

Welfare Effects in Regional Block Trade: A Case Study of Exporting Dried Dates from Khairpur Mirs

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Abstract

This research investigates the welfare effect of economic costs and benefits of Pak-India trade with exporting dried dates. The first scenario is when normal trading relation with India will be restored. It means that both countries will give the MFN status to each other. In the second scenario, the SAFTA will be operative and there will be free trade between India and Pakistan and both countries will remove all tariffs and custom duties from each other's imports. After employing the simplified static analysis framework, the analysis based on simulations reveals that current demand for Khairpur dates will expand after the FTA and consumer surplus will increase. The drop in the domestic prices of dates will increase the production of many downstream industries, which will have pleasant multiplier effects on the economy. Overview of dates industry and results of economic analysis indicate that Pakistan will get benefit from the FTA by getting the cheaper labor for which will increase their competitiveness, and to reduce the costs of trade diversion in some commodities, the government should reduce MFN tariffs on industrial dates before implementing the FTA. A key rule of multilateral trade system is the reduction in trade barriers should be applied, on a most-favored nation basis (MFN), to all WTO members. The only exception to the MFN principle built into the GATT legal framework is the provision for reciprocal free trade within customs unions and free trade areas (GATT article XXIV). Objectives of the present study is to analyze qualitatively and quantify the potential economic cost and benefits of prospective trade between India and Pakistan to consumers, producers and government of the two countries for export of dried date under the following two scenarios, i.e., when normal trading relations between Pakistan and India will be restored and when there will be a free trade between Pakistan and India in the presence of South Asian Free Trade Agreement (SAFTA). Following the analytical framework discussed by PO managerial (20001), we employ the simplified static analysis for individual industries to instigate the welfare gains or losses.

Keywords: Dried Dates, SAFTA, Pak-India-Trade

1. Introduction

India and Pakistan are both low-income countries and are amongst the poorest and least developed nations of the world. Pakistan appeared on the map of date exporting country is the second largest exporter of dates in the world. Major buyer of dried date is India. Date is one of the important fruit of Pakistan, and Khairpur district is account for 60% of the total dry date's exports to India. (Primary Sources). The export increased by 20% in this year 2006 because of the good relationship with India. Dates are rich in carbohydrates, minerals and vitamins. There is no cholesterol and nonfat in dates. Dates have a great importance a staple food as well as dessert fruit. The fruit is generally associated with health foods. Peak season for dated consumption is during the month of Ramadan. Entire Muslim community around the world currently numbering 1.6 billion people is loyal consumer of dates. Consumption is also quite high during Christmas. Similarly, the fruit enjoys enormous significance on the occasion of Eid and such festivals another religions. In Europe and North America, the fruit is particularly preferred during the dark winter month. usual sales of dates are spread to a period from October to April. Dates have found their way into sweets, confectionery, chocolates, baking products, preservatives, salads, sauces, and breakfast cereals. Dates also have bulk industrial uses. With advancements in food technology, newer and very useful date products are being developed, indicating fruit's bright future. (M.E JUALBANI, at al 2002)

2. Dates Sector Overview

World Production: Dates are cultivated mainly in warmer regions of Asia and Africa. The fruit is also grown in some parts of Europe and the USA. Global production of this delicious fruit stood at 5.46 million metric tones in 2001. Egypt (1102 thousand tones), Iran (900 thousand tones), Saudi Arabia (712 thousand tones), Pakistan 550 thousands tones), Iraq (400 thousand tones), Algeria (370 thousand tones), UAE (318 thousand tones), Oman (260 thousand tones), Sudan (177 thousand tones), Libya (132 thousand tones), China (110 thousand tones) and Tunisia (107 Thousand tones) are the Top TWELVE date producing countries in the world. As is evident from the above, {Pakistan ranks the 4th among them (FAO-2005-2006).

Pakistan's Varieties: Rich soil, abundant sunshine and four distinct seasons make Pakistan an ideal place for cultivating a variety of agriculture crops. the above factors help in creating a very special taste incur farm produce, particularly in fruits. mangoes, apples, and dates. Makran, Khairpur (MIRS) and D.I. Khan are major date growing regions in the country. Our commercially important date varieties include Aseel, Kabala, Fasli and Kupro of Sindh, Muzawati, Negum Jangi, Jaan Swore, Kehraba and Rabsai of Balochistan; Dakki and Gulistan of NWFP and seedless variety of Punjab.

Processing Centre: Therhi, in district Khairpur (Mirs) occupies a central place in date processing in Pakistan. Close to one dozen date factories are established in and around this township. Quality control starts with the choice of only highest quality fruits. Date factories purchase date for exports from progressive date grower, who take extreme care of dates right from the flowering stage. Well-developed, fleshed, fully ripened and sun-dried dates are brought in plastic trays or wooden crates at the premises of the factory. On arrival, the fruit is weighed and immediately fumigated. For fumigation, usually methyl bromide, aluminum/magnesium phosphate, or a toxin tablets are used. All vents and openings are completely sealed for adequate fumigant, date of fumigation, validity period of fumigation and date of re-fumigation, if necessary, are clearly indicated. The fruit is store in a clean and dry are. Dated are taken from trees lots as and when require. Mostly, dates are processed manually. Only skilled male and female workers perform the processing job. Dates are give a light warm-water wash in order to remove dust, and or any other foreign matter. The Fruit is then spread on large tables for manual sorting and grading. (Pakistan Gulf Economist-December 2002).

The job of date grading is quite technical in nature. Uniformity in color and size, weight of dates per kg, percentage of discolored, deformed, mashed, mechanically injured dates and dates with broken skin, scars and other defects, which materially affect external appearance, audibility or keeping quality of the food are some of the factors taken in account for determining the grade. A batch of workers works under the supervision of a highly experience quality controller, who gives instructions to his team for preparing the desired grades.

Packing: Graded dates are packed in clean, new fiber board cases lined with perforated polyethylene bags. Cross dividers are optional. All packaging material meets the standards of for grade packaging. Each carton is passed through metal detectors before and after being finally sealed.

Higher Standards: Date factories in Therhi are maintaining international standards of cleanliness, hygiene and quality control. One of these factories has even achieved ISO9000 certificate of quality control. The factory is totally neat and clean. The entire processing area is fly-free zone. The company has installed Glue Board fly-killers in the factory. The device attracts catches and kills insects, including flies, wasps, mosquitoes and

moths silently without the use of any poison or chemicals. Workers wear white cotton scarves on their heads to prevent falling of any hair during the work. Pakistan has the capacity to supply fully processed high quality dates in aviations styles, shapes and forms, which include pitted whole dates, un-pitted whole dates, pressed date bricks, date chops, date paste in bulk as well as ready-to-distribute small boxes/jars weighing from 100 gms to 1000 gms.

Packing dried Dates: As compared to fresh dates, the processing of dried dates for exports is not very much complex. The fruit is simply cleaned, graded and just packed in 70 kg jute bags. Agha Qadirdad Khan date market, situated on the left bank of river Indus, near Baberloi, one of the earliest homes of dates in Sindh and Khairpur dated market, on the national highway, are the main processing centers for dried dates. Most of the women they are engaged in packing and grading the dates at Agha Qadirdad market which is amen domestic market.

Exports from Pakistan: Pakistan appeared on the map of date exporting countries in the beginning of 80s in the last century. Today, we are the second largest exporters of this fruit in the work .Major buyers of our dates include Canada, the USA, Germany, the UK, Denmark, Australia, India, Bangladesh, Nepal, Sri Lanka, South Africa, Dubai, Japan, China, South Korea and Norht Korea etc.

As indicated in Table-I export of dates from Pakistan stood at 48.6 thousand tones in 2003-04, Exports reached 64.2 thousand tones in 2004-05. The figure went up to 79.95 thousand tones in 2005-2006, registering an increase of 24.5%. In 2006-2007, exports increased by 27%% to 99.46 thousand tones.

Exports Estimates: This year, Pakistan has bumper crop of dates that has been record harvesting in Sindh. All date factories and individual date processors of the fruit are fully booked up to June 2006. Factories are working overtime to meet the demand. Exports of dates from Pakistan during the current fiscal year are estimated to be the highest ever and may touch 100,000 metric tones mark. In our survey period we have observed that 30% of the dried dates are exported to India with illegal channels.

Crop in 2001 was badly damaged by heavy rains at the time of harvesting of the fruit. Another reason for fall in export was the closure of wegha border, from where most shipments of dried dates are made.

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World Imports: Relevant statistics indicate that only around 10% of dates produced in were traded. Table-II shows that global imports of dates during the period from 1998-2000 averged to over 560 thousand tones per year. India is the largest importer of this fruit in the world. The country imports around 40% of dates offered fro sale. It imported 244 thousand tones in 1998, after India comes UAE. This country is, in fact, a global trader of dates. It imported 100 thousand tones dates in 1998 and 180 thousand tones in 1999. in 2000, its imports were 43 thousand tones.

Imports to Europe: In Europe, France, the UK, Germany, Italy, Spain, and Russian Federation are major and regular buyers of dates. France has traditionally been the largest European importer of dates and the important re-exporter. Dates important re-exporter. Dates imported in bulk in France are treated and re-paked in Marseilles, a port city near Mediterranean countries. The place has been a centre for international trade for dates fro two centuries. France purchased 22.8 thousand tones in 1998. After slightly sliding to 20.8 thousand tones in 1999 its imports went up to 23.8 thousand tones in 1999 falling back to 10.4 thousand tones in 2000. Germany's imports remained constant at around 6000 tones per year during the period under review and so were Italy's. Imports of Spain have grown slowly but steadily: from 4.9 thousand tones in 1998 the figure went up to 5000 tones in 1999 and 5.3 thousand tones in 2000. there has been a dramatic rise in ports of Russian Federation. Jumping from 2.8 thousand tones in 1998 to 5.2 thousand tones in 1999 *an increase of 85.7 % (imports rose to 8.8 thousand tones in 2000 showing further growth of 68%.

Major Muslim Importers: Bangladesh, Indonesia and Malaysia are important non-date producing Muslim counties. All of them import dates for consumption in Ramadan and for other purposes in quite substantial quantities. Among these three Bangladesh is the largest importer. The country imported 13.4 thousand tones of dates in 1999. is imports rose to 19.2 thousand tones in 1999. the quantity imported by it in 2000 was to the tune of 15000 tones. There is a continuous growth in Indonesia imports. The country imported 13.3 thousand tones in

2000. Some ups and downs are noticed in Malaysia's imports. It imported 2.8 thousand tones date in 2000, while its imports in 1998 and 1999 were 10,000 tones and 13.8 thousand tones, respectively.

Other Importers: Sri Lanka is an important date importing country in our neighborhood. In 1999 the island country's imports almost doubled to 14.5 thousand tones from 7.9 thousand tones in 1998. its imports stabilized at 10,000 tones in 2000. Niger is an importing country of importance in Africa. There is overall a rising trend in its imports. In 1998 its imports were 5.8 thousand tones, which rose to 9000 tones in 1999. imports, however, slightly declined to 8.6 thousand tones in 2000. Turkey's imports are also growing. From 5.4 thousand tones in 1998, its imports swelled to 8.5 thousand tones in 2000.

(Asli Date variety)

Export of dates from Pakistan

(Fresh Dates)	KG	Tones
1- USA	1451604	1296
2- Canada	718676	642
3- UK	627036	560
4- India	422505	377
5- Denmark	176305	157
6- UAE	131191	11
(Dried Dates)	KG	Tones
1- India	756, 029,47	67503
2- Bangladesh	1171786	1046
3- USA	629432	562
4- Nepal	481696	430
5- UK	422446	377
6- UAE	244702	229

2.1 Trends in Exporting Dates Trade

Pakistan is the net exporter of dates; Pakistan is one of the leading exporters of dates in Asia. The share of Pakistani dates is increasing in the global markets. Value in (000 Dollars). Nearly 80% of the dried dates are exporting to India from Khairpur district. Sukkur is the main market for exporting dried dates to India.

3. Data and Methodology

The objective of the study is to analyze and quantify the potential economic gains or losses of trade between India and Pakistan under the SAFTA framework. Following the analytical framework discussed by Panagariya (1995), we imply the simplified static analysis for individual date industries to investigate the welfare gains or losses, if any. Using demand and supply framework for simulating the welfare impact under the assumption of perfectly competitive environment, our focus is on intermediate good, which ultimately have many end users. To avoid complexity and to do empirical estimation of welfare changes, we will use the linear demand and supply functions. By employing computable partial equilibrium at commodity level, we will try to estimate the cost and benefits of trade to different groups in the two countries.

3.1 Data Description and Sources

Adequate and reliable data is a prerequisite for a meaningful analysis. Realizing the importance of adequate data, we have made almost care in the collection of data from different sources. Data on the production of dates sector, and its sub sectors i.e., organic and inorganic dates, is available in various issues of Economic survey of Pakistan, Pakistan Gulf Economist. Similarly, production of selected commodities is also obtained from economic survey and monthly statistical bulletin. Whereas data on Indian production of selected commodities is available from corporate sector, center for monitoring Indian economy, which is also called CMIE. We have surveyed 10 exporters in Khairpur and Agha Qadirdad Market sukkur. They are earning \$30,000 per year by exporting dried dates. Monthly imports and exports of Pakistan are available in various issues of foreign Trade Static's. Federal Bureau of Statistics publishes monthly prices of selected dates, and FAO annual Reports, which include VAT and other transportation, cost. However, ex-factory prices we obtained directly from the producers to construct the final prices required for the simulation analysis. Similarly, landed (c.i.f) prices of imported commodities are

obtained from raw data at the time of port clearance which is obtained from Central Board of Revenue (CBR). Data on India trade is available online from directorate General of Foreign Trade India.

Tariff structure and other taxes at commodity level is available in Pakistan custom and Tariffs books published by CBR, while information on India custom and tariff structure is obtained from custom tariffs year book published in India as well as Ministry of Commerce India. All the required variables used in the analysis were constructed from the available information carefully.

Some information on prices was obtained directly from stakeholder. Structured interviews were conducted both with dates producers of Khairpur district and importers of the products under the analysis. Information were also collected from the end user industries by running questionnaires as well as asking them directly about the usage of the products, their price variation, and other related information.

We have selected 2002-2006 the year of analysis, as all the latest require variables are available for this year. All the currency units are in Pak Rs. Unless otherwise mentioned. A detailed process of price construction used in the analysis is given in the table 4.1

3.2 Economic Analysis of the Export of Dried Dates

We perform simulations to quantify the potential economic gains and losses due to bilateral trade between India and Pakistan in the specific commodity dried dates.

There are two scenarios to analyze the potential economic cost and benefits of trade with India. The first scenario is when normal trading relation with India will be restored. It means that both countries will give MFN status to each other. In the second scenario, SAFTA will be operative and there will be free trade between India and Pakistan. The two Scenarios are further spelled out in following lines.

A. Normal Trading Relations

This scenario implies that Pakistan will give MFN status to India i.e. imports from India would be treated equally with the imports from other countries under GATT 'most favored nation' principles, and normal tariffs and domestic taxes would apply to them. Currently, Pakistan has special arrangements of trade with India. It has prepared a positive list of the items that can only be imported from India. It means the commodities, which are not in the positive list, cannot be imported from India other import from India is banned. However, published data shows some variations as some of the banned items have been imported from India occasionally in the past. After restoring the normal trading relation with India, Pakistan's 'positive list' of imports, which are allowed from India, would be abolished, and all the discriminatory restrictions on imports from India would be eliminated.

B. SAFTA

A free trade area is an agreement among countries where by tariffs and non-tariff barriers for instance quotas, licensing requirements and products safety regulation are abolished among members. Compared to customs unions and common market, a free trade area is the least institutionalized form of economic integration, where each member of the FTA keeps its own external tariffs and other regulations for trade with non-member countries. An FTA may offer advantages to all member countries. An FTA is likely to increase interregional trade and enhances competitiveness, productivity and efficiency. Trade creation, trade diversion, and terms of trade are the components of static effects. When the removal of trade barriers promotes trade among the members (trade creation effect), it sometimes does so at the expense of imports from non-members (trade diversion effect). If an FTA leads to a reduction in imports from non-members, FTA members are likely to experience improvement in their terms of trade vis-à-vis non-members (terms of trade effect). The trade creation effect and terms of trade effect lead to an increase in economic welfare of the members, while the trade diversion effect is likely to reduce economic welfare of the members because imports from most efficient suppliers in non-members are replace by imports from less-efficient member producers. It is important to note that for non-economic welfare.

The free trade scenario analysis assumes that there will not only be normal trading relations with India but SAFTA will also be operative and there will be no tariff or custom duty on imports from India. However, the domestic taxes at the border level would continue to prevail. Besides, duty drawback and other tariff neutralization measures for inputs as well as export incentives would be available.

It will be useful to mention that the trade diversion means that a free trade area diverts trade, away from a more efficient supplier for example from rest of the world (ROW), towards a less efficient supplier within the FTA for example India. The trade3 diversion may reduce a country's national welfare but in some cases national welfare

could improve despite the trade diversion, depending upon the particular situation. In contrast, trade creation implies that a free trade area creates trade that would not have existed otherwise. As a result, supply occurs from a more efficient producer of the product.

4. Conclusion and Policy Implications

Dates Industry has gained a prime importance in the economic development of any country especially in the presence of technological advancement in dates processing. The world of business has changed drastically and there is every indication that it will continue to change. Markets will be more sophisticated and more demanding. A total competitive response needs to be adopted. The business winners shall have to offer best quality, sharpest price, fastest delivery and greatest flexibility. Enabling Pakistani exporters to meet the competitiveness challenge right infrastructure and right facilities are required to be provided at right places. Exports of dates from Pakistan during 2002-03 are expected to be around 90,000 tones to 100,000 tones. In this year expected 150,000 tones. This is going to be possible in spite of the fact that there is no dry port in date growing / date processing area. As is clear from the above, Therhi has proved to be mini-Marselles (France), as far as date processing is concerned. Khairpur (Mirs) is therefore the right place, which must have the facility of full-fledge dry port. Date is just one exportable item produce in the region. Cotton, cotton waste, various varieties of rice, rice bran, wheat, sheet bran, oil seeds, Oil cakes, guar, henna leaves and powder, painted furniture, traditional garments, handicrafts, fuller's earth and minerals, raw-wool and animal hair are produced in substantial quantities in Khairpur (Mirs) and neighboring districts. These items could be profitably exported from Khairpur dry port. The exacts site of the dry port may be near the Staging Section N.L.C between Therhi and Khairpur city. All date factories in Therhi, Karamabad and Luqman town, Agha Qadirdad Date market and KHAIRPUR date market, are at a distance ranging from 1 mile to 15 miles from the proposed site of the dry port. Khairpur dry port will have tremendous impact on Pakistan's export performance in the years to come. Increased exports from that dry port would mean an increase in job creation in the region. The facility will open avenues for development and provide opportunities for socio-economic activity. A new era of prosperity will take place in the Northern Sindh.

Pakistan will get benefit from this FTA by getting the cheaper raw material for other industries, which will increase their competitiveness. Thus, if simulation analysis is performed on more products in date's industry, the likely outcome is that the general conclusion drawn will not be altered. Magnitude of consumer and producer surplus and customs revenue will vary with the variation of products.

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Table 1. Production of date Fruits in Pakistan and Sindh Province during 1991-2002 (000 Tones)

Year	Pakistan	Sindh	Share of Sindh
1990-01	287.3	97.6	34%
1991-92	292.9	107.1	36.56
1992-93	275.2	84.0	30.52
1993-94	578.6	84.1	14.53
1994-95	531.5	30.7	5.78
1995-96	532.5	31.5	5.91
1996-97	534.5	32.1	4.32
1997-98	537.5	34.0	6.36
1998-99	540.1	33.9	6.28
1999-2000	579.9	244.6	42.18
2000-2001	612.5	266.0	43.43
2001-2002	630.3	288.9	45.83

Source: Government of Pakistan (2004), Agricultural Statistics of Pakistan 2003-04 Islamabad, P.100.

Grading: Dates in Pakistani re usually classified according to the following grades

(a)	Extra Class
(b)	Select-A
(c)	Select-B
(d)	Good Average Quality (GAQ)
(e)	Fair Average Quality (FAQ)
(f)	Industrial Grade

Table 2. Export of Dates During The Last 4 Years

Year	Quantity (Metric Tones)	Rate of Increase / Decrease as compared to previous year.
2003-2004	48,612	
2004-05	64,217	32.1% Increase
2005-2006	79,956	24.5% Increase
2006-2007	99,471	27% Increase

Table 3. World Import of Dates (Quantity: Thousand Metric Tones)

Name of Country	2006	2007	2008
World	556.8	655.3	478.6
Australia	3.7	5.3	4.1
Bangladesh	13.4	19.2	15.0
Canada	5.7	5.2	4.0
China	4.1	6.5	6.6
Hong Kong	4.5	3.8	5.9
France	22.8	20.8	23.5
Germany	6.1	6.0	6.5
India	244.0	238.2	192.6
Indonesia	9.0	10.0	13.3
Italy	6.2	6.1	6.4
Malaysia	10.0	13.8	2.8
Niger	5.8	9.0	8.6
Pakistan	30.6	23.0	29.5
Rusia	2.8	5.2	8.8
Spain	4.9	5.0	5.3
Sri Lanka	7.9	14.5	10.0
Turkey	5.4	3.7	8.5
U.A.E	100.0	180.0	43.9
United Kingdom	10.1	13.5	10.4
U.S.A	3.6	5.0	4.6
Source: FAO/UN-2005-06			

Table 4. Exporting dried dates from Khairpur Mirs to India

Year	Exports (000) tones	Share total exports (%)	Values in 000 dollars
2000	11,000	33%	11.0
2001	13000	35%	11.5.0
2002	15000	38%	13.0
2003	17000	40%	14.0
2004	18000	41%	17.0
2005-06	20,000	44%	19.0

Source: Primary Sources.

Table 5. Global and regional Scenario in Dried Dates Export from Pakistan (000-tones)

Country	2003-04 Kg	Value in US\$	2004-2005 Kg	Value in US\$
India	66,750	22,72	73,54	24,874
Nepal	430	150	475	155
US	503	259	1236	876
Denmark	20	09	119	59

Source: Government of Pakistan, Export Promotion Bureau, foreign trade of Pakistan (June-July-2—5-2006)

Table 6. Prices of the dried Dates in Pakistan Used in the Simulation Analysis

Dry Dates	Pak Rs / KG
Row CIF in Pakistan	20.00
Port Charges	0.50
Custom duty @25%	5.0
Row CIF Price after Custom Duty and Port Charges	10.0
Prices of Dried Dated in India	
Indian FOB Price	Rs. 80