IOSR Journal of Business and Management (IOSR-JBM)
ISSN: 2278-487X. Volume 5, Issue 6 (Nov. - Dec. 2012), PP 01-18
www.iosrjournals.org

Export Diversification Model – a Strategic View for Economic Development with reference to Pakistan

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Abstract: *The objective of this study is to examine the causes of the falling trend of Pakistan exports and to suggest measures for diversification of export in terms of countries and commodities.*

During the research study it came to light that Pakistan's export suffered lack of diversification both on account of countries and commodities. According to Government's survey Pakistan's export is concentrated about 62% on cotton related products (refer Table 1 & Table 2).

This review has helped us in a realistic assessment of exports and projection of views that may result in export enhancement and diversification. Towards this effort, diversification strategy model has been suggested and it is expected that the strategy when implemented would not only cause least constraints at different stages of export diversification but would also facilitate the large scale promotion of export.

Keyword: *Diversification Strategy, Social development Agricultural product, Export earnings, Concentrated structural transformation.*

I. Introduction:

The progress and prosperity of any country depends upon several factors such as scientific development, social development but the pivotal role is played by the economic development which has the potential to positively revolutionize the whole system of progress and lead the country towards the goal of success and economic prosperity.

In early period Pakistan's economy was based on agriculture which played an important role in the general export earnings. Food exports account for 17 per cent of all exports of the country. More importantly, fifty three percent of Pakistan's total exports comprise textile products which use cotton as raw material. The share of raw cotton exports is small at 1.2 per cent.

Among some of the factors responsible for retarding the economic development, the main factor or reason is that Pakistan has not made any progress worth mentioning in the field of export.

The important fact is that the value of the exports from Pakistan has not caught up with the value of its import. The prospects for the rapid transformation of the economy of Pakistan seem to be to redistribute the real resources in both the industrial and agricultural sectors for the production of value added items specially those which can be exported. The transition in economic management hinges upon adoption of best international practices as in vogue in countries like South Korea and Taiwan. A further component of this new strategy would call for a production of trained labor force including the high level personnel specialized in latest skills.

The study focuses itself on measures required for "Export Diversification". Without diversification and continuing on the same pattern, Pakistan cannot sustain its economy for long. The logic is further augmented by the fact that Pakistan's yearly export has always lagged behind its imports. In fact the trade deficit has widened over the years. Thus there is an immediate need to increase exports in a manner that it is able to exceed imports and the only way that this objective can be achieved is through both commodity and country diversification. The study as such aims to explore such ways and means whereby export diversification could be achieved. This would mean addition of a larger number of products and countries to represent major contributes in the total export value in the not so far distant a future. This should be seen in the context of WTO after the advent of which Pakistan's current exports would be fiercely attacked by other third world countries who would try to push their products into newer territories to sustain themselves and to be able to obtain or maintain a positive trade balance, Pakistan needs to shift the pressure on cotton related items to other commodities because even the countries which are major trade partners are importing cotton related items to a large extent. This means that commodity diversification needs to be given first priority.

II. Methodology and Application of Model

The study of hypothesis is assumed that the export of Pakistan is concentrated on a few commodities and countries. The study also assumes that the country has not been able to shower positive growth in its revenue in the last few decades because of this lack of diversification in the country's export.

Having explored these issues the study proposes a model for export diversification of the country. The methodology for this study is designed to develop a model for diversification.

Quantitative data as a secondary source has been used to analyze the export, Foreign Trade Statistics of Pakistan which is the prime source of key data of export.

Statistical year book which is the publication of Federal Bureau of Statistics department has also referred.

The model applied for trade data analysis is basically the model of dominance based on variance on the "Mean of the squared deviation about the mean" or least square or variance. This model is applied to analyze the export pattern/trend whether concentrated or diversified.

$$\sigma^2 = \sum d^2 / N = \sum (x - \mu)^2 / N$$

Where 'x' is the real value, expressed in percentage and arranged in descending order, and μ is the theoretical mean. For single commodity dominance μ is taken to be 100% associated with the top ranking value of 'x'. Similarly 50%, 33.33%, 25%, 20% … are associated with first two, three, four and five values respectively and so on. For single commodity dominance and for identifying other commodity combinations following procedure is adopted:

$\sigma_1^2 = \sum (x - \mu)^2 / N = (x_1 - 100)^2 + (x_2 + 0)^2 + (x_3 + 0)^2 + \ldots\ldots + (x_n + 0)^2 / N$

$\sigma_2^2 = \sum (x - \mu)^2 / N = (x_1 - 50)^2 + (x_2 + 50)^2 + (x_3 + 0)^2 + \ldots\ldots + (x_n + 0)^2 / N$

$\sigma_3^2 = \sum (x - \mu)^2 / N = (x_1 - 33.33)^2 + (x_2 + 33.33)^2 + (x_3 + 33.33)^2 + (x_4 + 0)^2 + (x_5 + 0)^2 + \ldots + (x_n + 0)^2 / N$

$\sigma_4^2 = \sum (x - \mu)^2 / N = (x_1 - 25)^2 + (x_2 + 25)^2 + (x_3 + 25)^2 + (x_4 + 25)^2 + (x_5 + 0)^2 + (x_6 + 0)^2 + \ldots + (x_n + 0)^2 / N$

Expert data is divided into two groups termed as major and minor (refer Table 1 and Table 2).

The qualitative data were collected through questionnaire from Entrepreneurs and exporters for their perception views and suggestions regarding the export situation in Pakistan. This primary information was analyzed in terms of numbers representing various aspects of trade in Pakistan. Through the above model it has been proved that Pakistan's export trade is concentrated and need diversification.

Analysis & Application of Trade Data in terms of Countries
Analysis of Export Data in Terms of Countries for the Year
(2000 – 2001)

Table 1

		Value in Pak Rupees (in thousands)	**Percentage of total export**		**U.S. $ (in millions)**
Total		**539070143**			**8984.5024**
Major Countries 16		**402641616**	**74.69%**		**6710.6936**
Minor Countries 181		**136428527**	**25.31%**		**2273.8088**
MAJOR					
S. No.	**Country**	**Value**	**Percentage of total export**	**Variance**	**U.S. $ (in millions)**
1	USA	131,263,468	24.34997926	5949.5961	3187.7244
2	DUBAI	36,197,281	6.714762721	2713.1178	603.2880
3	UNITED KINGDOM	33,768,686	6.264247137	1663.9083	562.8114
4	HONG KONG	29,518,343	5.47578889	1179.3531	491.9724
5	FED REP OF GERMANY	28,977,211	5.375406406	892.3846	482.9535
6	CHINA	17,772,724	3.296922345	770.6786	296.2121
7	SOUTH KOREA	16,342,800	3.031664842	690.2502	272.3800
8	SAUDI ARABIA	16,060,234	2.979247545	632.3915	267.6706
9	FRANCE	15,533,858	2.881602367	589.0679	258.8976
10	NETHERLANDS	13,641,348	2.530533026	561.5889	227.3558
11	ITALY	13,548,515	2.513312076	539.2842	225.8086
12	JAPAN	11,246,104	2.086204207	527.7143	187.4351
13	CANADA	10,658,493	1.977199654	519.807	177.6416
14	BELGIUM	10,247,306	1.900922567	514.0315	170.7884
15	SPAIN	9,512,016	1.764522878	511.207	158.5336
16	AFGHANISTAN	8,353,229	1.54956254	510.9435	139.2205

TABLE 2
Analysis of Export Data (In Terms of Commodities)
For the year 2000-2001

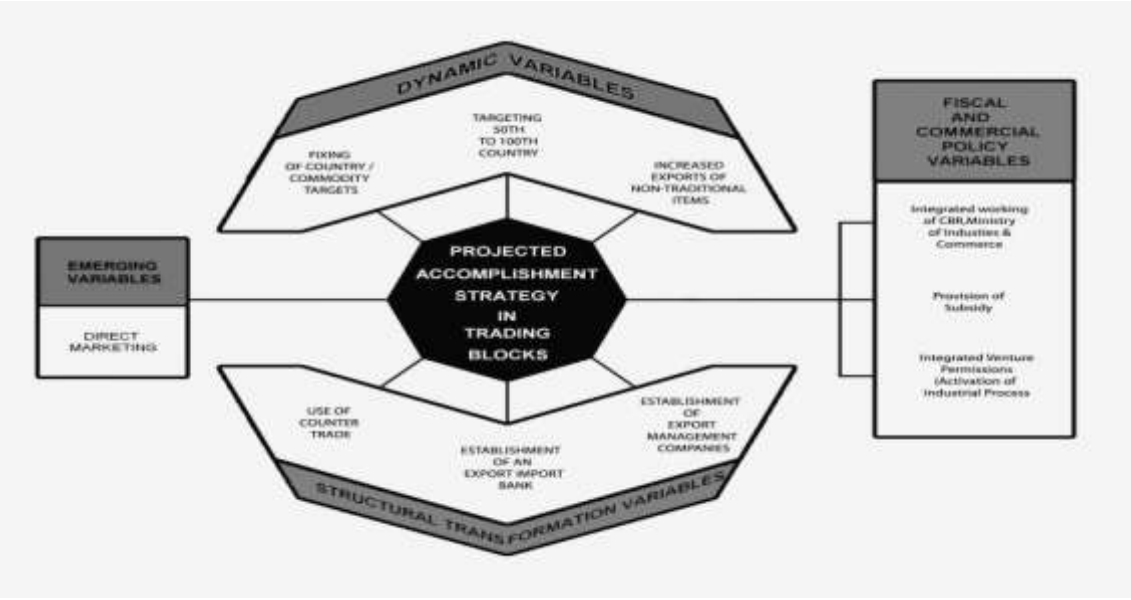
By Thomas Model Application $\sigma^2 = \frac{\sum d^2}{N} = \frac{\sum (x-\mu)^2}{N}$

MAJOR					
S. No.	**Commodities**	**Value in Pak Rupees**	**Percentage of Total Export**	**Variance**	**U.S. $ (in millions)**
1	Cotton (gauze, terry towelling, unbleached, mill made, handloom, fabrics, woven fabrics, products, curtains towel)	78206189.00	14.41	7895.38	1303.4365
2	Garments for men / boys	75083746.00	13.83	2952.90	1251.3958
3	Yarn (cotton, comb, uncomb, synthetic, single, filament, silk)	67084137.00	12.36	1403.25	1118.0690
4	Bedlinen (blankets, bedcover, pillow cover, khes of cotton, fitedsheet, quilts of cotton)	44434466.00	8.19	837.63	740.5744
5	Fabrics (wool, high tenacity, synthetic textile, suiting synthetic, noil silk, silk, jute, terry towelling, pile, knitted, woven)	36820779.00	6.78	554.12	613.6797
6	Wheat, rice, barley, maiz, jowar, bajra	31594880.00	5.82	397.45	526.5813
7	Garment / clothing accessories	25986654.00	4.79	314.24	433.1109
8	Garments for women	17228366.00	3.17	293.04	287.1394
9	Carpets, rugs, durees	17016523.00	3.13	277.05	283.6087
10	Sports goods	15918863.00	2.93	268.41	265.3144
11	Leather & its product	14464549.00	2.66	266.13	241.0758

Theoretical Formations and Variable Description:

The suggested model Fig-1 incorporates four variables which are in turn reinforced by sub variables which elaborate the aforesaid objectives.

Fig – 1 : DIVERSIFICATION MODEL



1. Dynamic 2. Emerging 3. Structural Transformation 4. Fiscal Commercial Policy

The above core factors notify necessary measures required for obtaining the desired results in the shortest possible time as well as in the long run.
The strategy when implemented would cause least constraints at different stages of export diversification.

$$\mathbf{E_p = f\ (D_v, E_v, ST_v, FC_v)}$$

E_p = Export Promotion
D_v = Dynamic Variables
E_v = Emerging Variables
ST_v = Structural Transformation Variables
FC_v = Fiscal and Commercial policy variables
F= factor
The above four factors represent an integrated policy package period. However, each factor would require a time frame to smooth accomplishment of the objective. Thus, projection covering a period (2000–01), yields export figures reposted for future projection.
This shows that the model provides a realistic appraisal of the possible country commodity penetration that is to say that incase of COUNTRIES, of export, the figure comes to US dollars 21 billion whereas, for the COMMODITIES exported, the value figures out to be US dollars 20 billion which indicates that the 'Country' and 'Commodity' aggregates are matching.

The details of each core factor forming a past of the model and its modalities are given below:

1. Dynamic Variables

In the first place, the diversification model lays emphasis on certain factors which will help result in the enhancement of the present export level to a much higher level by concentrating attention on areas where the present penetration level is weak. These factors will have a link with the model representing preliminary areas of attack. The thrust factors carry a weightage related to the existing export areas and do not require the establishment of new entities or institutions to support the need for export enhancement or diversification. The only need in this context is to emphasize the removal of bottlenecks snags that have hampered expansion of export.

These factors have been categorized as the basic criteria for export diversification. An attempt in this regard by the policy makers will not require any complicated maneuvering or manipulation to bring about a change in the current export scenario. The respective factors in order of priority as to their resultant effect are detailed below and provide a bird's eye–view of the impact they will have, if implemented on export diversification.

It should be seen that the model relates all the factors to one basic ingredient which is to obtain greater market penetration in the member countries of various trading blocks. There are a total of 37 countries *Federation of Pakistan (2002)* which are linked up together as world's economic regions or blocks, and the total market size of these economic regions represents the major portion of the total world trade *Federation of Pakistan (2002)*. As such, if Pakistan is able to have greater thrust in these markets both in terms of obtaining an increased per–country volume coupled with achieving diversified commodity penetration, the export picture in future years will show a marked change as compared to what was in recent years. The respective thrust factors should be seen in the above context and their effect towards achieving export diversification analyzed in direct relation to the above point of view.

1(a). Fixing of Country & Commodity Target

For the purpose of export diversification, it becomes necessary to start the homework by fixing country/commodity targets in line with current export levels and with the market capacity of each country or commodity. Talking about country export targets, the minimum export level per country should be fixed at US $100 million. This will be valid for countries which are currently generating an export volume of US $20 or 25 million or more. Thus each of the fifteen countries starting from Denmark and culminating at Austria should be able to provide an export volume of $120 million in the year 2008.

Table 3 shows the actual volume obtained in 2000–01 as well as the projected volume for 2008 for the first 50 countries. The projected volume for each country has a relationship with the current export level and the available potential. It can be seen that only the first sixteen countries classed as major can provide an export volume of US $13.2 billion if targets are set and projected volume obtained.

Similar to the selection of first 50 countries the first 50 commodities have been chosen to cross–match the country targets with the commodity targets. The analysis shows that those commodities which fetched a value figure of US $8 billion in 2000–2001 can, if aggressively pursued to a value figure of US $20 billion in 2008.

The targets fixed for individual commodities have been arrived at by looking at their export levels and can be termed as realistic based on a reasonable annual growth rate.

While fixing individual commodity targets a relationship should first be established as to what percentage of the total world export these commodities can generate. It becomes clear, when viewed from this perspective, that Pakistan's current export level represents infinitesimal world percentages. A case in point is the total world trade figure of US $4000 billion obtained in 1994 *Hill. (2002).* In contrast Pakistan's total export/import trade 2000–01 stood at only US $20 billion which is very small in the context of world trade.

Commodities like bed linen, rice, and fabric and clothing accessories have the potential to enhance the value of US $1 billion. There are additional export items such as garments for women, carpets and rugs, sports goods and leather goods which currently contributing US$ 3 billion could potentially produce another US$ 10 billion exports. It will become necessary to carry out a study of international statistics for respective countries and commodities. Based on this information the exporters and the Pakistan Trade Authority should endeavor to attain the targets set also to be examined will be those countries which are exporting large volumes of exports by countries and commodities.

The targets set for major countries among which the US is on the top of the exports list show projections for 2008 in relation to actual export figures for 2000–01 (*Thomas Model Table).*

The contribution of these major countries amounted to US $6.7 billion in 2000–01 whereas the projected figure gives a total achieve value of US $13.12 billion (*Thomas Model Table).* This projection is considered realistic in view of the economic size, absorptive capacity and typical product requirements of these countries, even countries like Indonesia, Bangladesh, Turkey and Portugal touched an export revenue around US $100 million in 2000–01. The projection for these countries for the year 2008 has also been made in relation to this data.

It will be seen that the projections for the year 2008 reflect the current export level coupled with the absorptive capacity of each country in relation to the product mix being currently exported.

On a similar footing, if the list of commodities as given in Table 4 is examined, it is found that 11 major commodities account for an export revenue of US$ 7.25 billion in 2000–01 and when projected for 2008 the same commodities provide a value total which stands at US $13.8 billion. Another four commodities provided an export revenue of US $121 million to US $190 million each in 2000–01. This is targeted at US $1.18 billion for 2008. Commodities contributing US $60 million to US $90 million adding upto 9 and their projections provide a value figure of US $1.2 billion.

The noteworthy point in the above analysis is the cross–matching of commodity export figures with country export figures. This cross–match is visible when it is seen that the projected export figures for 16 major countries account for US $13.2 billion whereas 11 major commodities provide a value yield of US $13.8 billion. In this context, it can simply be argued that both the country and the commodity targets are aligned in a manner that the total value discrepancy is only nearly statistical.

Table 3 has been reinforced now with total import figures of the countries chosen for data projection into the year 2008. Certain countries have been dropped and new ones substituted on the basis of the absorptive capacity of these countries. The total imports for each country when related to projected level stands to justify the author's contention that projections made are truly in line with what they should in reality be. Just as a case the projected export level for USA if attained would only represent 0.26% of the total world imports of that country. A similar parity exists in case of the other listed countries obviously a fractional substitution of various countries total world imports has been aimed at and the figures projected should be considered as the minimal export level that Pakistan should be able to achieve at any cost.

TABLE 3
COUNTRY TARGET

S. NO.	NAME	Actual Export 2000-2001 (Million dollars)	Projected Export 2008 (Million dollars)	Total Country Imports 2006 (Million dollars)
1	USA	3,187	4,800	1919.4
2	Dubai (UAE)	603	1,200	97.8
3	UK	563	1,200	619.4
4	Hong Kong	492	720	335.8
5	Germany	483	720	908.6
6	China	296	480	791.5
7	South Korea	272	480	309.4
8	Saudi Arabia	267	720	66.3
9	France	259	480	534.9

10	Netherlands	227	480	416.4
11	Italy	226	420	437.4
12	Japan	187	360	579.6
13	Canada	178	360	357.7
14	Belgium	171	360	353.7
15	Spain	156	360	316.4
16	Hungary	8	120	77.0
17	Indonesia	131	240	80.3
18	Ireland	7	120	72.8
19	Australia	101	360	139.3
20	Turkey	98	240	138.3
21	Portugal	86	180	66.6
22	Brazil	7	120	95.9
23	South Africa	68	240	77.3
24	Thailand	62	180	128.6
25	Sweden	60	180	126.7
26	India	59	240	174.8
27	Malaysia	54	360	131.2
28	Poland	7	120	126.0
29	Singapore	48	120	128.7
30	Romania	3	120	51.1
31	Greece	45	180	63.2
32	Austria	17.8	180	140.3
33	Iran	23.4	180	51.1
34	Vietnam	43	120	44.4
35	Chile	40	120	38.4
36	Denmark	40	120	80.3
37	Qatar	36	120	
38	Philippines	35	120	51.5
39	Mauritius	32	120	
40	Argentina	28	120	34.2
41	Venezuela	16.4	120	33.6
42	Norway	27	120	64.1
43	New Zealand	25	120	
44	Mexico	24	120	268.2
45	Switzerland	24	120	88.9
46	Iran	24	120	51.1
47	Kenya	22	360	
48	Tanzania	20	120	
49	Vietnam	20	120	38.4
50	Austria	19	120	140.3
	TOTAL	**8883**	**21088**	

Source : http://www.intracen.org/tradstat/sitc3-3d

TABLE 4
COMMODITY TARGET

S. No.	COMMODITY	Actual Export 2000-2001 (Million dollars)	Projected Export 2008 (Million dollars)
1	Gauze Terry Toweling	1,303	2,400
2	Garments for men	1,251	2,400
3	Yarn	1,128	1,800
4	Bed linen	741	1,200
5	Fabrics	613	1,200
6	Wheat and rice	527	1,200
7	Clothing Accessories	433	1,200

8	Garments for women	287	600
9	Carpets and rugs	284	600
10	Sports goods	265	600
11	Leather products	241	600
12	Cotton waste	188	360
13	Fuel petroleum	181	360
14	Cleaning clothes	143	300
15	Dental instruments	122	300
16	Parts of garments	93	180
17	Fruit juices	77	180
18	Shrimps and lobsters	73	180
19	Camping goods	69	180
20	Mops and mats	64	120
21	Acids and bases	64	120
22	Fish items	63	120
23	Fresh fruits	66	120
24	Table covers	42	90
25	Plastic material	41	90
26	Dried fruits	41	90
27	Medicines	38	72
28	Footwear	37	72
29	Babies' garments	35	72
30	Jaribooti (herbs)	31	72
31	Oil seeds	31	72
32	Bakery products	30	72
33	Imitation jewelry	27	72
34	Cutlery/brass/ware	26	72
35	Vegetable beans	23	72
36	Vegetable fats	22	60
37	Electronic apparatus	22	60
38	Vegetable	21	60
39	Bones and horns	16	36
40	Ship stores	15	36
41	Grind stones	15	36
42	Safety matches	15	36
43	Tobacco	15	36
44	Confectionery items	14	36
45	Wall clocks	14	36
46	Sewing machines	12	24
47	Waste and ores	10	24
48	Footwear parts	9	24
49	Urea	8	24
50	Starches	8	24
	Total	**8,894**	**19,798**

Source : http://www.intracen.org/tradstat/sitc3-3d

1(b). Increased Export of Non–Traditional Items

A total of 14 non-traditional items have been identified among the list of a total of 129 commodities *(refer Table 5)*. The total yield in 2000–2001 from these non-traditional items works out at US $48 million. The projections for 2008 for these commodities yield a value figure of US $0.5 billion. All these commodities represent items where the domestic production can either be brought to higher levels or even at the present moment is far in excess of the domestic consumption requirements. In case Pakistan is able to penetrate both the existing and new markets with these commodities, a valuable addition to total export volume will emerge. Items like tractor parts, motorcycle parts, articles of aluminum, ceramic sanitary fixture and cotton thread are being produced according to international standard and their export enhancement will serve to achieve the desired export diversification. This is related to the fact that Pakistan needs to exploit whatever avenue is available for exploitation and commodity penetration.

The recently formed Export Development Authority will need to critically examine these export items and identify markets which could be candidates for achieving the projected individual commodity targets. Table 5 provides a picture of all the identified commodities along with 2000–2001 export figures and their projection for the year 2008. The table has been totally revised to delete double counting and project more appropriate levels for FY 2008.

TABLE 5
NON–TRADITIONAL ITEMS

S. No.	Commodities	Actual Export 2000–2001 (Million dollars)	Projected Export 2008 (Million dollars)
1	Tractor parts	5.00	60
2	Marble	5.00	60
3	Musical instruments	3.00	60
4	Wood products	3.00	60
5	Insecticides	3.00	60
6	Make–up articles	3.00	60
7	Motorcycle parts	2.00	30
8	Traveling bags	2.00	30
9	Emerald/Ruby	2.00	30
10	Articles of aluminum	2.00	30
11	Ceramic sanitary fixtures	0.9	10
12	Salts	0.9	10
13	Cotton thread	0.9	10
14	Roofing tiles	0.9	10
	Total	**48**	**460**

1(c). Targeting 50th to 100th Country

The total exports recorded in 2000-2001 for countries representing 50th to 100th count in Table 2 stand at US $414.58 million. This export volume averages at US$ 5 million per country and shows inherent weaknesses in exports to these countries. As such projected into 2008 the value figure stands at 2.8 billion, which apparently shows very substantial jump in an 8 years period. However in order to diversify and expand the export volume it is inherent that this export target is achieved for the remaining 50 countries by TDAP for export revenue generation.

Table 6 shows the comparative picture of 2000-2001 actual viz-a-viz projections for 2008.

TABLE 6
Targeting 50th to 100th Country

S. No.	Country	Actual Export 2000-2001 (Million Dollars)	Projected Export 2008 (Million Dollars)
51	VIET NAM	19.5940	30
52	REPUBLIC OF BENIN	18.5963	30
53	AUSTRIA	17.8864	30
54	IRISH REPUBLIC	16.8701	30
55	VENEZUELA	16.4892	30
56	IRAQ	16.0425	30
57	JORDAN	15.5304	30
58	IVORY COAST	14.9629	30
59	FINLAND	14.6716	30
60	MOROCCO	13.8904	20
61	MALAGASY	12.7430	20
62	NIGER	12.4923	20
63	REP OF THE CONGO	10.7072	20
64	LEBANON	10.2512	20

65	HONDURAS	9.8623	20
66	TUNISIA	9.7461	20
67	REPUBLIC OF UZBEKIST	9.6405	20
68	GUATEMALA	9.4479	20
69	REPUBLIC OF KAZAKHST	9.3141	20
70	COLOMBIA	9.1137	20
71	PANAMA	8.9735	20
72	TOGO	8.3379	20
73	CYPRUS	7.9185	20
74	RUSSIAN FEDERATION	7.9108	20

S. No.	Country	Actual Export 2000-2001 (Million Dollars)	Projected Export 2008 (Million Dollars)
75	MAURITANIA	7.6624	20
76	REPUBLIC OF ESTONIA	6.9366	10
77	CZECH REPUBLICS	6.5033	10
78	OCEANIA N.S.	6.3033	10
79	ABU DHABI	5.8552	10
80	SYRIA	5.7713	10
81	EL-SALVADOR	5.7583	10
82	SUDAN	5.7544	10
83	DOMINICAN REPUBLIC	5.7443	10
84	ZIMBABWE	5.6836	10
85	CAMEROON	5.6491	10
86	FRENCH WEST INDIES	4.5810	10
87	CAMBODIA	3.8673	10
88	BURMA	3.7926	10
89	ALGERIA	3.7331	10
90	PERU	3.5180	10
91	SHARJAH	3.4321	10
92	BAHAMA	3.3659	10
93	ROMANIA	3.1490	10
94	REPUBLIC OF LITHUANI	3.0363	10
95	SOMALIA	2.6751	10
96	URUGUAY	2.5786	10
97	REPUBLIC OF KYRGYZST	2.5262	10
98	BULGARIA	2.3500	10
99	UGANDA	2.3500	10
100	LUXEMBURG	2.0100	10
	TOTAL	**414.5798**	**2848**

2. Emerging Variable

Adding New Commodities to the Export List

In addition to the factors described above there is a fourth factor which will serve to support the first three. This factor has an overall impact on the diversification model in the sense that it works as a further remedy to balance out the existing export concentration and help in reducing the present export dependence on a very limited number of commodities.

The projected volume that will emerge from the implementation of this support factor when added to the total export proceeds will provide the much needed additional export revenue from commodities which have not been given attention till date in spite of their substantial export potential. Related to this observation is the fact that the commodities that are being recommended for addition to the existing commodity list are such where considerable wastage is taking place at the point of production, a faulty storage and distribution mechanism is in practice and very low export prices are being fetched on a per tonne basis. The above commodities need to be exploited in view of their distinct attributes and the presence of an export surplus which far exceeds the domestic consumption requirements.

In order to diversify the export picture and to supplement the export earnings, exports of three major fruits whose total crop production is considerably in excess to Pakistan's domestic consumption requirements should be started on a priority basis. The fruits in order of their production tonnage, are citrus, mango and apple.

According to the statistics provided by the Ministry of Food Agriculture and Co–operatives and the Federal Bureau of Statistics, the production figures of citrus, mango and apple for the year 2000–2001 were 1866, 990 and 439 thousand tonnes respectively. The export value of these fruits has been stated in the statistics to stand at Rs.4575 million for 2000–2001. The total combined exports recorded in this year were of the order of 260 (000) tonnes. This means that existing exports are roughly seven per cent of total domestic production. In order to determine the actual demand potential for exports, an easier way to arrive at the tonnage figures will be to leave 25% of total production for wastage, 25% for domestic consumption and the balance 50% for exports. In this manner, the total tonnage available for export for the year 2008 works out at 1,157,000 tonnes carrying a value figure of US $0.5 billion. This value represents a quantum leap in the total export value figure since only one commodity group, i.e., fresh fruits, if properly managed for exports, can add to the export revenue with a 0.5 billion dollar figure based on enhanced per tonne export price i.e. $350 to $400 per tonne. The fact that availability of a large export market will help enhance local production adding to the farmers' incomes and will also serve as a catalyst for growers of these fruits who then will be encouraged to use better crop management practices to increase per hectare yield. In future years, therefore, exports of these fruits will tend to become included in the major commodity export list and will provide a boost to export diversification reducing dependence on current export concentration in only five or six commodities *Statistical Supplement (2004-2005).* Actual export reported at 0.413 at million tones with a value figure of $144.6 million 2005-2006 (News report Daily Jang July 24, 2008).

2(a). Citrus Fruit

Citrus is the most promising fruit for export since a special variety known as *Kino* which is a cross breed between two basic sweet and sour varieties, is grown in very large quantities in view of its unique taste and high juice content. This variety is already being exported to certain countries and has found consumer acceptance due to an additional factor of its long–term preservability at room temperature.

The production of citrus fruits has grown from 926,000 tonnes (1980-1981) to 1,866,000 tonnes (2001) *Statistical Supplement (2004-2005)* ultimately meaning a doubling of production in a period of 20 years and a 5% annual growth rate. Naturally, if exports are enlarged the total production can be expected to expand manifold because of abundant availability of water, fertilizers and pesticides.

Another factor that should be considered is the very low export price of Rs.2000 per tonnes as has been reported in the above–mentioned publication. This price is the average obtained for the total mix of fruits being exported. Looking at the fact that citrus fetches a price of Rs.20,000 per tonne in the domestic market, the export price should be fixed at Rs.30,000 per tonne The low price currently prevalent in the export market reflects inadequacies in marketing and inability of the exporters to carry out successful image building. Certain factors that will affect the per hectare yield and the resultant total production are a function of proper transportation and infrastructure facilities at the right time and the right place. The wastage that is taking place must be drastically reduced, and proper packaging and labeling can help build an image and serve as a means to fetch a higher per–tonne price. The fruit being produced in rural areas will need to be collected in pockets specially created for this purpose and to be packaged in export efficient containers after proper polishing and grading. The existing mechanisms for collection and marketing are totally inefficient resulting in a loss to producers and a shortage in supply to the domestic market at times of demand thus in turn creating an artificial price hike.

All the above suggestions can be implemented if a fruit collection, grading and export body is set up as a subsidiary to the highly powered Export Development Authority.

2(b). Mango

There are mango varieties that remain fresh under room temperature for sufficiently long periods. Only a few countries in the world produce this fruit, and Pakistan is conspicuous by the varieties of this fruit that it produces. This fruit is grown in Sindh and parts of Punjab and because of its exquisite taste is in great demand

by the domestic population at large. The varieties grown through the use of semi culture have a special taste are larger in size and yield a greater quantity of the edible inner pulp.

The production figures between 1980–81 and 2000–2001 show a rise in production from 547,000 tonnes to 990,000 tonnes *Statistical Supplement (2004-2005).* Showing a doubling of production during the period under study.

The export prices of this fruit are also totally out of tune with the level that should actually be obtained. As in the case of citrus the average domestic price is Rs.20,000 per tonne. As such, in the case of mango too a price of Rs.30,000 per tonne should be aimed at and the market manipulated in a manner that this export price becomes actually achievable. Like citrus, mango also needs proper water, fertilizer and pesticides alongwith good farm–to–market mechanism to collect/store the fruit and its airfreight the collected quantities. In total, more than 400 varieties are grown. However, two most outstanding varieties which command a higher consumer price because of their inherent qualities need to be made the target for accelerated export.

2(c). Apple

Apple is a fruit which is recognized throughout the world as not only nutritious but as being endowed with ingredients that support human health in a befitting manner.

Pakistan has apple farming facilities in its hilly areas and the varieties that are produced are internationally acceptable. Three varieties have exquisite taste, flavour, texture and juice content. These varieties command a domestic price in the vicinity of Rs.30–40 per kg or Rs.30000 to Rs.40000 per tonne.

III. Structural Transformation Variables

The structural information variables are necessary ingredients into the model the other variables become effective in conjunction with this variable.

These factors have been labeled as reinforcement factors since at the present moment these institutions are not adequately equip to facilitate export development at an accelerated phase. The institutional development as per the outlined frameworks will serve as a catalyst for boosting exports and provide a mechanism whereby the diversification model will work in the focused direction.

The development of the proposed institutions will have a multiple effect in the sense that on the one hand they will serve as measures that will result in an enhanced capacity output of the commodities being currently exported and on the other they will help in the creation of export surplus for minor commodities too.

The minor commodities in particular need to be boosted to higher levels to achieve both volume and value increase in exports. The exports of these commodities need support in terms of availability of additional finance, export efforts by third party commitments and barter arrangements that will circumvent the need for additional capital. The institutions whose establishment has been recommended are already functioning in many other countries where they have markedly helped to enlarge the export picture. Pakistan has not yet paid attention to the role which such institutions can play to diversify and expand exports for obtaining greater market access.

3(a). Direct Marketing

In the ancient times when barter trade was in vogue buyers and sellers would need face to face to finalize the trade transactions today the modern practice due to fabulous development of transport and communication facilities direct trade in the presence of both the buyer and seller has become feasible. Now a days this practice has gained currency with the advent of world financial market and evaluation of hard convertible currency.

Naturally in this situation when one country deals with another it has to first consider its exchange parity and the amount of standard currencies like dollars, pounds or euros to be realized in such transactions. As such depending upon the exchange parities a country might dispose of a large quantum of its goods for a relatively small standard currency units gained in the process. This is more true and hurting for countries like Pakistan from the third world whose currencies are inconvertible when reviewed in terms of amount of standard currencies realized in trade transactions.

Direct marketing thus is considered an exchange viable and welcome mechanism for a country like Pakistan which is short on hard cash on the one hand and needs to spread the available miniscule cash over as large variety of imports as possible.

3(b). Export Conglomerates

Economies of scale in world competitiveness has a very crucial rule. World market operators compete among themselves with in a narrow margin of 0.5% of the average cost. Those companies who have established a well net organization for collection of exportable from many sources and packaging them to the exporters on a mass scale. The average size of exporters business in Pakistan is not quite large say the biggest exporters are

able to process export order not more then 100 million dollars. At the same time the small exporter being in large number handle export less than 100 million dollars. In the circumstances Pakistan could promote through fiscal incentives nearly one dozen export companies who could cut their transaction cost substantially thereby enabling Pakistan to become competitive in world export prices in the relevant commodity categories.

Export conglomerates working as manufacturer's or export agent in the foreign markets if compensated properly can directly take title to the goods saving the exporter from the hassle of time lag between shipment and receipt of export proceeds. Additionally since the export conglomerates deals with a number of clients and multiple products simultaneously the margin allowed to such an agency does not represent an unwelcome burden to the exporter.

Thus the export conglomerates if properly employed and utilized by even small exporters in Pakistan could substantially help both in export enhancement and diversification.

3(c). Establishment of Export/Import Bank

For the expansion of agricultural sector, the Pakistan Government has established an Agricultural Development Bank with the specific objective of providing both macro and micro credit to large and small farmers to enhance the total agricultural output of the country.

This institution has played a key role in providing the necessary farm input in the form of credit to finance the acquisition of agricultural machinery, fertilizer, pesticides, and tube well etc. This action on the part of the government has played a dynamic and positive role in the expansion of crop outputs.

The export business needs a similar attention so that both large and small exporters are provided with the necessary financial assistance to meet the twin objective of export volume enhancement and diversification.

In this context, a number of countries have already established institutions which cater to the needs of export business either on a small or large scale. The institution being referred to here is an export/import bank which receives adequate funding from the government to meet short–and long–term credit needs of exporters there by providing assistance to increase the volume of inter–country trade specifically related to the country's export and import needs.

The assistance to be provided by such a bank, if established in Pakistan, will take various forms keeping in line with the following key assistance areas. In the first place, the Pakistan Government will need to direct the State Bank of Pakistan to provide substantial credit lines to this institution and keep on enlarging the credit base to cater to the continuously increasing financial requirements particularly with reference to export.

The specific measures which the export/import bank will focus attention on are given below:

(i) Grant of Loans on Subsidized Interest Rate
(ii) Relaxation in Debt–equity Ratio
(iii) Establishment of Branch Network
(iv) Specific Commodity Funding

IV. Fiscal & Commercial Policy Variables

The trade policies that are enacted from time play a vital role in the overall country–trade pattern. These policies directly result in attaining the twin objective of reducing trade deficit and improving the balance of payment position.

In relation to exports, particularly in the context of the aim of diversification, the Government of Pakistan needs to develop certain policies which have a bearing on this important aspect of the country's economy.

4(a). Integrated Working of FBR, Ministry of Industries and Ministry of Commerce

As has been pointed out earlier there is a lack of coordination between the body that determines duty and tax rates (CBR), the ministry which determines the direction of trade and commerce (Ministry of Commerce) and the ministry which is supposed to implements such directives (Ministry of Industries) creates road-block both in the value and direction of exports. The value is a function of duties and taxes whereas the directions depends upon policymaking and attainment of export surplus to attain these objectives.

The total effect of levies on exports should first be determined which will dictate the possible revenue generation from export, this should then be prioritized by the trade policy framework to be evolved and finally subjected to strict implementation by the Ministry of Industries resulting in capacity expansion, new investment, development of new industrial zones, training programs for skilled and unskilled labor among others.

4(b). Facilitating New Industrial Enterprises

The sole motivator for a flow of funds from the hands of entrepreneurs in the form of productive enterprise is the profit that comes about as a result of the efforts on the part of the entrepreneur to pool human

and material resources and organize them in the form of a venture that promise both returns to the entrepreneur and benefits for the human resource thus employed.

Putting up a new industrial venture entails preparation of a proper feasibility to identify the potential industry for investment, obtaining governmental approval by providing support documents in addition to project feasibility papers, obtaining required land for putting up the proposed industrial venture, construction of the structure, erection and installation of machinery and equipment, getting sanction of adequate power and other utility services, and ensuring their actual availability on the proposed site. All these requirements cause a lot of hassle to the entrepreneur before he is actually able to attain a production start–up.

Since a number of functionaries are involved in fulfilling the basic requirements of a new industrial venture before it reaches an operational stage, the time lag that precedes each stage that is stated above needs to be shortened so that the proposed venture starts contributing its share to the nation's total productive output at an earliest time.

4(c). Provision of Subsidy

In the various interviews with exporters that were a part of this study, it was revealed that little incentives or concessions are granted by the government in spite of the fact that exports constitute a key area that deserves special attention of the government.

This is in contrast to the policies that other competing countries have put in force to encourage the export sector. These policy measures are in the form of rebates, tax concessions or tariff reduction in the imported component of exports.

The primary emphasis in this regard has been discussed below:

1. Concessional Export Credit Financing
2. Cash Compensatory Support

These have been discussed in detail below:

(i) Concessional Export Credit Financing

One of the popular objectives of export subsidy is to improve competition among exporters to increase the overall welfare effect. Concessional export financing is considered to be an effective tool. It is an active incentive that boosts export activities and has a positive impact on individual business performance. For this, it has to be targeted well and applied tactfully on the basis of a supply–and–demand analysis.

Export subsidy influences the market in two ways. First, the exporting sector expands and consequently its producer surplus is increased. Secondly, the government of the exporting country does not have to incure any real cost.

Concessional export financing is a vital tool used for facilitating the exports. This same technique is already in practice in several European countries like UK and France. In the words of Jepma and Rhoen in the book of International Trade, "Concessional export financing is a combination of Official Development Assistant (ODA), in the form of aid credits or grants, with officially supported export credits or regular commercial credits".

(ii) Cash Compensatory Support

Another very dominant export promotion measure is the cash subsidy scheme which in Pakistan is known as duty draw back. In its essence, its object is compensating the exporters for unrefunded taxes and duties on the manufacturing of exported goods. This scheme will be of special benefit to such capital scarce exporters who inspite of having up-to-date knowledge of export mechanism and expertise to tap additional export revenue are not able to expand their export operations which would be in the larger interest of Pakistan.

The scheme would involve.

1) Exemption from payment of taxes both on imports and exports.
2) Cash payment to cover high cost of transportation in case of agricultural exports.
3) Freight subsidy in full on a uniform basis on all export consignments.

For Pakistan, export is an issue that deserves special attention of the government. Export enhancement is dependent on the price and quality competition that Pakistan can offer.

In view of the escalating charges of utilities, the manufacturer cum exporter in Pakistan has suffered a setback in the sense that with the passage of time exports have tended to become uncompetitive. This needs remedial measures particularly in areas and sectors where provision of subsidy could enhance domestic output and create an effective surplus.

V. Conclusion

Pakistan's economy was agrarian in content and style. Manufactured and semi manufactured goods were available to Pakistani consumers from the Indian provinces. We had to import necessary consumer and capital goods from other countries. Fortunately, Pakistan was able to pay for her imports from the export revenues of its raw cotton and jute. In fact there was balance of payment problem for Pakistan in the initial years. The export industry of Pakistan, on the other hand did not succeed in attracting new foreign purchases on a desired scale. In last two decades Pakistan under the influence of World Bank and IMF was obliged to adopt the policy of privatization, de-regulation, liberalization of trade, and financial marketing. On account of the political uncertainties, there was a flight of capital from Pakistan to the Western Block including USA and meanwhile the loan disbursement from World Bank and other donor agencies had almost dried up. All these factors severely affected the activities of export and the graph of export from Pakistan consistently showed decline. In order to ensure a sustainable position in the balance of payment, Pakistan must enhance her exports earnings and diversify her export trade for remarkable trade achievements. During this research study, we have developed a new strategy that would fulfill the requirements for sustaining the economy of Pakistan to a satisfactory and dignified level. In a nutshell, the suggested strategy model for export diversification aims at doubling the export earnings within a short period time. The task of export promotion has been sub divided by this multidirectional strategy. The analysis further establishes probability of export enhancement so that the chronic deficit in the balance of payment facing Pakistan since 1970, will be made good by a robust surplus in the balance of payment. The transformation of the economy of Pakistan reflecting the high export target will empower the country to follow independent economic development policy.

It may not be out of place to mention here that Pakistan is blessed with numerous huge natural resources that can safely guarantee a vibrant economy. Hopefully, in a period of 10 to 15 years, the adoption and compliance of the strategy for export diversification as suggested by the author, will bring fruit and Pakistan will be able to rise from the status of developing country and by successfully implementing the concomitant economic, social and legal reforms, Pakistan will rank among the highly industrialized and developed countries.

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TABLE A
Total World Imports Selected Countries

LEATHER

Country	Value in Million (2005)
China	$ 58.35
Hong Kong	54.77
Italy	35.85
Romania	12.93
Germany	10.91
Spain	8.98
Poland	8.23
Republic of Korea	7.23
France	6.46
Viet Nam	-
Portugal	5.63
Thailand	5.55
Taiwan	4.2
United Kingdom	3.67
Hungary	3.6
Japan	3.03
Turkey	3
Canada	2.92
Netherlands	2.28
Malaysia	2.05
Brazil	2.01
Bulgaria	1.9
Austria	1.61
Belgium	1.6
Indonesia	1.19
Australia	1.42
Singapore	1.12
Denmark	1.03
Switzerland	1
Philippines	0.85
Norway	0.85
Greece	0.66
Sri Lanka	0.15

Source :
http://www.intracen.org/tradstat/sitc3-3d

TABLE B
Total World Imports Selected Countries

FOOTWEAR

Country	Value in Million (2005)
USA	$ 315.11
Hong Kong	89.74
Germany	86.32
United Kingdom	79.47
France	78.94
Italy	74.8
Japan	59.71
Belgium	33.53
Spain	30.91
Netherlands	30.25
Canada	22.78
Austria	18.34
Switzerland	14.47
Australia	13.37
Denmark	12.15
Republic of Korea	11.18
Sweden	9.6
China	9.03
South Africa	8.12
Portugal	8.06
Romania	7.17
Poland	7.15
Turkey	6.88
Ireland	6.69
Taiwan	6.64
Hungary	5.38
Chile	5.11
Viet Nam	-
Saudi Arabia	4.29
UAE	-
Colombia	2.34
Serbia and Montenegro	-
Malaysia	1.53
Kuwait	-
Indonesia	0.99
Philippines	0.74

Source : http://www.intracen.org/tradstat/sitc3-3d

TABLE C

Total World Imports Selected Countries

INSTRUMENTS & APPLIANCES FOR MEDICAL, SURGICAL DENTAL OR VETERINARY

Country	Value in Million (2005)
Netherlands	$ 63.52
United Kingdom	62.85
Germany	60.74
Japan	58.98
France	45.09
Belgium	38.93
Italy	36.74
Canada	27.9
Spain	21.57
Australia	15.84
China	15.08
Hong Kong	14.2
Switzerland	13.58
Republic of Korea	11.51
Austria	10.09
Sweden	9.92
Turkey	9.37
Ireland	8.48
India	7.73
Greece	6.47
Poland	5.94
Saudi Arabia	5.07
Malaysia	4.66
Portugal	4.59
Brazil	4.18
Thailand	3.05
Hungary	2.43
Romania	1.44
Philippines	1.08
Viet Nam	-
Kenya	-
UAE	-
Nigeria	-

Source : http://www.intracen.org/tradstat/sitc3-3d

TABLE D

Total World Imports Selected Countries

KNITTED FABRICS

Country	Value in Million (2005)
Hong Kong	$ 45.45
Mexico	15.42
France	6.5
Sri Lanka	6.47
Italy	6.23
Thailand	5.97
Cambodia	-
Philippines	4.83
Poland	4.16
Canada	4.1
Morocco	3.42
Romania	3.37
Belgium	2.91
Malaysia	2.91
UAE	-
Spain	2.86
Singapore	2.58
Hungary	2.15
Portugal	1.75
Japan	1.69
Austria	1.6
Australia	1.29
Republic of Korea	1.27
Indonesia	1.16
Switzerland	1.13
Ireland	1.06
Greece	1.05
Sweden	0.54
Saudi Arabia	0.15

Source : http://www.intracen.org/tradstat/sitc3-3d

TABLE E

Total World Imports Selected Countries

MADE-UP ARTICLES

Country	Value in Million (2005)
Germany	$ 40.41
United Kingdom	29.35
France	28.84
Canada	14.19
Spain	13.58
Italy	13.28
Belgium	12.37
Netherlands	11.62
Australia	8.95
Switzerland	6.95
Sweden	6.87
Austria	6.53
Hong Kong	6.46
Denmark	4.68
Poland	4.35
Republic of Korea	3.84
Saudi Arabia	3.51
Greece	3.39
Ireland	3.15
New Zealand	2.49
Portugal	1.98
Hungary	1.37
UAE	-
Argentina	1.14
Thailand	1.07
Turkey	1.06
Malaysia	0.97
Brazil	0.52
Philippines	0.22
Indonesia	0.2
Sri Lanka	0.12

Source :
http://www.intracen.org/tradstat/sitc3-3d

TABLE F

Total World Imports Selected Countries

TEXTILE FABRICS, WOVEN

Country	Value in Million (2005)
Italy	$ 8.94
France	7.01
Romania	5.73
Turkey	5.63
Spain	5.45
Poland	3.83
Belgium	2.39
Mexico	2.35
Denmark	2.32
Austria	2.14
Switzerland	2.07
Portugal	2.02
Netherlands	1.6
Thailand	1.3
Australia	1.23
Greece	1
Sweden	0.91
Philippines	0.76
Singapore	0.72
Malaysia	0.45
New Zealand	0.43
Sri Lanka	0.38
Indonesia	0.21
Algeria	-

Source :
http://www.intracen.org/tradstat/sitc3-3d

TABLE G
Total World Imports Selected Countries

TEXTILE YARN

Country	Value in Million(2005)
China	$ 69.98
Hong Kong	67.60
USA	44.94
Italy	41.57
Germany	36.02
Turkey	25.50
France	25.27
Republic of Korea	24.81
Belgium	19.19
United Kingdom	18.18
Japan	18.02
Spain	15.16
Netherlands	12.64
Canada	11.94
Mexico	9.67
Portugal	9.55
Brazil	9.14
Poland	8.41
India	8.36
Czech Republic	8.30
Taiwan	7.24
Thailand	6.99
Bangladesh	-
Austria	5.36
Australia	5.11
Viet Nam	-
Malaysia	3.81
Philippines	3.47
Denmark	3.38
Greece	3.19
Hungary	2.69
Sweden	2.71
Morocco	2.57
Singapore	1.49
Ireland	1.16
Norway	1.12
Kenya	-
Brunei Darussalam	-

Source : http://www.intracen.org/tradstat/sitc3-3d