Problems and Prospects of Jute

Jute in the National Economy

The economy of Pakistan is agriculture oriented. Although the share of agriculture in GNP has declined from 60% in 1949-50 to 46% in 1968-1969 yet agriculture still constitutes the largest sector of the economy. About 85% of the total export earning of the economy is provided by agricultural commodities.

Of all agricultural commodities jute stands next only to rice. Although the value of jute is relatively small in comparison with GNP its contribution in the economic development of Pakistan is of vital importance. In addition to the employment which its cultivation, trade and manufacture offer to millions of people, it is the most important cash crop and the principal foreign exchange earner of the economy. On the average, jute alone accounts for more than 50% of the total export earning of Pakistan.

The welfare of 85% of the rural people who depend directly on agriculture is intimately bound up with the production and trade of jute. It is jute which has brought the rural economy of East Pakistan within the sphere of the world economic forces. Whenever there is any slackness in jute trade, the economic life of the farmers becomes paralysed which in turn reacts unfavorably on the social and political life of the country.

A substantial portion of the revenues of the provincial and central governments come from jute duties. In 1967-68, a total a of Rs. 2 crore was earned from export duty on jute making up 62% of the total export duty of the central government[1].

Imports of various goods and services is a prime necessity for the economic development of Pakistan. All these imports depend on the quantity and value of her exportable surplus to which jute is the principal contributor. Any setback in the export trade of jute causes a proportionate setback in the import trade, obviously because imports pay for exports. "Jute is, therefore, the regulator of Pakistan foreign trade and the financial barometer of the state. In short, the economic fabric of Pakistan in general and East Pakistan in particular, is intricately interwoven with the jute industry

*This article was received before March '71 when disturbances first started in East Pakistan.

and trade. Jute is the pivot round which the whole economy of the country revolves"[2]

Declining share of Pakistan in World Jute Trade

At the time of independence Pakistan with 80% of the world production had a virtual monopoly in jute. Her jute position seemed unassailable but it was too good to last. It was assumed that any threat to jute would come from substitutes but world production of jute and other natural fibres also increased tremendously from 85.3 lakh bales in 1947-1948 to 215 lakh bales in 1967-68 or by 152%. During the period, production of allied fibres like kenaf, mesta etc. increased at a faster rate than jute proper. World production of jute increased from 74.3 lakh bales in 1947-48 to 150 lakh bales in 1968-69 or by 111%, but production of allied fibres increased during the same period from only 3.4 lakh bales to about 70 lakh bales or by about twenty times.

The trend of production in all the jute producing countries was not uniform. Production has remained almost stationary in Pakistan—it has oscilated around 60 lakh bales thus resulting in steady decline in her share in the increasing world production from 80% in 1947-48 to 29% in 1968-69. While jute acreage has increased by about 40% in the ten years from 1960, the yield per acre has declined from 18 maunds in 1960-61 to 13.3 maunds in 1968-69, an all time low. It is, therefore, clear that jute production has increased at a much higher rate in other countries particularly India and Thailand to whom Pakistan lost an important share of a growing world market. This loss of market to the competitors was due, among others, to the following reasons.

Assuming a major threat from substitutes or an elastic export demand for jute, Pakistan followed a policy of licencing to restrict production upto 1960. The policy was advocated on the ground that it would (a) serve as normal check on the growers, (b) create influence on the buyers, and (c) give on the average a better price to the growers[3]. But all these proved ineffective because (a) the actual acreage and the licenced acreage differed substantially, (b) higher price was not necessarily a better price unless it was related to the changing cost of living index[4]. Moreover, restricted production of jute in Pakistan which was not the monopoly producer, resulted in increased production in other countries who found it suitable to diversify their agriculture through the introduction of an additional cash crop with a ready market, and to provide a basis for creating or

expanding manufacturing industries capable of absorbing labor. Also it helped to save foreign exchange expenditure in the import of raw jute or packing materials.[5]

The assumption of elastic export demand for jute also proved wrong. The high income countries as a whole increased their consumption of jute goods by over 51% between 1953-55 to 1966 while the developing countries increased their consumption by over 75%. The world consumption during the said period increased by 63%. The increase in consumption is very prominent in the centrally planned and the developing countries, particularly those producing raw jute themselves. In the developing countries the expansion in jute consumption is likely to accelerate at least at the same rate as the production of agricultural goods and the volume of fertilizer and cements distributed. Substitutes of jute may not create more than a marginal impact in the near future in those countries. In the industrial countries, the demand for jute will depend on the stability and competitiveness of jute compared to those of substitutes[6].

The total foreign exchange earning from raw jute and its manufactures on average has been rising since 1953-54 although the volume of raw jute export has been falling and the export of raw jute and its manufactures taken together were only fractionally higher in 1966 than the raw jute export alone in 1953-57. This clearly indicates that all the unit prices were going through an overvalued rupee exchange rate and the raw jute export prices were deliberately kept at a very high level. Pakistan could manage this policy by keeping the jute growers price at a low level relative to what they had to pay for rice foregone (which reflects the opportunity cost of jute production) thereby discouraging the domestic production of raw jute. Being the dominant supplier in the export market Pakistan could keep the export price of raw jute at a high level. This policy put the West European manufacturers at a disadvantageous position because as principal consumers of Pakistani raw jute they faced a high price. So they yielded to alternative suppliers. Thus, although this restrictive policy enabled Pakistan to maximise foreign exchange receipts in the short run, in the long run it seems to have gone against her interest through the encouragement of substitutes both on the supply and demand sides[8].

India's jute mills depended on Pakistani raw jute. Pakistan decided not to devalue her currency in 1949 as India did. As a result, India faced

a relatively higher price for Pakistan raw jute. Besides, India perhaps wanted to be politically independent of Pakistan with respect to jute supply and started producing jute. Pakistan's elevated price and discontinuation of direct trade with India provided further impetus. By 1966 her raw jute production was equal to that of Pakistan and by 1975 it is likely to be substantially larger than that of Pakistan.[9]

Pakistan's policy to process raw jute domestically was partley due to the effect of partition and partly due to her policy of industrialisation through import substitution. The main objectives were to provide the domestic consumption needs for jute goods, to create employment for a large labor force by expanding the domestic manufacturing capacity and to provide with the environment for further industrialization. The second was to get foreign exchange benefits of exporting value added in manufactured jute goods. While the former objective could well be realised, the later could not be even though the domestic producers got raw jute at a much lower price than the foreigners, and imported machinery and capital goods at a very low rupee cost during the early fifties under an overvalued rupee exchange rate, and enjoyed a total ban on the import of jute goods in Pakistan[10].

In the field of jute manufacturing, India competed favourably with Pakistan in sacking and common hessain cloth and with West European manufacturers (who bought raw jute at a high price from Pakistan) in fine hessain and yarn. On the other hand, Pakistan's high raw jute export price did not give the domestic manufacturers any significant advantage over the European producers because they did not specialise in the same output.

Thus, through a restrictive policy based on wrong assumptions, Pakistan has lost an important share of a growing world market for raw jute to her competitors. The export bonus scheme had been introduced to enable the exporters of jute goods compete in the world market. The operation of the scheme has now been extended to raw jute also from the 1970-71 export season. Forecast has already been made that the production and export of jute in Pakistan will remain constant during 1965-70 and will decrease about 2% per year for the period 1970-85.[11]

The Way out : Price policy vs Technological change

The problem at the national level, therefore, is stagnant total production, high export price, tough competition in the market of jute and continually

growing substitutes. At the farm level the problems are low productivity, low producer price, and low return. One obvious solution to the problems lies in economically raising the aggregate of production. This can be done either by favorably altering the imput/output price relationship or by increasing the yield rate through technological improvement.

A price policy designed to increase the aggregate of production within the context of a traditional agriculture suffers from three major disabilities.

Firstly, the necessary policies will tend to be inconsistent with the other and more basic goals of economic development. It is emphasised that one of the most important limitation to overall development and to the development of agricultural sector itself is lack of capital for developing the nonfarm sector. One way to provide such capital is through change in the terms of trade against the agricultural sector thereby raising profit in the nonfarm sector as a basis for saving and investment. Thus a policy for raising prices of farm products become impracticable. As for jute, for reasons explained in the earlier section, there is hardly any opportunity of raising domestic price of jute. In theory,of course, the price can be raised and the extra income can be taxed away to maintain the balance. Practically it may be difficult to raise taxes in the agricultural sector and more so in case of jute because of likely resistence under the present socio-political climate.

Secondly, the appropriate device for effecting price increase may be difficult to organise and administer. It is alleged that the minimum price fixed by the government has not been ensured at the farm level. Under the existing conditions, the actual producers will not benefit very much from any substantial increase in the minimum price because the very system will not allow it to trickle down to the farm level. However, it can be ensured by conducting major purchase operations and maintaining buffer stock which the government is doing at present. But it involves great cost, so it is "not fair and equitable that Pakistan alone should bear the financial burden of such scheme"[12] because the foreign buyers will derive some benefit from it.

Thirdly even a successful price policy will tend to be ineffective in raising aggregate production. In the context of a traditional agriculture "as long as the production function is such that the marginal return to increased input is already low and declining sharply and the supply of input is relatively inelastic, increased prices of output will induce relatively little further input

of resources"[13] and hence little increase in output from the existing acreage. Likewise, subsidization of inputs will have a modest effect on production because very little purchased commercial input is used under the traditional system.

On the other hand, "in conjunction with technological change, price policy can play a major positive in effecting increased agricultural production. First, new technology causes the input response curve to continue much further up to the right, so that a favorable net marginal return may continue for a much larger input, encouraging a larger input and hence a large increase in production. Second, inputs which have elastic supply schedules, such as fertilizer, becomes more important so that it becomes possible to increase input quantity sharply. Third, the marginal return to inputs is higher, so that a given increase in input quantity will bring about a larger increase in production. A less defensible but still possibly valid argument is that there may be thresholds to acceptance of technological change which price policy can help to cross"[14].

It is a fact that jute and paddy compete for the same production resources in East Pakistan and the opportunity cost of jute production is clearly the amount of rice which must be given up to produce an additional amount of jute. Again, a sizeable expansion of jute acreage would require a diversion of land from rice which may be progressively unsuitable for jute production. Therefore, the opportunity cost of jute production in terms of rice sacrificed can reasonably be assumed to be an increasing one under conconstant jute/rice price ratio[15]. On balance, the production and price of rice is likely to continue to be the main limiting factor in the long run supply of jute in East Pakistan unless there is substantial increase in yield rate of jute"[16]

Therefore, under the existing stagnant technology, a favorable jute/rice price ratio will induce farmers to produce more jute by putting in larger acreage under jute thereby causing a reduction in the acreage and production of rice. It was calculated by Clark from empirical data of East Bengal that a 50% rise in jute price, rice price remaining constant, brought about an average increase of 395,000 acres under jute while 50% decline in price, rice price remaining constant, caused a decline of jute cultivation by 667,000 acres.

During mid-fifties it could easily be said that "the cultivation of jute can be expanded without any disturbance to the cultivation of paddy,

provided the price relationship remain favorable"[17] Because, jute and rice then accounted for 6-8% and 78% of the total cultivated area respectively and a 50% rise in jute acreage would not reduce rice acreage by even 4%. At the eve of the seventies, with about 20 lakh tons of food deficit per year, no substantial increase in the jute area can be contemplated to increase jute production although the proportion of jute acreage has not changed substantially. On the otherhand, the negative response of acreage to relative yield rates would imply further shrinkage in jute acreage if yield rate of jute shows any significant gains over yield rate of rice through technological change, with the prices of jute and rice remaining relatively stable."[18]

Therefore, jute can survive as an industrial fibre in a highly competitive world and the jute growers of East Pakistan can be better off by increasing the per acre yield of jute and simultaneously decreasing the cost of production by using improved methods and techniques coupled with an appropriate price policy.

Experimentation

Various organisations claimed to have conducted systematic research to improve production techniques of jute and obtained valuable results but little effect was made in the past to extend these findings to the actual producers. However, the Pakistan Jute Mills Association launched a pilot scheme in 1967 with a view to reduce per unit cost of production by increasing per acre yield and improve quality of jute by adopting improved methods of production.

The scheme was initially started in 10 centres in different parts of the province covering an area of about 200 bighas of land. In each centre of trained extension agent was placed who persuaded 20-25 growers to take part in the scheme, and train them in the various improved methods of production. The Association also supplied seeds, implements and fertilizers free of charge. The scheme became successful in producing an average of 34.4 maunds of jute fibre per acre as against 16.3 maunds under the indigenous method. The operation of the scheme was further extended to wider areas in the following years and poduced similar results. A similar scheme as been launched by the Pakistan Jute Mills Association from the 1970 jute season.

The cost of production per acre and per maund was calculated for the year 1969 which stood at Rs. 392 and Rs. 12 respectively under the improved

method and Rs. 359 and Rs. 22 respectively under indigenous method of production.[19]

The above findings suggests that a target of 80 lakh bales of jute can be produced from an area of 15-16 lakh acres of land with per acre yield of 27 maunds, much lower than what has been achieved. Thus the pre-present jute acreage can be reduced by about 33% so that the remaining 7-8 lakh acres now put under jute can be relaeased for food production.[20] At the same time it will enable Pakistan to maintain her supremacy over the production of jute and make it the cheapest packing material once again.

New Government Scheme

On the basis of the above experimental results, the Pakistan Central Jute Committee recommended for an "Intensive Production Plan for Jute Cultivation in East Pakistan" to which the govenment has given effect from the 1970 jute season. The scheme was put up to intensify the production of jute by modernizing its cultivation on 4 lakh of land at the first instance in six districts. In one lakh acres, improved seeds were to be supplied in addition to other inputs like fertilizer, insecticides, production credit, and extension serivice and in the rest 3 lakh acres, farmers would use their own seeds but would get the other inputs alike. The two types of areas were termed pakage-deal and non-package-deal area respectively. The production target for these two areas were fixed at 4.5 and 12 lakh bales assuming per acre yield of 4.5 and 4.0 bales respectively as against 3.8 bales in other areas produced under traditional conditions.

The targets could not be fulfilled due mainly to widespread flood in that year. The 1971 jute season also began with unexpected heavy rain causing disturbance in timely sowing of jute seeds thereby making the target production difficult again. However, the scheme is reported to be extended gradually to cover 16 lakh acres by the end of the fourth plan and we can reasonably hope and wait for its satisfactory outcome.

M. A. JABBAR

Bureau of Agricultural Economics
Statistical and sociological research,
East Pakistan, Agricultural University,
Mymensingh.

REFERENCE

1. Govt. of Pakistan, *C. S. O. Statistical Bulletin*, Economic Affairs Divisions, Karachi, Vol. 13 No. 6, 1970 p. 281.
2. Ahmed, Rakibuddin, *The Progress of the Jute Industry and Trade* (1885-1966), Pakistan Central Jute Committee, Dacca, 1966.
3. *Ibid* p. 319.
4. *Ibid* p. 19.
5. Govt. of Pakistan, *The Jute Season* (1968-69), An Annual Review, Jute Board, Ministry of Commerece, Dacca, 1969 p. 5.
6. Huq, Sayeedul, Some Aspects of Pakistan's Jute Policy, *Pakistan Economic Journal*, Vol. 19 No. 3, 1968-69 p. 50.
7. Govt. of Pakistan, *The Jute Season* (1968-69), An Annual Review, Jute Board, Ministry of Commerce, Dacca, 1969 p. 52.
8. Huq, Sayeedul, Some Aspects of Pakistan's Jute Policy, *Pakistan Economic Journal*, Vol. 19 No. 3, 1968-69 p. 52.
9. FAO, *Agricultural Commodities Production*, Commodity Review, 1968 p. 294.
10. Haq, Sayeedul, Some Aspects of Pakisten's Jute Policy, *Pakistan Economic Journal*, Vol. 19 No. 3, 1968-69 p. 52-53.
11. USAID, *Long Range Assistance Strategy*, Pakistan Agriculture (1965-85), Agriculture Division, Karachi p. 65.
12. Govt. of Pakistan, *The Jute Season* (1968-69), An Annual Review, Jute Board, Ministry of Commerce, Dacca, 1969 p. 23
13. Production Problems and Issues in Agricultural Development, *Journal of Farm Economics*, Vol. 48 No. 5, 1966 p. 1199.
14. *Ibid* p. 1199.
15. Huq, Sayeedul Some Aspects of Pakistan's Jute Policy *Pakistan Economic Journal*, Vol. 19 No 3, p. 56.
16. Rabbani, A.K.M. Golam, Economic Determinants of Jute Production in India-Pakistan, *The Pakistan Development Review*, Vol. 5 No. 5 No. 2, 1965.
17. Ahmed Rakibuddin, *The Progress of the Jute Industry and Trade* (1885-1966) Pakistan Central Jute Committee, Dacca, 1966 p. 307.
18. Rabbani, A.K.M. Golam, Economic Determinants of Jute Production in India-Pakistan, *The Pakistan Development Review*, Vol. 5 No. 5 No. 2, 1965.
19. Talukdar, F., *A Short Report on Intensive Jute Cultivation Scheme for the Last Three Years*, The Pakistan Jute Association, Narayanganj, 1970.
20. *Ibid* p. 25.