



The Economic Analysis of Tobacco Industry: A Case Study of Tobacco Production in Pakistan.

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Abstract

This study investigates the significance of Tobacco industry particularly in the economic perspective of Pakistan economy. Tobacco is an important cash crop of Pakistan which benefits the economy by its multiple consumptions. The Tobacco industry is the only industry in the country which makes prompt payments to its growers for their crops. It also makes a contribution to the government exchequer in the form of taxes and foreign remittances. The Tobacco industry provides employment opportunities to a large number of people who are involved in the farming, production and trading of Tobacco products in the country. According to the estimation, approximately 11 million peoples are directly and indirectly employed in the Tobacco industry. Tobacco is the only crop of Pakistan whose yield is above the world average and matches with per hectare yield of America and other developed countries around the globe.

Keywords: Tobacco Industry, Production, Pakistan Economy, Economic Development, Cash Crop

Introduction

Pakistan is an agricultural country and Tobacco is an important cash crop of Pakistani agriculture sector which has a considerable contribution in the economic

development of Pakistan (Da Silva et al., 2014). There are many varieties of Tobacco which are currently being produced in the country (González-González, Cuadros, Ruiz-Celma, & López-Rodríguez, 2013). The



tobacco industry contributes a vital economic role in the country by generating income, creating employment opportunities, contributing in the government exchequer and earnings foreign remittances (Radojičić, Djulančić, & Srbinoska, 2015). When Pakistan appeared on the map of the world, the tobacco industry was very limited in size (Dave & Saffer, 2013). Just after the next year of independence, Virginia Tobacco was started to produce in the country which has a huge commercial importance (Thomson & Wilson, 2015). This type of tobacco is important because it is used as a main raw material in the making of cigarette (Pichon-Riviere, Augustovski, Bardach, & Colantonio, 2011). The Tobacco observed development with the passage of time and within two decades Pakistan included its name among the top tobacco producing countries of the world (Jafar et al.). Pakistan became the 5th largest Tobacco

Literature Review

The history of tobacco goes back to the Native Americans when they use it as a medicine and as a hallucinogen industry. It became known to the rest of the world during 15th and 16th century when European explorers found it being used by the Native Americans. Then Tobacco was introduced in the Europe as a drug. It quickly spread all over the globe and got popularity among the people. Presently it is used in the form of smoke through hubble-bubble, cigarettes, cigars and snuff etc. It played a considerable role in the economies of the countries where it is grown or traded.

When Pakistan got independence, Tobacco plant was not grown in the country so tobacco was imported to meet the requirements. The cultivation of tobacco

producing country in the world in the year 1972 with the total production of approximately 249 million pounds (Memon, Wei, Robson, & Khattak, 2014).

At present, Pakistan is producing all types of Tobacco and the most commercially known type of Tobacco, Virginia is mainly produced in the province of Khyber PukhtoonKhuwa (KPK) (Nishtar & Lateef, 2006). The tobacco produced in the country is sufficient to cater the domestic needs (Burrack & Chapman, 2013). Pakistan produced approximately 97.98 million kg tobacco in the year 2013 while the total area covered for cultivation of Tobacco crop was recorded 32470 hectares in the same year (Ritala et al., 2014). The industry earned Rs.2515.60 million in the fiscal year 2013 (Jane Lewis, Bover Manderski, & Delnevo, 2015).

was started on trial basis in 1948 on trial basis. Initially about 20 acres of land was utilized for the cultivation of Flue-cured Virginia tobacco. Gradually the tobacco cultivation grew with the passage of time and it expanded its cultivated to approximately 34,600 hectares with the production of more than 78.3 million kg by the year 2000. But before 1968, the quality of tobacco produced in the country was not good. Therefore the good quality tobacco was imported as a raw material for the industry by spending a significant amount of foreign exchange.

In 1968 the government of Pakistan took some serious steps in order to promote tobacco industry in the country. The establishment of Pakistan Tobacco Board (PTB) was the first step to promote and



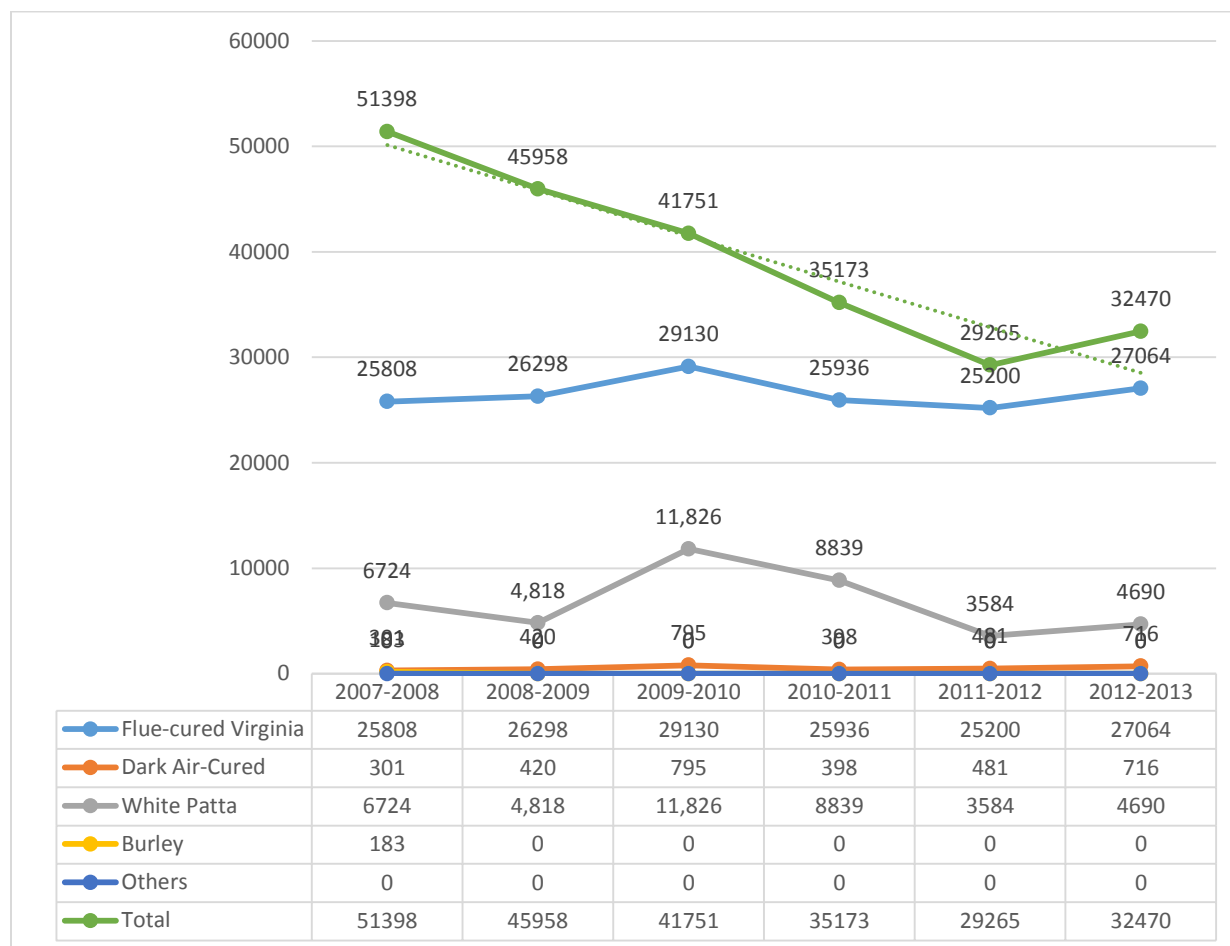
develop cultivation, manufacturing, export of tobacco and tobacco products. The prime function of Pakistan Tobacco Board is to promote the tobacco industry by protecting the rights of buyers, growers, manufacturers, traders and all the stakeholders. It analysis various aspects including crop sizes, exports, domestic usage, prices, plant protection measures etc. In order to minimize the dependence on import of fine quality of tobacco leaf for production, Pakistan Tobacco Company conducted research and development activities in collaboration with the tobacco companies. They explored the soil and climatic conditions in the sub-mountainous areas of

Area Under Cultivation by Different Types of Tobacco in Pakistan (Hectares)

Tobacco is the only crop grown in Pakistan whose yield is well above the world average and matches with the per hectare yield in

Mansehra, Buner, Swat, Dir and some other districts of the province of Khyber PukhtunKhuwa to cater the quality needs of cigarettes for domestic use. The local oriental varieties of tobaccos are cultivated in the plains of KyberPukhtunKhuwa and in the provinces of Punjab, Sindh ad Balochistan to some extent. However the province of Punjab is prominent for the production of dark air cured and hookah type tobaccos. The country had attained self sufficiency in the year 1970. Currently almost all varieties of Tobacco are produced in the country except a nominal quantity of good quality tobacco is imported for the production of superior brands of cigarettes.

America and other developed countries - an average yield of 1,900 kilograms per hectare. Following table shows the average yield of Tobacco per hectare in the last few years.



Production of Different Types of Tobacco in Pakistan (Million Kg)

Pakistan is producing almost every kind of tobacco available in the global market. The

following table shows the production of different types of Tobacco produced in Pakistan in the last couple of years.

Table: 2

Years	Flue-cured Virginia	Dark Air-Cured	White Patta	Burley	Others	Total
2007-2008	69.54	0.960	14.985	0.350	18.919	107.765
2008-2009	71.32	1.38	25.98	---	---	98.68
2009-2010	79.79	2.83	26.64	---	---	109.26
2010-2011	64.670	1.22	19.32	---	---	85.21

2011-2012	68.15	1.39	6.93	---	---	76.47
2012-2013	82.44	2.54	13.00	---	---	97.98

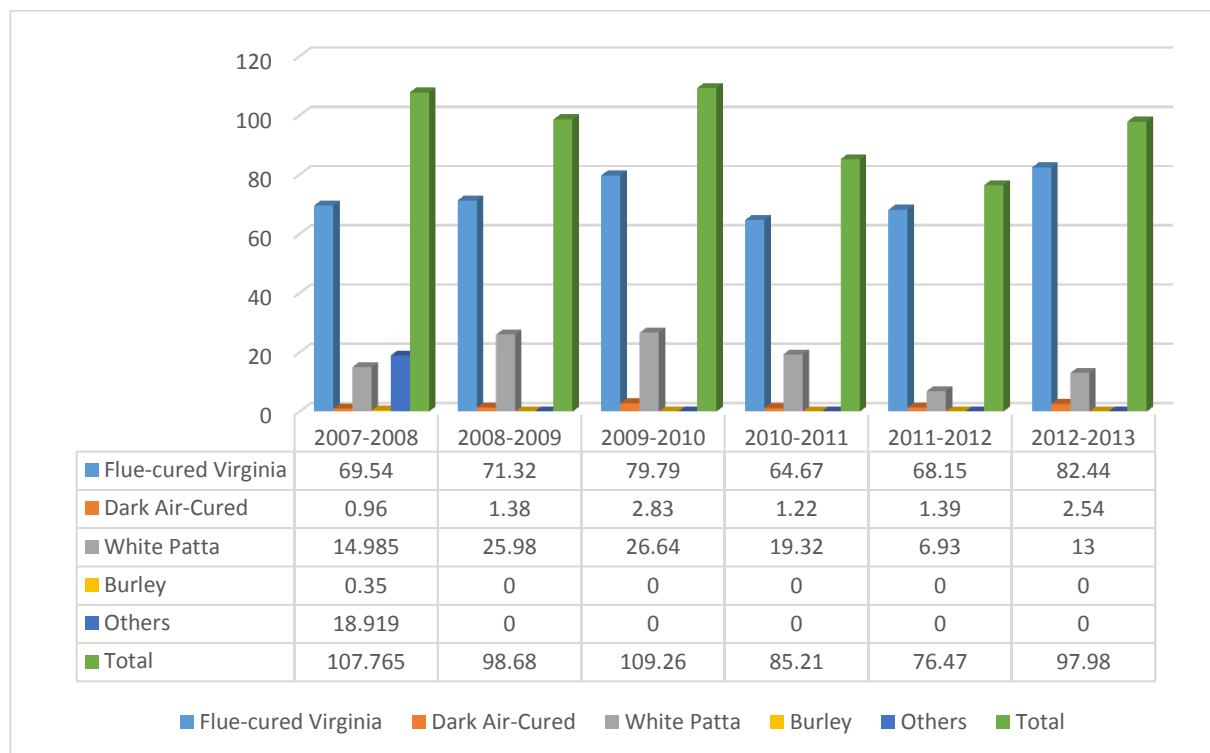


Figure: 2

Yield of Different Types of Tobacco in Pakistan (Kg/Hectare)

Following table shows the yield of different types of Tobacco in Pakistan (KG/ Hectare) in the last couple of years.

Table: 3

YEAR	Flue-Cured Virginia	Dark Air-Cured	White Patta	Burley	Total
2007-2008	2695	3189	2228	1913	1163
2008-2009	2712	3286	1350	---	2147
2009-2010	2739	3550	2250	---	2620
2010-2011	2490	3060	2180	---	2420



2011-2012	2700	2880	1930	---	2610
2012-2013	3046	3549	1772	---	3017

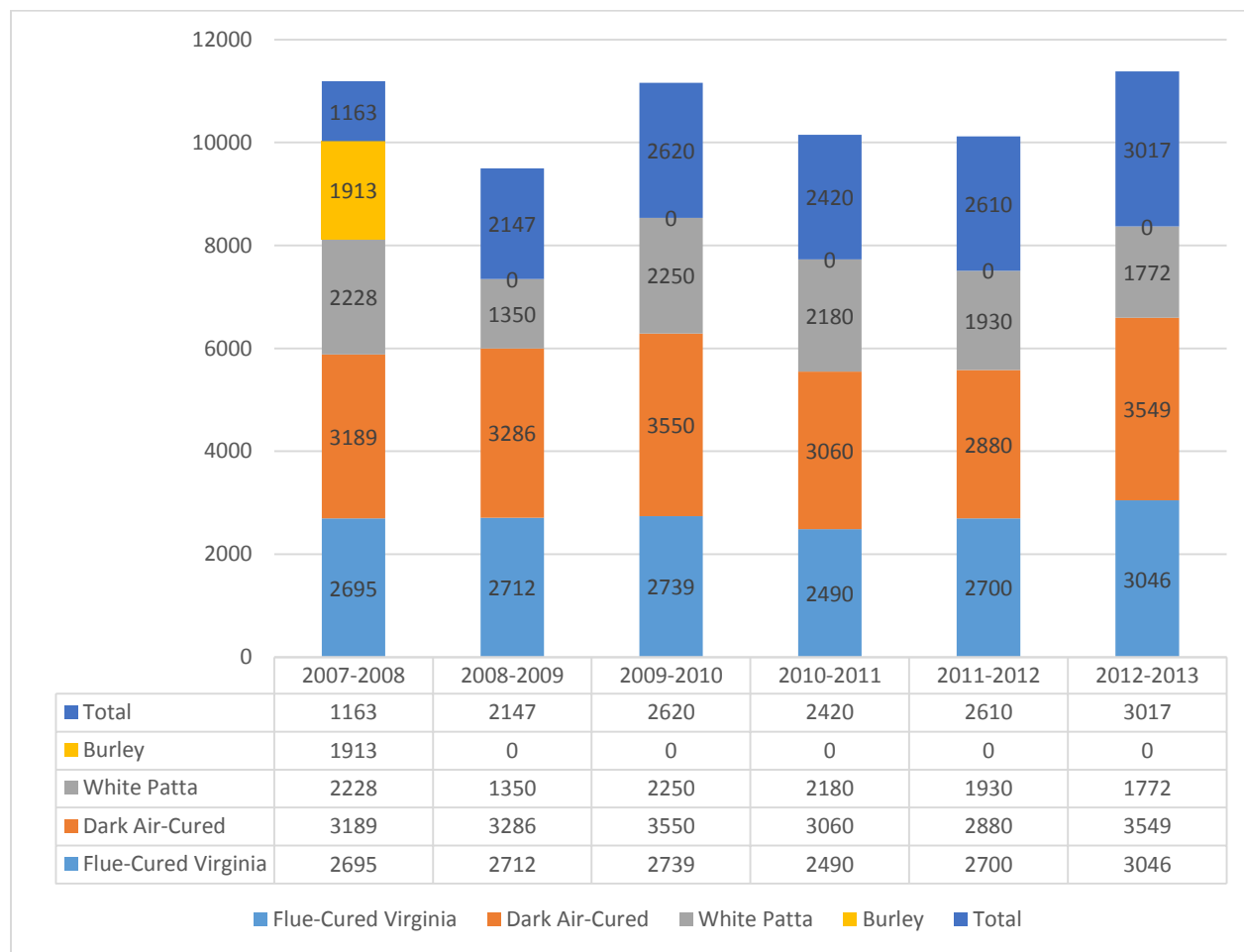


Figure: 3

Export of Tobacco (Million Kg)

The following table shows the amount of Tobacco Exports in million kilograms.

Table: 4

Years	Tobacco (M. Kg)
2007-2008	4.72

2008-2009	4.77
2009-2010	5.17
2010-2011	8.39
2011-2012	8.39
2012-2013	8.05

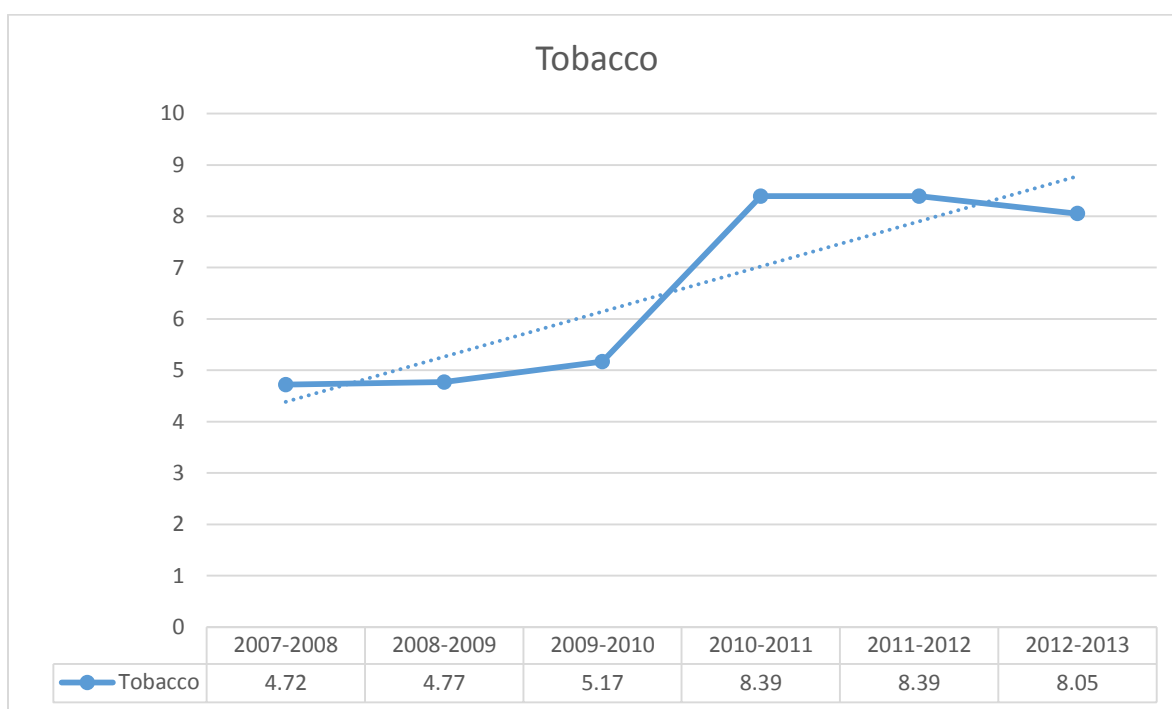


Figure: 4

Export of Cigarette (Million Kg):

The following table shows the number of cigarettes exported over the last few years in millions kilograms.

Table: 5

Years	Cigarette (M. No.S)
2007-2008	4.17
2008-2009	14.84
2009-2010	24.22

2010-2011	39.75
2011-2012	39.75
2012-2013	61.98

Export of Cigarettes

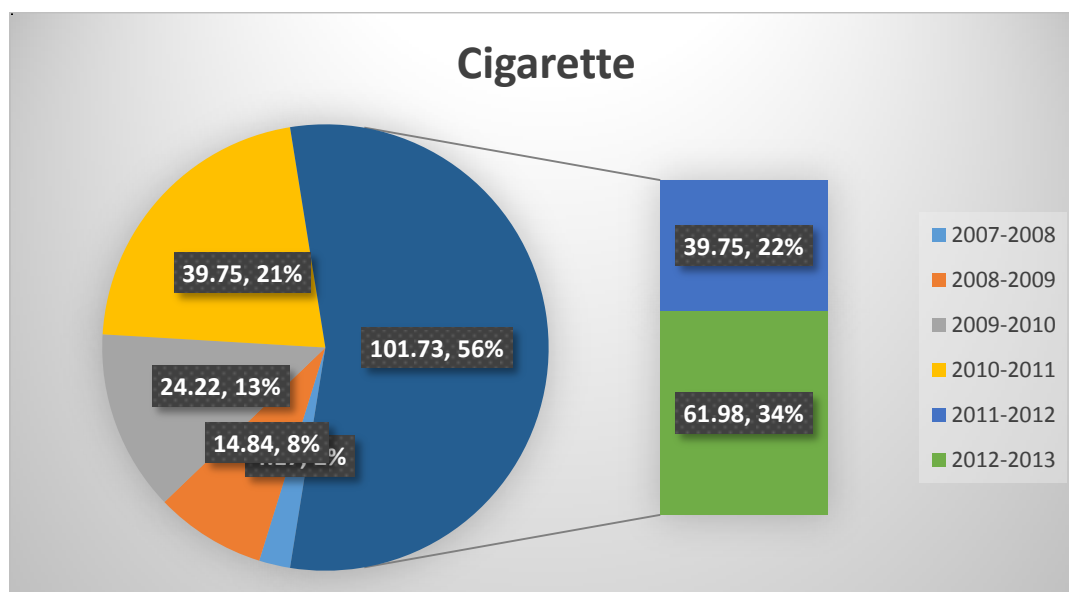


Figure: 5

Total Value of Tobacco Industry Exports:

The following table shows the total value of exports (tobacco and cigarettes) made over the last few years in Millions Rupees.

Table: 6

Years	Total Value of Exports (M. Rs.)
2007-2008	454.15
2008-2009	978.14
2009-2010	1241.71
2010-2011	2334.28
2011-2012	2334.28



2012-2013	2515.60
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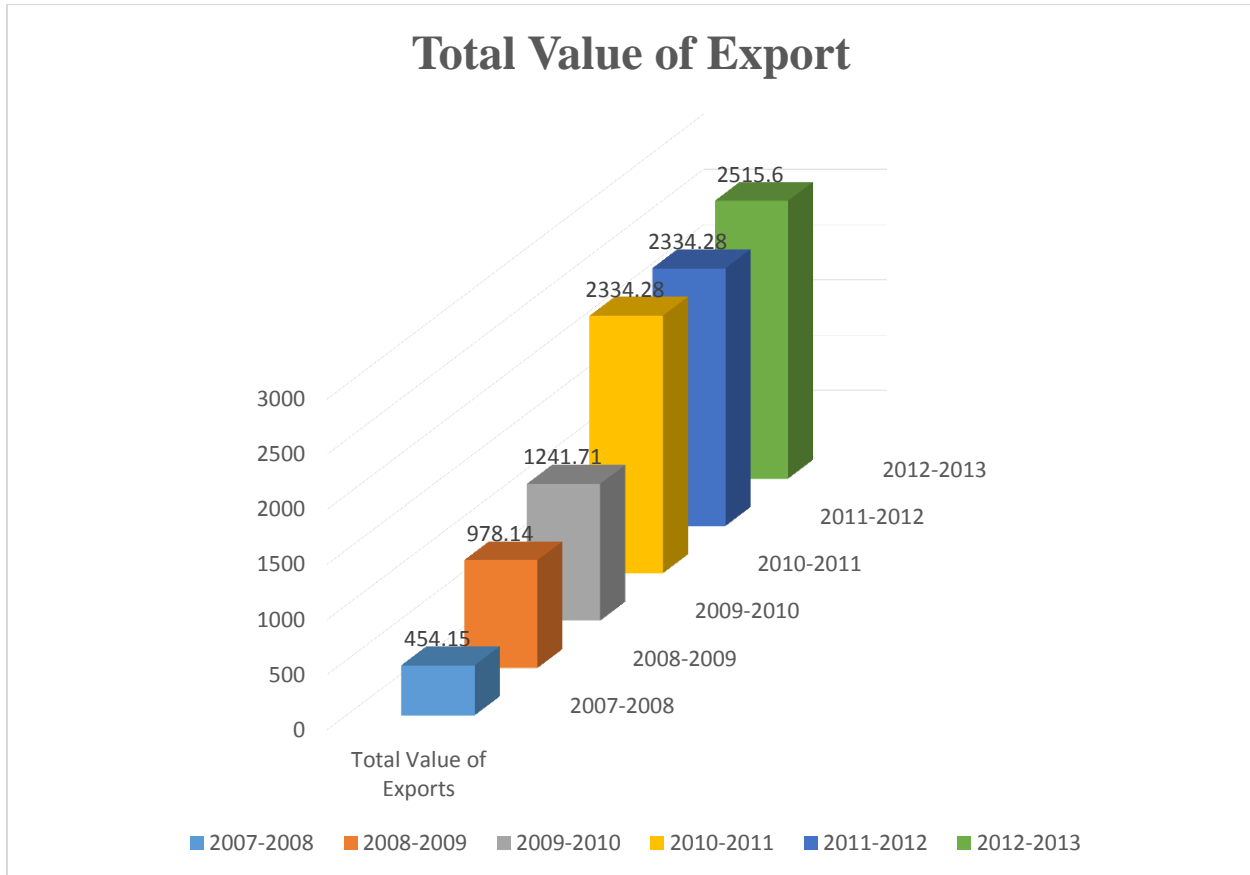


Figure: 6

Market Share of Provinces in Tobacco Farming:

Tobacco is a valuable and reliable cash crop for thousands of farmers in Pakistan and plays a critical economic role in some regions of Pakistan. It is grown in all

provinces of Pakistan but Khyber PukhtoonKhuwa is the only province which leads in production with a high margin. The market share of each province is shown in the figure given below.

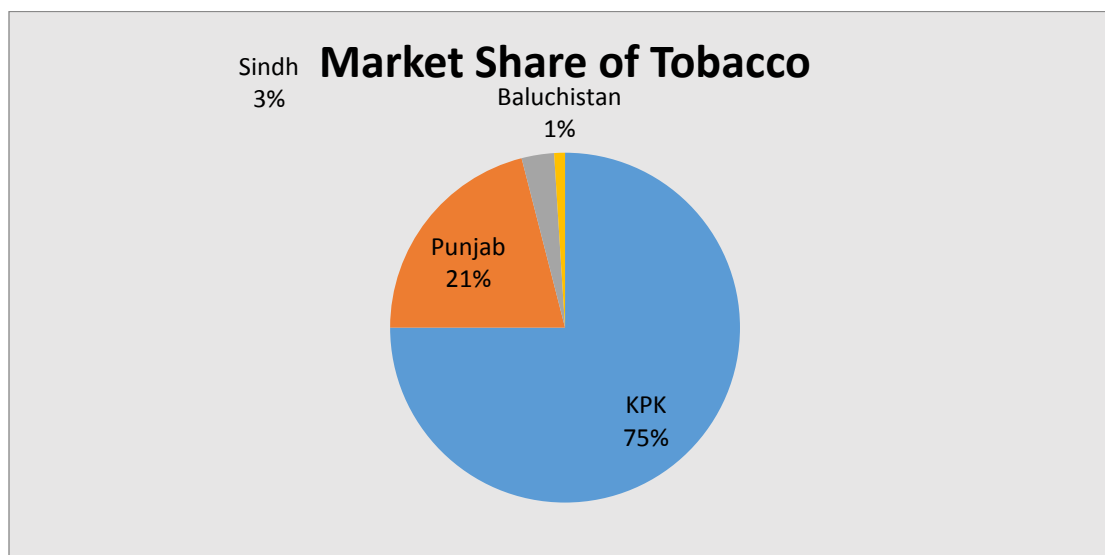


Figure: 7

Contribution of Tobacco Sector to the National Economy:

The tobacco industry plays a significant role in the economy of Pakistan by generating income and creating employment opportunities in tobacco farming, manufacturing, distribution and retailing. There are over 500,000 people who are directly and indirectly employed in tobacco industry. They generate a total annual income of approximately Rs. 31 billion, which is a source of livelihood for 1.5 million people. The tobacco industry also makes contribution in the development of industrial sector by introducing best global best practices to meet international standards in some critical areas like environment, health and safety. This Industry is also one

Conclusion:

The Tobacco industry of Pakistan makes a significant contribution in the economic development of Pakistan. As Tobacco is the only crop grown in the country which has an excellent yield which matches with the per hectare yield in America and other

of the very few industries which is developing the human resource potential of Pakistan in a very good manner. Tobacco is the only cash crop of Pakistan that has yield per hectare matching with the international standards. Tobacco farmers, trained in good agriculture practices by the tobacco industry, are known to have applied their knowledge to other crops resulting in increased yields of those other crops too. The industry is also a main contributor to the Government exchequer with over Rs. 50 billion collected in the forms taxes. However smuggling of cigarettes in Pakistan is a serious issue that suffers the economy. According to estimation about the government bears an annual loss of Rs. 20,000 billion due to the smuggling of cigarettes.

developed countries. It is among the few industries which are playing their role in the development of human resource capital of Pakistan. The tobacco industry is also contributing in the development of the whole industrial sector of Pakistan by utilizing best global practices and



international standards. This sector also contributes a considerable contribution in the government ex-chequer, however

government should take immediate and strict measures against the smuggling in tobacco industry.

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