

Impact of Tobacco Generated Income on Pakistan Economy (A Case Study of Khyber Pakhtunkhwa)

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*Received: January 9, 2017
Accepted: March 22, 2017*

ABSTRACT

There are 50 registered tobacco companies in Pakistan. Pakistan is at number 4 in world with respect to tobacco use. 21% of GDP comes for tobacco. 100,000 tons tobacco produced in one year in Pakistan. KPK is the largest producer of tobacco. 55% of tobacco produced in KPK. Tobacco contributes a lot to economy. 600,000 jobs are created by tobacco. Major tax paid companies in Pakistan is tobacco companies. The study is based on Public choice theory. Theory states businesses of tobacco industry are interested in public sector not in their business. Study concluded two biggest tobacco company tax is 12% of revenue.

KEY WORDS: Tobacco, revenue, KPK, GDP

INTRODUCTION

Objective of study:

The objective of this study is to describe the Tobacco industry of Pakistan. The tobacco tycoon is mentioned and its prevalence in market is described. Cultivation of tobacco in Pakistan is generally discussed than specifically in term of KPK. The contribution of tobacco industry in the economy of Pakistan is showed and the impact of this contribution on general lives of people and on the national treasurer. The beneficial aspects of tobacco industry are highlighted in public life and in national economy. All these things are discussed in detail in this chapter.

1. Tobacco industry:

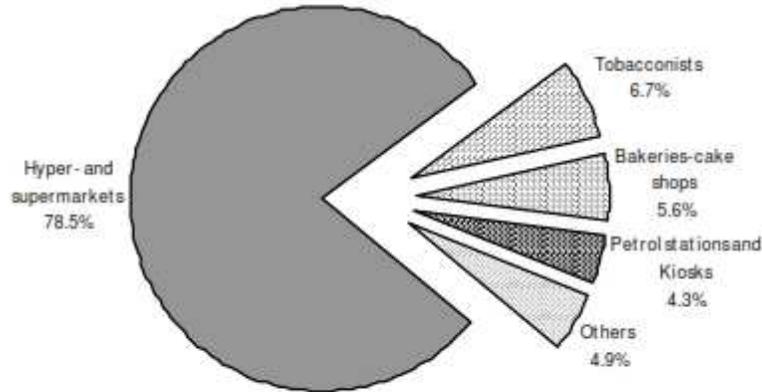
Tobacco industry is a blend of monetary exercises that includes generation, circulation and retailing of tobacco leaves and tobacco items.

Socio Political effect is worries with connection amongst riches and influence, legislative issues and financial matters and country states and markets.

The tobacco business is a standout amongst most profitable parts in the Zambian farming part. As in the cotton area, it is ruled by multinational shippers who work out grower plans. Stancom was at the time the third biggest free leaf tobacco dealer on planet while Dimon was the world's second biggest merchant, both of which had operations in more than 30 nations. Aside from Stancom (40 for each penny) also, Dimon (15 for every penny), whatever is left of the market (45 for every penny) was made up of a piece of little to medium-sized leaf tobacco merchants.

The positive monetary effect of tobacco on the economy is incredible and can't be ignored. Tobacco delivers substantial incomes, through both benefits and assesses, and makes an abundance of openings for work in the United States. As indicated by the Tobacco Institute (1995; pages 2-5), in 1994 tobacco was developed on 124,270 homesteads in 23 states, making it the seventh biggest trade trim out the nation. The tobacco trim completed the year with an expected estimation of \$2.7 billion, which speaks to 2.9 percent of the aggregate esteem for all money harvests and ranch wares. The conditions of North Carolina, Kentucky, Tennessee, South Carolina, Virginia, and Georgia each acquired over \$100 million in trade receipts from tobacco out 1994. About 43,000 individuals were utilized in some part of tobacco assembling in 1993.

Tobacco generation and deals acquired about \$15 billion in expense receipts for government, state, and nearby governments. Roughly 31 percent of the assessment receipts from local retail offers of tobacco went to the United States government. A Price Waterhouse examination of the U.S. industry's effect evaluated that tobacco creation produced \$51.5 billion of the U.S. Net National Product (GNP), utilizing 681,353 people en route (Tobacco Institute, 1995; 3- 5).



Source: XERFI (2001).

1.1 Pakistan Tobacco Industry:

Within this tobacco industry there are 50 registered companies in Pakistan. The three tobacco companies from these 50 are listed both in KSE and LSE. The three registered companies are Pakistan Tobacco, Khayber Tobacco and Pakistan Morris.

1.2 Pakistan Tobacco Company:

Pakistan Tobacco Company (PTC) is partner of British American Tobacco Company (BATC) that has a legacy spreading over 100 years. The BATC has nearness in more than 180 nations. English American Tobacco Company began its operations in Pakistan in 1947 and is the principal multinational to set its foot in the country.

Another angle that this paper will concentrate on is the manner by which a multinational can make a market specialty for its self-remembering the shaky political situation of the nation.

The development and qualities since its origin is plot in this extract:

From being only a solitary industrial facility operation to an organization which is included in each part of cigarette creation, from yield to buyer, we have developed into one of the main enterprises in Pakistan. We run two cutting edge processing plants and utilize more than 1,700 individuals while in a roundabout way giving vocations to more than a million people who are included in different parts of the business. We are market pioneers and contribute more than Rs. 30 billion in extract obligations and charges to the Government.

The Vision of the organization is "First Choice for everyone" and their Mission Statement is to "Change PTC to perform capably with the speed, adaptability and ambitious soul of an imaginative, customer centered Company". Along these lines the Strategic Objectives lay accentuation on "Our system mirrors our vision of being the champions of Growth, Productivity, Responsibility and Winning Organization".

The different brands and a brief rundown of the organization and their effect on the business are as illustrated underneath:

1. **Dunhill:** 2008 was a remarkable year for Dunhill in Pakistan as the brand saw exponential development; fuelled by its re-dispatch in July". Dunhill is not only a nearby brand in Pakistan but rather is a worldwide brand and has been in the market for over a century, since 1907. It exists in the excellent fragment of brands of the organization.
2. **Benson and Hedges:** Launched in Pakistan in March 2003 and has since possessed the capacity to assemble solid brand unwaveringness among its buyers demonstrating fabulous year on year growth". Benson is not only a nearby brand but rather is a worldwide brand and has been in the market since 1873 when Richard Benson and William Hedges made an organization in the United Kingdom.
3. **John Player Gold Leaf:** standout amongst the most unmistakable cigarette marks in the nation. John Player Gold Leaf has as of late been proclaimed the biggest Urban Brand in Pakistan, demolishing items over the F.M.C.G. spectrum. Golf Leaf is additionally an extraordinary neighborhood mark but rather has nearness internationally and began in 1877 by its originator, none other than John Player who later on made

his business into an organization known as John Player and Sons. It now goes in close vicinity to the Premium Segment for the organization.

4. **Capstan by Pall Mall:** Capstan has a rich legacy, starting in Britain in the nineteenth century. The brand was made under the sponsorship of W.D. and H.O. WILLS at Bristol and London. The paper will later show how this brand has now increased remarkable piece of the overall industry inside the nation and is on the ascent, making it one of the main impetuses in the tobacco business furthermore in a route adding to the extensive benefits made in retreating or unsteady situations. This brand goes inside the Value for Money section.
5. **Gold Flake:** Gold Flake has developed immensely as a brand since 2004, making it the biggest volume mark in Pakistan, and the second biggest brand in British American Tobacco's Asia Pacific area. The way to Gold Flake's prosperity has been its novel engagement plans which have fuelled development over the years. This brand was viewed as a top notch section mark around the end of the nineteenth century. In spite of the fact that the steady changes in bundling and brand situating made the brand obtain a significant amount of wealth (VFM) portion. It was additionally made by W.D. and H.O. WILLS.
6. **Embassy:** It is a main volume mark in Pakistan, and is most well known in Punjab where it appreciates a main position. Consulate was one of the main brands by the organization and has been in presence since. It is carefully fit for the nearby market and exists in the Value for Money section.

Pakistan Tobacco Company Ltd. is one of the biggest expense givers in the private segment in Pakistan. Amid 2015 Pakistan Tobacco Company Ltd. contributed over Rs. 86 billion, an expansion of Rs. 12.8 billion, 17% versus SPLY to Government incomes as Excise Duty, Sales Tax, Income Tax and Custom obligations. This adds up to over Rs. 268 million for every working day. More than one million individuals are financially subject to the business in Pakistan.

1.1 Khyber Tobacco Company:

Khyber Tobacco Company is an open constrained organization and has been working in Pakistan since 1954. Khyber tobacco has accomplished the statures of business with its unmistakable and aspiring vision, high caliber and cautious group and getting a charge out of the status of main few organizations of Pakistan in tobacco industry. The organization has broadened its operations around the globe with a set up dispersion arrange in parts of Eastern Europe, South and West Africa, Central and South Asia and the Middle East.

The organization's Mission and Vision Statement as described are following:

“With universally perceived brands, a completely incorporated creation office, and an abundance of experience and aptitude KTC is in a perfect position to give leaf and mixed tobaccos. Our group of industry specialists plan to present very much inquired about brands after thorough testing and mixing of tobaccos from around the globe to give the client particularly important experience.”

The different brands that are offered by the Company are:

"Gold Street (Premium, International), Classic (Special Flavor, Full Flavor, Menthol), Hero (International, Lights, Menthol), Chance No 1 (Virginia Blend, Special Blend, Menthol), Virtue (Super Slims, Lights – Super Slims)".

1.3 Philip Morris International:

In March 2007, Lakson Tobacco Company Limited was purchased over by Philip Morris International which had procured a greater part stake in the organization. The name of the organization changed to Phillip Morris International (PMI) in 2011.

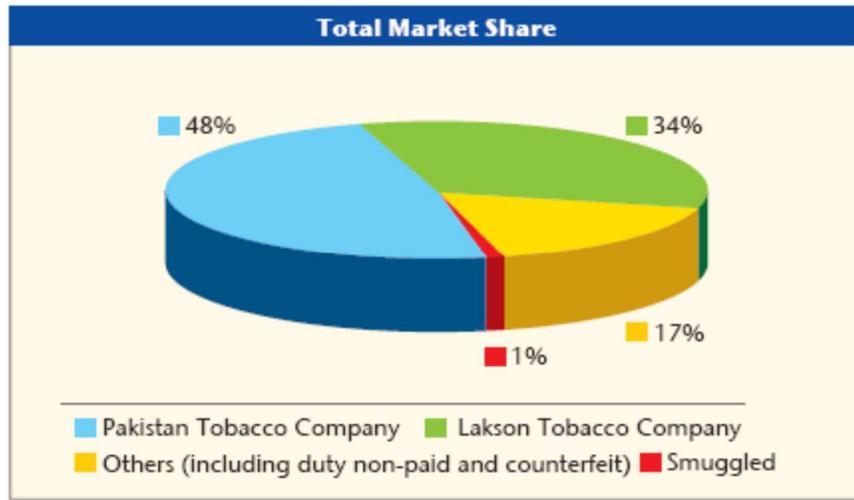
The central movement of Philip Morris (Pakistan) Limited is the make and offer of cigarettes for Pakistan's residential market. The Company as of now works three cigarette production lines with essential and auxiliary offices and one tobacco leaf sifting plant, all situated in different parts of the nation. It additionally runs a broad tobacco leaf agronomy program in the tobacco developing regions of Khyber Pakhtunkhwa.

The Company gives guide changeless work to more than 2,500 people at its enrolled office in Karachi and different assembling offices and deals workplaces crosswise over Pakistan. The vision and Mission Statement clarified is as per the following:

Philip Morris (Pakistan) Limited intends to:

- Meet the desires of grown-up smokers by offering creative tobacco results of the most astounding quality accessible in their favored value classification;
- Generate better returns than our stockholders;
- Be a mindful corporate national and to direct our business with the most elevated level of honesty.

We are submitted towards the constant improvement of our representatives by giving proficient preparing underlining collaboration, a spotless and safe workplace and administration instilled with humility. The principle brands of the organization are Morven Gold, Red and White, Marlboro, K-2 and Diplomat



Source: Pakistan Tobacco Industry, Overview and Economic Contribution, 2010, P7

LITERATURE REVIEW

2. Tobacco use in Pakistan:

Pakistan is 4th country with respect to use of Tobacco. The Asia Pacific locale speaks to the quickest developing tobacco advertise on the planet with Malaysia, Indonesia, Pakistan and Vietnam being the main four nations reporting fast increment in tobacco utilize. The Pakistani government dependent on the tobacco income needs to comprehend that the income of Rs75bn it produces from the tobacco business consistently is far not exactly over Rs100bn that general society spend on treating sicknesses brought about by smoking.

3. Farming in Pakistan:

The rural part of Pakistan assumes an overwhelming part in the national economy by making a commitment of 21% to the GDP. As a basic segment of national economy, the horticulture utilizes 45% of the work constrain. Around 60% of Pakistan's populace relies on agribusiness which assumes a key part in monetary development and along these lines diminishing neediness. It implies that notwithstanding auxiliary changes in the economy, the share of agribusiness is still at the top among every single other segment of the economy. Around 65% of national fares are agro based.

Pakistan is a farming nation. It is the biggest work creating segment, utilizing 48% of work compel in the nation. Ranger service and Fishing contributes around 25% of the Pakistan's GDP.

In spite of being a farming nation, out of its 803,940 sq km of aggregate region, around 60% is viewed as unsatisfactory for horticultural exercises or ranger service. This gigantic zone comprises of mountains, deserts and urban settlements. Out of aggregate cultivable region just 75% is rich because of absence of rain in many ranges.

Pakistan's 70% of the cultivated range is in Punjab, trailed by the Sindh that involves 20%, Khyber Pakhtunkhwa contributes around just 10% and Balochistan has just 1% of the cultivated land.

Because of absence of precipitation cultivating to a great extent relies on upon water system. The Government of Pakistan has been finding a way to enhance water supply for the harvests. Today Pakistan has one of the world's biggest water system systems. Because of various activities at various zones of the nation, developed region has expanded to more than 33% since freedom and now 80% of the cultivating is finished with the assistance of concentrated water system.

3.1 Tobacco:

It is an agrarian item which is prepared from leaves in the family Nicotiana. It is utilized as a natural pesticide, expended as a type of nicotine tartrate and is likewise utilized as a part of a few prescriptions. It is essentially devoured as a recreational medication in the majority of the nations. It is a significant money trim for nations like China, Cuba and United States of America. Rates of tobacco smoking is in the declining stage in the created nations however keep on rising in the creating nations.

It is developed simply like whatever other product. Seeds are planted in hot beds or chilly casings to keep them from creepy crawlies and transplanted in the fields a short time later. It is a yearly yield gathered by hand or mechanically. It is then put away to cure permitting oxidation and carotenoids corruption. This permits the harvest to go up against the smoothness of the smoke. It is then pressed by structures it is devoured which is biting, smoking, sniffing and so on.

Tobacco is a trade trims developing out couple of zones of Pakistan. Its partake in the remote trade of Pakistan is of 570.2 million rupees that makes 0.4% partake in the aggregate fares of the nation. Region Khyber Pakhtunkwa is the fundamental tobacco developing range where two sorts of tobacco are developed, i.e. Grain and Virginia. Pakistan is satisfying the nearby request of tobacco and is likewise sending out great measure of tobacco procuring a decent impart of benefits to its fare.

3.2 Tobacco cultivation:

Roughly 100,000 tons of tobacco is developed every year on more than 50,000 hectares of land. There are around 50 cigarette fabricating organizations enlisted in Pakistan and more than 500,000 outlets offer tobacco items at retail level in Pakistan.

Tobacco is a vital money trim for some nations around the globe. Despite the fact that Pakistan's partake in aggregate world creation is moderately low (1.45%), thorough research has prompted to significant change in both amount and nature of deliver.

Nourishment and Agriculture Organization (FAO) assessed about 3.9 million hectares of land all through the world were under tobacco development amid the year 2009. Worldwide generation of the product surpassed 7.1 million tons in meantime. Tobacco generation of the world is to a great extent ruled by China, Brazil, India and the United States.

Pakistan is home to various assortments of tobacco specifically Flu Cured Virginia, Light Air Cured, Light Sun Cured, Dark Air Cured, Semi Oriental and Dark Sun Cured. FAO figures expressed that tobacco was developed about 50,000 hectares in the year 2009. Pakistan's total tobacco generation amid that year was about 105,000 tons.

Tobacco is developed in the tropical and calm locales. The temperature requires extending from 50 degree F to 80 degree F. Icy temperature is exceptionally hazardous for this product. Then again development of tobacco having 20 to 30 inches precipitation every year i.e. Sub-tropical zones are appropriate. Over the top precipitation and staging water in underlying foundations of plants is harmful for yields. Rain or water provided after interims ought to be given. Ripe soil is needed for the best possible development of tobacco product. After the development the richness of land abatements so the normal and simulated composts are utilized.

The development zones of Pakistan can be separated into three sorts.

Areas having abundant production: Districts Peshawas and Mardan of NWFP province are at top of the list of tobacco producing areas and from total production 54% are cultivated in these two districts and 50% production is obtained from these areas.

The areas having moderate production: This area comprises of the central Eastern districts of Punjab. In these Faisalabad, Sahiwal, T.T.Singh, Gujranwala, and in NWFP zone Mansehra and in Baluchistan region Pishin's territory are incorporated.

Less productive areas: The surrounding districts moderate tobacco producing areas i.e. Sheikhpura, Okara, Vehari, Multan, Jhang, Gujrat and Attock are included in this category.

Tobacco is a tall, verdant yearly plant, initially developed in South and Central America, however now developed all through the world. Tobacco is a horticultural item prepared from the crisp leaves of plants in the class *Nicotiana*. Its most regular use is for smoking as a cigarette or stogie. Tobacco is industrially accessible in dried, cured, and common structures.

Tobacco is the main harvest developed in Pakistan whose yield is well over the world normal and matches the per hectare yield in the US and other created nations a normal yield of 1,900 kilograms for every hectare. Nicotine, an effective focal sensory system stimulant discovered actually in the tobacco leaf, is delegated a medication. Nicotine is one of the primary fixings in tobacco. It is harmful and its higher dosage is to a great degree unsafe. It is usually utilized as a bug spray. Tobacco seeds are scattered onto the surface of the dirt, as their germination is actuated by light. Seedbeds are treated with wood slag or creature excrement. Seedbeds are then secured with branches to shield the youthful plants from ice harm. These plants are left to develop until around April. After the plants have achieved a specific tallness, they are transplanted into fields. This is initially done by making a generally vast gap in the worked earth and afterward put the little plant in the gap.

Different mechanical tobacco growers were designed all through the late nineteenth and mid twentieth century to robotize this procedure. Beating on tobacco is the evacuation of the terminal bud with or without a portion of the little top leaves just before or after the presence of the bloom head. Instantly in the wake of garnish, the buds in the hub of the leaves, which generally stay torpid, get to be dynamic and set forth shoots known as suckers. Since,

similar to blossoms, the suckers additionally turn into a deplete on the supplements of the plant, these are likewise expelled. The expulsion of these suckers is called suckering or de-suckering.

Topping decreases lodging, both by expelling the seed head and by prompting advancement of more grounded roots. It additionally builds the leaf territory of the upper 1/3 of the plant and rushes leaf development. Topped plants have turgid leaves and can withstand more prominent dampness worry than non-topped plants.

For good retunes, just the same number of leaves ought to be left on the plant as are equipped for developing. For most extreme yield under a given arrangement of ecological conditions, a specific least number of leaves per hectare are required, regardless of whether this number is gotten by high plant populace and low fixing or low plant populace and high fixing. Suckering is done either physically or by applying chemicals. In the event that the cultivators and the ventures both are to receive the rewards of these chemicals, suckericides ought to be put on the administrations free import rundown are adequate for local generation organized.

Tobacco is reaped in one of two ways.

In the most established strategy, the whole plant is gathered without a moment's delay by removing the stalk at the ground with a sickle.

In the nineteenth century, brilliant tobacco started to be reaped by picking singular leaves off the stalk as they aged. The leaves age starting from the earliest stage, so a field of tobacco may experience a few "pickings" before the tobacco is totally collected, and the stalks might be transformed into the dirt. The main yield at the exceptionally base of the stalks are called "sand drags", as they are regularly against the ground and are covered with soil sprinkled up when it downpours. Sand drags measure the most, and are most hard to work with. Initially specialists edited the tobacco and put it on creature pulled sleds.

In the long run tractors with wagons are utilized to transport leaves to the stringer, a contraption which utilizes twine to sew leaves onto a stick. A few ranchers utilize "tobacco collectors" - essentially a trailer hauled behind a tractor.

The collector is a wheeled sled or trailer that has seats for the croppers to sit on and situates just before these for the "stringers" to sit on. The croppers pull the leaves off in modest bunches, and pass these to the "stringer", who circles twine around the modest bunches of tobacco and hangs them on a long wooden square shaft. Generally, the croppers, down oblivious and wet, with their countenances getting slapped by the tremendous tobacco leaves, were men, and the stringers situated on the higher raised seats were ladies.

The reaper has places for four groups of specialists, eight individuals editing and hanging, in addition to a packer who takes the substantial hung surveys of wet green tobacco from the stringers and packs them onto the bed area of the gatherer, in addition to a driver, making the aggregate team of every collector 10 individuals.

Curiously, the external seats are suspended from the collector - threw out over to fit into the passageways of tobacco. As these seats are suspended it is imperative to adjust the heaviness of the two outside groups (like a play area see-saw).

Having too substantial or light a man in a lopsided mix frequently brings about the gatherer tipping over particularly when pivoting toward the end of a path. Water tanks are a typical element on the reaper because of warmth, and peril of drying out for the specialists. Salt tablets infrequently get utilized also. Cut plants or pulled leaves are instantly exchanged to tobacco stables (oven houses), where they will be cured. Curing strategies differ with the kind of tobacco developed, and tobacco outbuilding configuration fluctuates as needs be. Air-cured tobacco is hung in very much ventilated horse shelters and permitted to dry over a time of four to eight weeks.

Fire-cured tobacco is hung in vast horse shelters where flames of hardwoods are continued constant or discontinuous low seethe and takes between three days and ten weeks, contingent upon the procedure and the tobacco. Pipe cured tobacco was initially hung onto tobacco sticks, which were dangled from level shafts in curing outbuildings.

These outbuildings have pipes which keep running from remotely encouraged fire boxes, warm curing the tobacco without presenting it to smoke, gradually raising the temperature through the span of the curing. The procedure will by and large take about a week. Curing and resulting maturing takes into consideration the moderate oxidation and corruption of carotenoids in tobacco leaf. This delivers certain mixes in tobacco leaves fundamentally the same as and give a sweet feed, tea, rose oil, or fruity fragrant flavor that add to the "smoothness" of the smoke. Un-matured or low quality tobacco is regularly seasoned with these actually happening mixes.

Tobacco enhancing is a noteworthy wellspring of income for the global multi-million dollar flavor and aroma industry. The maturing procedure proceeds for a time of months and frequently reaches out into the post-curing harvest handle. After tobacco is cured, it is moved from the curing horse shelter into a capacity range for handling. For both cut and pulled tobacco, the leaves are then sorted into various evaluations. In pioneer times, the tobacco was then "prized" into hogsheds for transportation.

In brilliant tobacco districts, prizing was supplanted by stacking wrapped "hands" into free heaps to be sold at closeout. Today, most cured tobacco is baled before deals are made under pre-sold contracts. Tobacco water is a

customary natural bug spray utilized as a part of local planting. Tobacco tidi can be utilized correspondingly. It is delivered by bubbling solid tobacco in water, or by soaking the tobacco in water for a more drawn out period. At the point when cooled the blend can be connected as a shower, or "painted" on to the leaves of garden plants, where it will demonstrate destructive to bugs. Topical tobacco glue is in some cases prescribed as a treatment for wasp, hornet, and fire subterranean insect, scorpion, and honey bee stings. A sum equal to the substance of a cigarette is squashed in a glass with around a 0.5 to 1 teaspoon of water to make a glue that is then connected to the influenced region.

Glue has a measurement of 4 to 5 cm (1.5 to 2 inches) and maybe ought to be saturated in dry climate. In the event that made and connected promptly, total abatement is normal inside 2030 minutes, and soon thereafter the glue can be expelled. The following day there might be some remaining tingling, however for all intents and purposes no swelling or redness.

There is by all accounts no logical confirmation, up 'til now, that this regular home cure attempts to ease torment. For around 2 percent of individuals, unfavorably susceptible responses can be life-undermining and require crisis treatment. For additional on this, see honey bee stings.

On account of their nicotine fixation, numerous smokers think that it's hard to stop smoking notwithstanding their insight into sick wellbeing impacts.

The fundamental wellbeing dangers in tobacco relate to infections of the cardiovascular framework, specifically myocardial dead tissue (heart assault), ailments of the respiratory tract, for example, Chronic Obstructive Pulmonary Disease (COPD), asthma, emphysema, and tumor, especially lung malignancy and growths of the larynx and tongue.

4. Agriculture in KPK

Horticulture is a critical part of KPK's economy in financial terms as well as regarding work. Be that as it may, just 30% of KPK's territory is cultivable. Significant field harvests of KPK incorporate grains (wheat, maize, grain, rice and millet), gram, sugarcane and tobacco, and real cultivation crops incorporate apples, potatoes and tomatoes. In 2011-12, KPK created 4.4% of the national yield of wheat, 20.2% of maize, 18.6% of grain, 1.3% of rice, 0.6% of millet, 3.4% of gram, 8% of sugarcane, and 83% of tobacco. Indeed, more than 75% of Pakistan's tobacco is developed in KPK. Raising domesticated animals is additionally a noteworthy wellspring of wage.

By 2012, there were approximately 1,821 industrial units that were running in KPK. Significant ventures incorporate canning and safeguarding of leafy foods, assembling and refining of sugar, cotton materials, bond, furniture, and tobacco preparing. Mineral production also contributes to the economy of KPK. Limestone, marble, rock salt and gypsum are a few of the major minerals mined.

Qualitative analysis:

4.1 Tobacco in KPK:

Tobacco, the major cash crop of Khyber Pakhtunkhwa, produces about 95% of Flue Cured Virginia (tobacco used for cigarette) and 75% of Rustica (used for making snuff) type. Generally, tobacco growing areas have much potential to produce high profit crop.

In 2012, the total irrigated area in Pakistan was 1.8 million hectares while total area under tobacco cultivation was 47000 hectares or .07% in Pakistan, 3% in Khyber Pakhtunkhwa and 55% in District Swabi. Furthermore, its contribution to GDP was 4.4% which was the highest as compared to other crops. For example, wheat was cultivated on an area of about 27.5% but its contribution to GDP was only 2.6% in 2008. Tobacco is the single biggest contributor to excise duty — six times more than that of cotton yarn.

Nearly, this money edit pulls in ranchers inferable from stable worldwide market, preferable transportation to buy focuses over different products like sugarcane, beats, leafy foods. Tobacco created riches assumes a part to enhance ranchers' lives in rustic ranges. From development to income era, it has critical monetary increases.

As the biggest monetary patron — the part of tobacco is obvious from the way that more than 5% of the aggregate government's income is earned by tobacco. The administration gathers Central Excise Duty, Sales Tax, Income Tax and Development Cess (a commonplace assessment) on tobacco and its finished results. Pakistan had gathered income of 70 billion amid 2001-02 which was expanded to 89 billion in 2013-14 from tobacco and its items. In addition, tobacco generation, exchanging, preparing and assembling of finished results i.e. Cigarettes and Snuff (In Pashto dialect snuff is called Naswar) and so on are additionally a productive business in Khyber Pakhtunkhwa.

The area of Khyber Pakhtunkhwa is known for quality tobacco production-due to its suitable climatic conditions. The province contributes 95% while the District of Swabi alone 55% of Flu Cured Virginia tobacco to cigarette industry. Moreover, 75% of Rustica (used in Snuff) tobacco is grown in the province as well. It is an important source of foreign exchange as it earned Rs.2732.29 million during 2011-12.

Tobacco has a great potential of employment, wealth and tax generation which is evident from the fact that the Lakson Tobacco Company was established in 1971 and over a period of forty years, it became a group of industries.

Tobacco crop and industry has a remarkable impact which is evident from the fact that like Lakson, Imperial Tobacco Industries, was started in 1990 and it established two other branches one in Chakwal and another in Sargodha. The Company extended its business not only inside Pakistan but also outside the country such as in the United Kingdom, Canada and Australia.

It is to be noticed that the quick development of a portion of the national organizations is because of their enormous income and benefit through tobacco business. The tobacco representatives have been impacting the governmental issues of Pakistan both specifically and in a roundabout way. Being a productive venture, tobacco merchants and makers for the sake of Corporate Social Responsibility (CSR) have earned a delicate picture by the riches — created from tobacco. Along these lines, they got sensitivities of the general population and eventually go into the legislative issues of Pakistan at provincial and national level.

Tobacco and its related business have likewise added to the ascent and development of neighborhood business parties who generally go into legislative issues of the region. In the most recent fifteen years, the legislative issues of Swabi (Khyber Pakhtunkhwa) which was customarily overwhelmed by patriot stages, for example, the ANP, is currently rotating around the people, certain families and gatherings who are one way or the other associated with tobacco. Through numerous monetary and social activities, individuals are obliged to Tarakai House (the place of the main political figures of Swabi who possess tobacco industry). They had begun Imperial Tobacco Industry in 1990.

Khan (1990) argued that although tobacco occupied a relatively very small area of 0.07% of the total irrigated land in Pakistan — yet it is of great economic significance for the country. According to Khan (1998) few crops require as much labor as does tobacco growers.

Tucker (1982) has reported that tobacco production was one of the most controversial crops of the world, second to poppy.

Add up to tobacco development region in KPK is 36,016 hectares that produces 93,080 tons of tobacco with estimation of Rs 10.09 billion. Real locale, where tobacco is for the most part created, are Swabi 38 for each penny, Mardan 25 for each penny, Charsadda 15 for every penny, Buner 6 for every penny, Mansehra 5 for each penny and others 11 for every penny, Pakistan Tobacco Company (PTC) most recent report says. Nearly the majority of the nation's Flue-Cured, Virginia keeping in mind Patta tobacco is delivered in KP alone. The yield/hectare of tobacco delivered in KP is 14 percent higher than worldwide normal and 22 for every penny higher than national normal, the report adds. Approximately 38 for each penny of the aggregate creation - 35000 tons - are bought by PTC.

5. Income generated by Tobacco industry

Tobacco is the real money yield of Pakistan. Amid the day and age 1960-2006, huge vacillations in tobacco profitability and its zone under development occurred. In 1960-61, the aggregate range under tobacco product was 39 thousand hectares which has been expanded to 51 thousands hectares in 2006-07. On the other hand, in 1960-61, the aggregate tobacco creation was 60 thousand tons which has been expanded to 105 thousand tons in 2006-07.

The Tobacco business assumes a basic monetary part in Pakistan by producing wage and work in the tobacco cultivating, fabricating appropriation and retailing. There are very nearly 350,000 individuals, straightforwardly and by implication, working in the tobacco business. Other than being a primary patron to the Government Exchequer of almost Rs. 50 Billion, the industry additionally produces a yearly salary of over Rs. 30 Billion, with a wellspring of work for 1.2 million individuals.

From producing wage and work chances to persistent venture and being one of the greatest assessment generators in Pakistan, Pakistan Tobacco Company (PTC) has been contributing monstrously to financial, social and human asset advancement of the nation since 1947.

Throughout the years PTC's operations have straightforwardly utilized a large number of individuals and bolstered the work of millions. In 2014 alone, PTC operations created work for more than 40,000 ranchers, other than at least 40,000 individuals connected with its assembling operations and more than 110,000 individuals at the retail level. Today, PTC takes pride in the way that more than 600,000 individuals crosswise over Pakistan are monetarily connected with our operations. These include farmers, factory workers, managers, printers, suppliers, transporters, distributors, wholesalers, retailers etc. There are very few examples of one company playing such a vital economic role in a country.

DISCUSSION

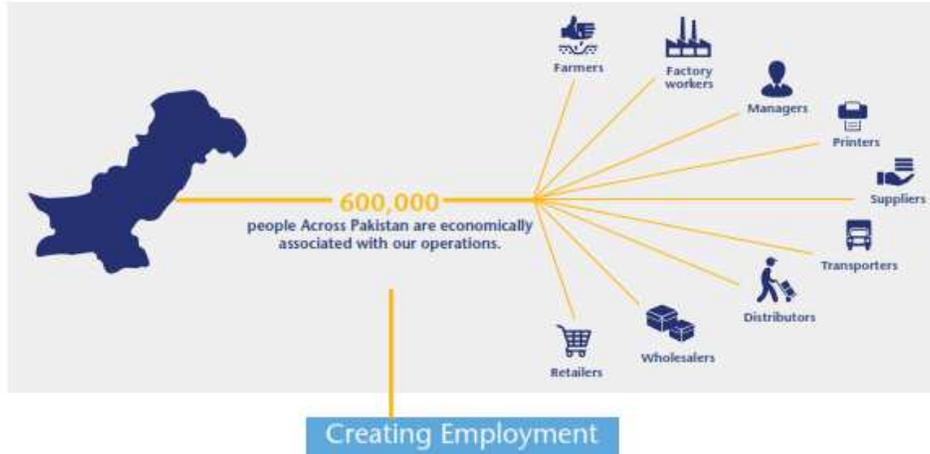
5.1 Impact of Tobacco income on population:

5.1.1 Employment

Fundamentally the business is Capital escalated with the tobacco preparing and cigarette producing units just checked by the general population. The bundling employment is additionally done through machines. However to

the extent cultivating is concerned, it is still particularly work concentrated, despite the fact that the tobacco organizations belittle the agriculturists through giving them different corresponding contributions for cultivating. As per Economic Survey of Pakistan '95-96, add up to work in assembling side of business is 6000 representatives with an aggregate cost of Rs. 225 million.

5.1.2 Employment created by Pakistan Tobacco Company:



Livelihood of millions of people in Pakistan

The above diagram shows that 600,000 people got employment due to Pakistan Tobacco Company. These are the people of different areas like farmer, factory worker and mangers, wholesaler, retailer etc. if one firm is giving this much employment than what about if we combine all the national and international tobacco firm of Pakistan. A large number of people is getting employment due to it.



Nurturing Industry



The above diagram shows the value that is created for the population due to Pakistan Tobacco Company. 40,000 farmer and manufacture are getting employed due to this single company and 110,000 retail jobs are created due to operations across the border.

The nurturing of industries other than tobacco is also occurring due to tobacco industry. Pakistan is a rich market of finish tobacco products and raw tobacco. There for a lot of demand for tobacco goods can be satisfied by them not only national but also at international level. This has helped other to grow with them by developing a mutual relation or making the complementary goods for tobacco users.

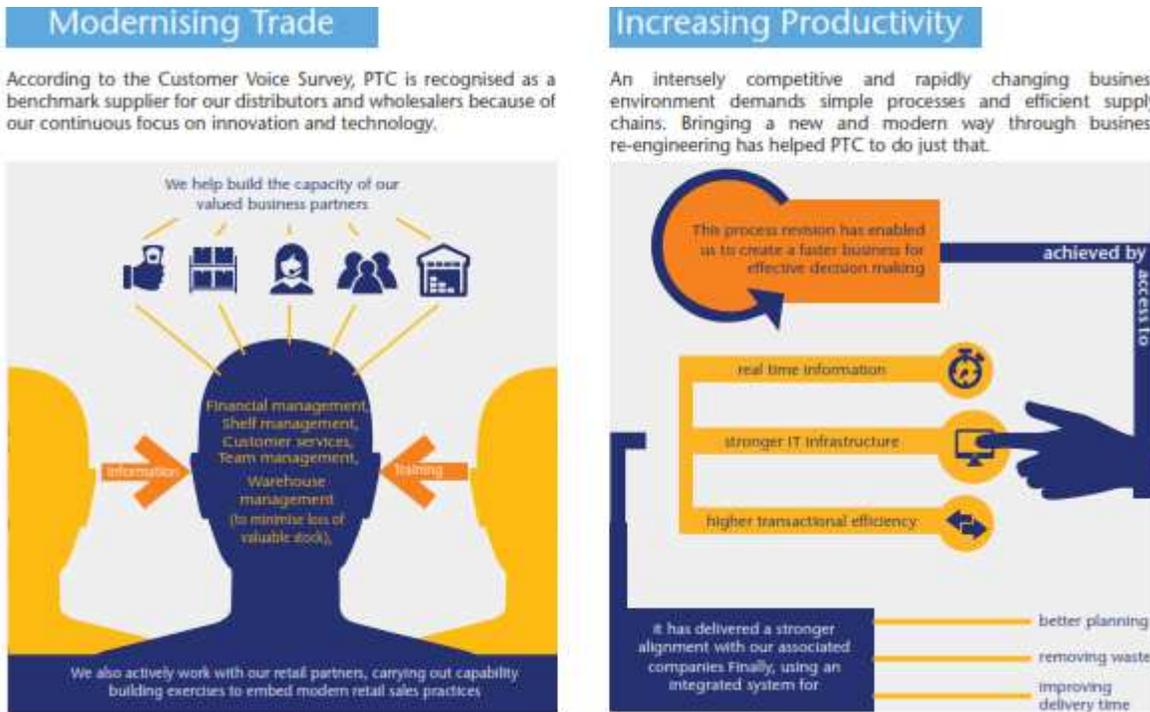
The local industries have learnt skills from these tobacco industries that enhance their efficiency and effectiveness. After learning the skill they can perform their task with a flow. The customers would than star using local goods irrespective of international goods and local industries growth would get enhance that ultimately result in the growth of economy. It would be beneficial for both buyer and seller. Seller would get benefit as the demand of product get increase there per unit cost would get reduce on the other hand buyer get a quality product at reasonable price with convenience. Pakistan's modern area represents around 24% of GDP. Cotton material generation and clothing assembling are Pakistan's biggest enterprises, representing around 66% of the stock fares and just about 40% of the utilized work force. Other significant ventures incorporate concrete, compost, palatable oil, sugar, steel, tobacco, chemicals, apparatus, and sustenance preparing.

Crop and Farming

Our program of Social Responsibility in Tobacco Production (SRTTP) aims at encouraging greener environment practices. BAT's worldwide operations allow PTC to transfer and implement the best agricultural practices from around the world.



Tobacco industry is one of the yielding crops in Pakistan. It has become the largest producer in Pakistan. It has modernized the farming in Pakistan and that is benefiting all the crops yielding. The farmers are getting jobs and agriculture industry is growing.



PTC has become the benchmark supplier of Tobacco. The number of wholesaler, retailer and distributor are getting increased due to export of tobacco. The new trade tactics are applied to make the things effective. So trades got modernize due to Pakistan Tobacco Company.

Productivity is increasing by using re-engineering and faster business with effective decision making.

5.1.3 Employment created by Tobacco industry:

The tobacco business assumes a basic financial part in Pakistan by creating pay and work in the tobacco cultivating, assembling, conveyance and retailing. There are very nearly 350,000 individuals, specifically and in a roundabout way, working in the tobacco business. They create an aggregate yearly salary of over Rs. 30 billion, which is a wellspring of business for 1.2 million individuals. The general financial commitment turns out to be more claimed if the approximately Rs. 15 billion ventures made by tobacco industry as beneficial plants, apparatus and gear are too taken into full thought.

The tobacco business likewise contributes towards building up the modern area by presenting universal models and worldwide best practices in basic territories, for example, Environment, Health and Safety.

Tobacco is one of only a handful few products in Pakistan that has yield per hectare equivalent to universal models. Tobacco agriculturists, prepared in great horticulture rehearses by the tobacco business, are known to have connected their insight to different products bringing about expanded yields of those different products as well.

The business is likewise a principle supporter to the Government exchequer with almost Rs. 50 billion gathered in the types of Excise Tax, Sales Impose, Tobacco Development Cess, and different expenses. Nonetheless, about one out of five cigarettes sold in Pakistan have either been produced or snuck without paying the proper duties bringing about an expected yearly loss of Rs. 8.5 billion to the Government. As the Government encounters a deficiency in income accumulation, the assessment agreeable segment of the business is always squeezed with higher expense rates prompting to higher costs that further lessen the aggressiveness of assessment paid cigarettes versus unlawful cigarettes. Both controllers and expense agreeable tobacco industry have a typical enthusiasm to lessen the level of illegal cigarettes from the current 18% of the market. There is earnest need to bolster expanded consistence related action to improve income for the Government and make a level playing field for everybody

Farming Sector	
Employment Generated (Direct & Indirect)	80,000 farmers
Source of Livelihood	300,000 people
Income Generated in FY 2009	Rs. 8.5 billion

Tobacco industry has given jobs to 80,000 farmers and source of living for 300,000 people.

- Pakistan is the seventh biggest Flue Cured Virginia tobacco maker on the planet.
- Tobacco is one of only a handful few products in Pakistan that has yield per hectare which is similar universally.
- Under 60% of the tobacco leaf created in Pakistan is utilized to produce obligation paid cigarettes. The rest of the sum is utilized to create obligation non-paid cigarettes, and unregulated items, for example, bidi, naswar and hookah.

Manufacturing Sector	
Employment Generated (Direct & Indirect)	70,000 people
Source of Livelihood	260,000 people
Income Generated in FY 2009	Rs. 10 billion

The aggregate interest in tobacco producing units as plants, hardware, types of gear, and so forth surpasses Rs. 15 billion.

Distribution & Retailing Sector	
No. of Outlets Selling Tobacco Products	500,000+
Employment Generated (Direct & Indirect)	200,000 people
Source of Livelihood	700,000 people
Income Generated in FY 2009	Rs. 12 billion

There is have to guarantee that tobacco control laws forced by the Government are conformed to by all the tobacco business players to make a level playing field.

There are around 1.5 million discount and retail exchange units in Pakistan. These incorporate deal, support/repair of engine vehicle, discount exchange and commission operators and retail exchange. Almost 85% units are of retail exchange, trailed by deal/repair (11%) and discount (4%). Inside retail exchange, a large portion of the units i.e. 54% are occupied with offer of nourishment, drinks and tobacco.

5.2 Contribution to Government Exchequer

5.2.1: Government duty structure

Cigarette industry has two piece obligation structures. The two sections are:

1. A level extract obligation of Rs. 117,000 for each million cigarette on brands costing less then Rs. 2.52 for every pack of ten cigarettes (Categories D and E), selective of offers duty.
 2. A 65% extract obligation on brands costing more than Rs. 2.52 for each pack of ten cigarettes, selective of offers expense.
- Other than that 18% deals duty is additionally forced on every one of the brands.
 - The principle load on this industry is through backhanded tax collection which is connected on the incomes and not on benefits. The immediate duty is the ordinary corporate wage charge @ 30%.

5.2.2 Tax revenue:

As per a harsh gauge the aggregate aberrant expense (obligations and deals assess) paid by the two major organizations (PTC, and LTC/PTI) sums to around Rs. 12,903 million which is around 12% of aggregate government charge income from these sources. Then again these organizations' partake in the aggregate wage impose gathered by GOP is just 0.07%. That demonstrates the degree of overwhelming backhanded tax collection on this industry.

It is critical to separate here between the aggregate cost and retail cost of cigarette packs as that is the manner by which the numerous expenses are required. For instance, a pack of Gold Leaf costs Rs. 73. From that Rs. 62.93 is the retail cost and 10.07 is Sales Tax.

Other than the Sales Tax, many assessments are forced upon the retail cost of the cigarettes, six to be exact: Federal Excise Duty (FED), Sales Tax (expansion), Special Excise Duty, Customs Duty, Federal Tobacco Cess (FTC) and NWFP Tobacco Development Cess (TDC), which should be clarified in detail underneath:

1. **Government Excise Duty (FED):** It is charged and gathered on privately fabricated and imported cigarettes on the premise of Retail Price. For imported cigarettes, FED is connected at a most extreme rate of 64% of the Retail Price and for privately fabricated cigarettes the FED rate goes up-to 64%.
2. **Deals Tax:** furthermore, Sales Tax (at a rate of 16%) on the Retail Price is additionally forced on imported and privately fabricated cigarettes.

3. Exceptional Excise Duty: A Special promotion valorem Excise Duty is gathered and demanded at the rate of 1% on retail cost less FED.

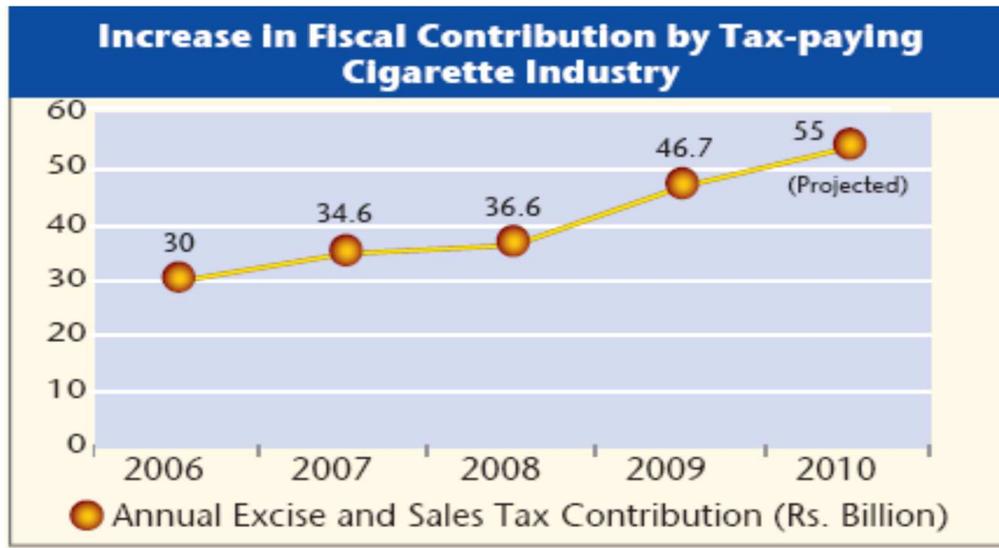
4. Traditions Duty: 35% promotion valorem Customs Duty in addition to 15% Luxury Duty (add up to obligation: half) is imposed on the import of completed tobacco items.

5. Government Tobacco Cess (FTC): FTC (at a rate of 3%) is required by the Pakistan Tobacco Board on unmanufactured tobacco.

6. NWFP Tobacco Development Cess (TDC): NWFP Government gathers a require at the rate of Rs. 2 for every kg for Flue-cured Virginia, Burley and Dark Air Cured assortments and Rs. 1 for each Kg for White Patta.

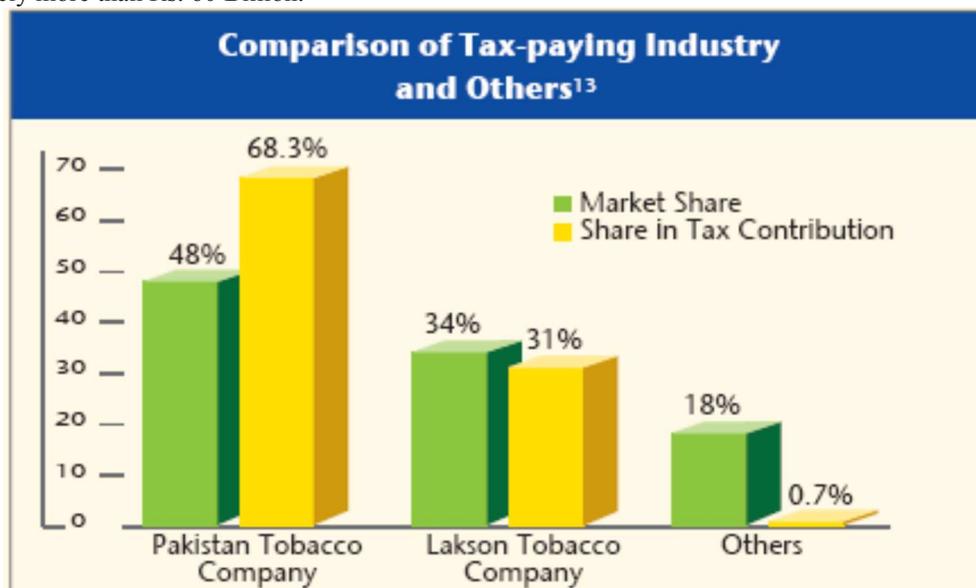
Extract and Sales Tax occurrence on cigarettes ranges from 64% to 81%. In Financial Year 2008-09, almost Rs. 50 billion was added to national treasury by the taxpaying cigarette industry in Pakistan out of which Rs. 46.7 billion was Excise and Sales Tax contribution.

Excise and Sales Tax Incidence on cigarettes has increased and now ranges from 69.5% to 81% of the retail price.



(Source- Pakistan Tobacco Industry, Overview and Economic Contribution, 2010, P9)

The above diagram shows how over the 5 years the tax amount has increased. As of 2012, the amount is approximately more than Rs. 60 Billion.



(Source of 2008*2009, Pakistan Tobacco Industry, Overview and Economic Contribution, 2010, P10).

The diagram shows how involved the key players of the industry are in the tax net of Pakistan. Both Lakson Tobacco Company (now known as Philip Morris International) and Pakistan Tobacco Company together make up 99.3% of the Tax Paying Industry, whereas the total market share of these two is 82% and now 80.8% as of 2012.

The tax contribution is far greater than the market share of these companies, in total they contribute more than Rs. 60 Billion to the National Exchequer, which means, ‘that any increases in the tax rates would drastically affect their costs, the prices of their products and so the sales also’. These ideas will advance unfurl as the writing survey dives further into the relationship of assessments and deals.

Table 7. Excise revenue by price band, share in tobacco excise revenues and sales, 2008.

	PAKISTAN			EGYPT			TURKEY		
	Excise Mil. Rs**	Share* in Excise Rev.%	Share in Sales %	GST Mil.LE **	Share* in GST Rev.%	Share in Sales %	Excise Mil.TL	Share* in Excise Rev%	Share in Sales %
Premium	11,231	29	10	832	12.2	6.6	3,129	28	20
Mid price	24,266	63	79	990	14.6	14.5	4,396	40	40
Economy	2,744	7	10	4,983	73.2	78.9	3,591	32	41
Total		100	100		100	100		100	100

* Share in tobacco excise revenue.

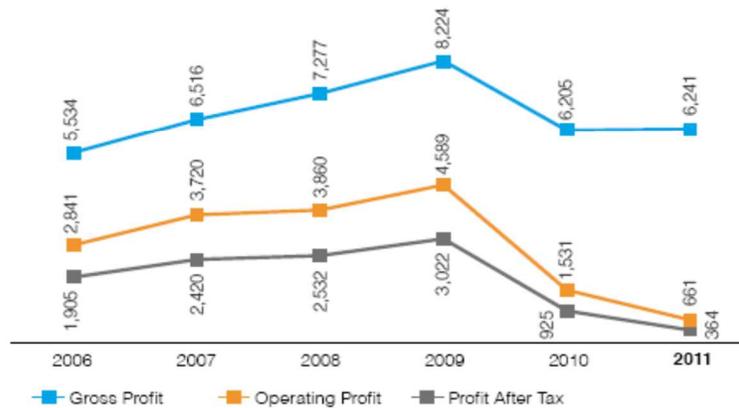
** Excise revenue includes Federal and State excise duties in Pakistan. Excise revenue is General Sales Tax in Egypt

Sources: Authors’ calculations using data from MoF Egypt (2009), FBR Pakistan (2009) and Yurekli et al. (2010)

(Source: The political economy of tobacco taxation, Chapter 4, P86, http://www.who.int/tobacco/publications/en_tfi_tob_tax_chapter4.pdf).

The table above gives an alternate point of view by indicating how much rate is gotten from tobacco organizations in these nations from the aggregate extract income. The rate share similar to the case in each of the three nations is most in the mid-value portion. The table establishes a link between the higher end brands – premium and the middle segment too, Mid Price.

Gross, Operating and Profit after Tax Rs (million)



(Source: Annual Report, 2011, PTC, P17)

This outline demonstrates the falling pattern throughout the years for every one of the three: Gross Profit, Operating Profit and Profit after Tax for Pakistan Tobacco Company, particularly after 2009, whereby different laws were forced, charges climbed exponentially, and so forth. Overall the Gross Profit has increased from 2006 to 2011, currently at Rs. 6,241 Million, however the Operating Profit and Profit after Tax has decreased, drastically.

In Britain the tax is more on tobacco, liquor and on such things while the tax is less on milk, vegetables and other things like this. They have established the tax on the base of price of product and the quantity produced. The excise tax is applied to particular commodities like tobacco while sales tax is applied to general commodities. So a large part of excise tax is generated from Tobacco industry. In world war one and two the tax on all the items was reduced but the tax remains on the liquor and tobacco industry. At that time tobacco and liquor tax makes the major contribution in British exchequer.

6. Foundation

The study is based on “Public choice theory”. Different authors have defined it in different ways.

According to Jeff Sims (1999) the public theory assumes that people who belong to this business are not interested in their business market but they are interested in public sector.

Another concept of public choice theory is it is a utilization of economic devices to manage conventional issues of political science”.

According to Leo Felkins (1997) there are different aspects of Public choice theory. One is “We do it just for you”. It is a claim made by the politician to the general public however it is not true in real sense. It examines the system of government, voting problem and political manipulation.

According to Thayer Watkins it’s a theory that explains how public decisions are made.

According to public influence theory government officials allow the re-election to take those decisions that are of their self-interest.

Another aspect of public choice theory is “short sightedness” effect that states policy makers approve only those policies that gives them immediate benefits.

As the theory mentioned that policy makers just focus on their own benefits that’s why they have enhanced the tax on the tobacco production because from that tax national treasure is increasing and also getting revenue from the export of tobacco finished products and raw material. This income will help them to initiate projects when they are in power in country and to show the public that this much work is done by the government for you; so they next time will again vote them. It is also an impact of public policy theory that mention above “we do it for you”.

7. Conclusion:

There are 50 Tobacco registered companies in Pakistan. Out of which three are tobacco tycoon. One is Pakistan tobacco that was started in 1947. Second is Khayber Tobacco Company that was started in 1954. Third is Philip Morris. Pakistan is on 4th number in world among tobacco user. Tobacco is worldwide most cultivated crop. Pakistan is an agriculture country that accounts 21% of GDP. In Pakistan 75% of tobacco is cultivated in KPK and 25% in Punjab. The income generated from Tobacco creates job for the farmers, workers and for distribution channel. Tobacco has also contributed in growth of other industries. A lot of tax is collect from the tobacco industry that adds into national treasure. The two biggest tobacco companies’ tax revenue is 12% of tax revenue that is collected by Pakistan government. Public choice theory states policy maker made those decision that give benefits to them; that’s why they have enhanced the tax on tobacco to get more revenue and be in power.

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