dollars)

<u>Item and Year</u>	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1) Raw Materials			
1958	159.3	219.5	- 54.2
1959	217.4	151.0	+ 66.4
1960	332.8	273.1	+ 59.7
2) Machinery & Chemicals			
1958	85.2	160.3	- 75.1
1959	78.2	220.3	-142.1
1960	106.5	328.7	-222.2
3) Other Manufactured Goods			
1958	207.9	292.6	- 84.7
1959	194.9	351.5	-150.6
1960	293.7	539.7	-246.0

Source: World Economic Survey 1960-UN

In addition to this demand for machinery, their higher growth rates lead to increased demand for raw materials. And our jute exports to the Communist countries have increased over the years. However, it is also true that centrally planned economies are biased in favour of self-sufficiency in basic raw materials. Therefore, increased production according to the suitability of factor proportions and natural resources within the bloc to foster each other's needs is likely to take place at an increasing rate.

Production of Jute in China has increased as shown below:

Table 12
Jute Production in China

<u>1955-56</u>	<u>1956-57</u>	<u>1957-58</u>	<u>1958-59</u>	<u>1959-60</u>
('000' bales of 400 lbs.)				
1410	1422	1681	1703	2040

Source: Jute situation (Department of Agricultural Economics and Statistics, Ministry of Food and Agriculture, Government of Pakistan, Rawalpindi).

Furthermore, data show that for 1959 and 1960, the bloc was a net exporter of raw materials.

However, it is also becoming evident that there is a great internal pressure to increase the availability of consumer goods. And the available data for some of the Communist countries reflect, that a range of consumer goods are already imported.

Table 13
Soviet External Trade
Consumer Goods

<u>Year</u>	<u>Exports</u>	<u>Imports</u>
	(per cent of total)	
1950	11.7	15.2
1955	6.3	18.3
1957	8.1	20.6
1958	7.1	23.9

Source: Trade with Communist Countries
by Alec Nove and Desmond Donnelly.

UN data on commodity composition of imports of Communist countries with the rest of the world shows that the deficit in manufactured goods other than machinery has increased from 84.7 million dollars in 1958 to 246 million dollars in 1960. Our own table 4 on the composition of Pakistan's exports to

the Communist countries show that the index of exports of other commodities' such as jute manufactures, shoes and cotton manufactures rose to 135 in 1959-62 taking 1953-55 as base period.

The increased participation of the Communist countries in Cold War, also throws on them a heavy responsibility to aid or trade with the underdeveloped countries. And where the choice of consumers' is limited, their political goals may well be met by exchanging capital goods for manufactured consumer goods like cotton cloth from the underdeveloped countries, even when the latter's goods are less attractive in quality and price.

The possible complementarity of the Communist and the underdeveloped economies established in the above analysis could make possible the import of more capital goods in exchange for new exports such as cotton and jute manufacture or traditional exports, raw jute and raw cotton. This is important when Pakistan's traditional and new exports are likely to be influenced by the restrictive policies of the European Common Market and the industrialized countries. Whereas, it may be possible to divert trade to the Communist countries in traditional exports on a strict bilateral basis, by giving up traditional buyers, it is important to realize that such a trading agreement is only a second best alternative. What Pakistan should seek in barter deals is a complete reversal of the previous emphasis on primary commodity exports. Only if they include a substantial amount of trade in new exports do barter deals with the communist block as with other developing countries promise advantage to Pakistan's development effort. The availability of protected markets for new exports can be very advantageous, however, since once the economies of scale are completely exploited it may be possible to compete in the free market.

IX

Conclusion

(1) Pakistan's barter trade has been a very small proportion of its total trade, but its share in trade with Communist countries has been significant. It is difficult to see clearly the effect of barter deals on the magnitude of total trade with barter countries, because of the problem of identification. However, the significant share of barter exports in Communist countries total

exports suggests, that the magnitude of total exports with them has been affected in 1959-61. But the increase in exports to Communist countries in 1959-61 fell short of agreed barter trade, suggesting that a significant portion of the increase might have taken place otherwise. It may however, be pointed out that in 1959 exports to Communist countries declined substantially, and barter exports, being 46 per cent of total exports to them, might have arrested further decline.

(2) Pakistan's exports to barter countries have been heavily biased towards traditional products over 1953-62, whereas exports to non-barter countries have significantly changed in favour of new exports including manufactured goods, in 1959-62, as to the composition of Pakistan's barter exports, they have been heavily concentrated in jute and cotton and the concentration has been much greater than in Pakistan's total exports over 1959-62. It is therefore concluded that barter deals have not helped in developing new exports.

(3) No data on barter prices is available. However, the ratio of barter countries unit values in jute and cotton to non-barter unit values have remained almost constant over 1953-62, suggesting that barter trade has not significantly affected export prices.

(4) The composition of barter imports has been heavily biased towards items such as machinery, fertilizers, and raw materials. Hence, imports under barter deals though a very small proportion of total imports, contributed to capital formation. However, we do not have any meaningful data on barter import prices, but it might be suggested that at times the advantage of higher export prices might be offset by higher import prices.

(5) It appears that in future it will be mostly the Communist countries, who will be available for trade on a bilateral basis. While it may be possible to divert our traditional exports to them via barter deals, so as to stabilize our export earnings, such an arrangement is only a second best alternative, since the loss of traditional markets will make it difficult to negotiate these deals from a position of strength. Moreover, if at all these agreements are to be concluded, these should be long term purchase agreements rather than ad hoc commodity arrangements. However, it is important that the present composition of our exports under barter deals should be reversed and new exports especially manufactured products should be included, since the introduction of these products in protected foreign markets, and the resultant expansion in the size of the market will make possible the exploitation of the economies of scale, and hence increase their ability to compete in the international market.

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