DEVELOPING COUNTRIES
AND
INTERNATIONAL AGRICULTURAL TRADE

A Conference Sponsored by S-224 Regional Research Project

Quality Hotel of Arlington
Arlington, Virginina
April 8-9, 1991

Fred J. Ruppel
Program Coodinator

Stanley M. Fletcher
S-224 Chair

AN EVALUATION OF PAKISTAN'S RICE TRADE POLICY: A CASE STUDY OF BASMATI RICE

Anwar Fazil Chishti and Stephen C. Schmidt
University of Illinois, Urbana-Champaign

Whereas Pakistan's Basmati rice is freely traded domestically, its export trade is controlled by the public sector and is subject to an export tax. The gains and losses of this policy for various program-participants, and its net social welfare effects for the community as a whole have been analyzed in a partial equilibrium framework. Results indicate that Pakistan has been able to obtain a positive net social gain from such a tax. Producers of Basmati rice in Pakistan lost, on average, Rs. 807.35 million (average exchange rate has been Rs. 10.585 per U.S. dollar for 1966-88) in producer surplus while consumers, by contrast, gained Rs. 492.70 million in consumer surplus annually during the 1968-88 period. The national treasury, in addition, received Rs. 799.62 million as tax revenues. The nation as a whole thus gained, and the net social gain has been Rs. 484.97 million per year. Foreign exchange earnings, though negative for some years, were increased on balance by $9.9 million a year over the period.

These results suggest that Pakistan faces an elastic export demand for its Basmati rice, and thus may enhance its export earnings by increasing the volumes of its exports and may seek to maximize its national welfare by applying an export tax. However, in order to maintain Pakistan's competitiveness in international market and minimize its producers' losses, it would be in Pakistan's interest to gradually decrease the export tax rate and raise the producer price.