The neglect of Agriculture

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The Finance Minister has always highlighted the importance of the agriculture sector in his budget speeches and other policy makers including the President and the Prime Minister have been emphasizing the priority they assign to this vital sector. But in practice throughout the past four years, the agriculture sector has not received positive support nor protected from the adverse impact of so many external and internal factors. In consequence:

- The average rate of agricultural growth has slowed down from 4.2 percent in 1990-99 to 2.1 percent per annum in these four years, from 1999-2000 to 2002-2003. Drought alone cannot be blamed for this drastic slowdown because the earlier period also experienced serious floods in 1992 and adverse weather conditions in 1996-97 and 1998-99.
- From a net exporter of wheat in the year 2000, Pakistan has again become a wheat importer this year.
- Each year has witnessed one crisis or another afflicting one of the major crops. The country has not fully recovered from the sugar crisis of the past two years and the cotton crisis of the current year, when it must prepare itself for a wheat crisis next year.
- As a result of these crises, the average income of farmers and particularly small farmers has declined during these four years because of lower agriculture prices and that is one of principal causes of growing poverty, which according to the State Bank latest report, has increased by 13 percent last year. Slower agricultural production and lower farm incomes have also adversely affected the demand for industrial products.

The Agriculture Sector is not producing up to its full potential because the policy makers have been unable to recognize the basic fact that sustained increase in agricultural productivity and the incomes of the farming community depends largely on the terms of trade for the agriculture sector and these in turn are determined by a very large number of policies a nd factors. This is why, each of these policies and factors have to be watched and analysed every week and every month tubewells was raised three times during this three-year period.

While from the fiscal point of view, these measures like imposition of GST on fertilizer and pesticides or raising gas and electricity prices, may have yielded additional revenues for the Finance Ministry, but they also increased the cost of producing wheat at a time when the world market prices in real terms were at their lowest in 30 years. Wheat exporting countries like USA provide large subsidies to their farmers but developing countries like Pakistan are prevented by IFIs to subsidize costs. While other countries are heavily subsidizing their agriculture, Pakistan is forced to tax agriculture. Their ultimate objective has therefore been achieved, with wheat production declining from the record crop of 21.1 million tons to less than 19 million tons in the next three years. Next year, the crop could be even lower because the sugar crisis has delayed the crushing of sugarcane and therefore the sowing of wheat crop. There are also reports of shortage of DAP in the country which is difficult to explain.

As a result of these policies of commission and omission, the country's hard-earned success in becoming self-sufficient in wheat has proved short-lived. According to initial estimates, Pakistan will be forced to import at least half a million tons of wheat in 2004. The increase of 16 percent in the support of price of wheat announced on 19th November which hardly covers the overall rate of inflation over these four years will not be adequate to fully compensate the negative factors that affect incentives for wheat production.

Other crops

This benign neglect is not confined to wheat. For two years running, the production of sugar is higher than the domestic consumption, but permission to export sugar was neither timely not adequate. Sugar mills with large stocks, have not been able to pay the growers nor settle their loans with the banks. This year, they have also delayed the crushing seasons bringing further hardship for farmers.

The cotton crop has also suffered from a shortage of pesticides this to determine how these will affect the prices which farmers pay for their inputs or how these will affect the prices they will receive for their output in the market and whether the net impact of these policies will reduce or increase their net income. Policy makers have to make these assessments in a timely manner and in the right sequence, rather than react to a situation after it has already become a crisis.

The decline in wheat production

This subtle neglect of agriculture can be illustrated most dramatically by the policies and actions or inactions in relation to the country's most important crop of wheat.

Farmers in Pakistan have always responded positively or negatively to the incentives or disincentives for a particular crop. Responding to the agriculture incentive package announced on 3 April 1997, which raised the support price of wheat by 30 percent from Rs. 185 to Rs 240 per 40 kg, reduced duties on many agricultural inputs and doubled the flow of agricultural credit, supplemented by a further increase of 25 percent in the support price to Rs 300 per 40 kg in November 1999, the production of wheat increased from 16.5 million tons in 1996-97 to a record 21.1 million tons in 1999-2000; i.e. by 23 percent in three years. That not only made the country self-sufficient in wheat but also made Pakistan a potential wheat exporter.

After that, there was a steady deterioration in the terms of trade for wheat, as can be seen from the following indicators:

- The official support price of wheat remained unchanged for the next three years at Rs 300 per 40 kg. The actual price, which the farmers received was even lower. Under pressure from the IFIs, the government curtailed its procurement operations in 2001 and farmers were forced to sell their output at Rs 240-250 per 40 kg.
- Meanwhile, in these three years, the price of urea went up by 20 percent to Rs 412 per 50 kg bag and of DAP by 15 percent to Rs 750 per bag, partly due to the imposition of 15 percent GST on fertilizer and partly as a result of the increase in gas prices.
- The flow of Agricultural credit which had more than doubled in the three years from 1997 to 1999 to Rs 43 billion remained at the same level in the next three years and then declined to Rs 37.6 billion in 2002-03, with a corresponding decline in fertilizer offtake.
- The electricity tariff for year at a time when pest infestation was high due to excessive rains. The price of cotton reached record levels and since there is a time lag between the spurt in cotton prices and the corresponding increase in yarn prices in world markets, the textile industry is facing serious difficulties in maintaining production or facing competition in the export markets. We are way behind in agricultural research otherwise by now disease resistance varieties of cotton would be widely available as in our neighbouring country.

Small farmers

The problems of agriculture affect all farmers but small farmers who cultivate 0.5 hectares or less are facing greater hardship. They constitute 75 percent of all farmers but cultivate only one third of the total area. Their average yields are half the large farmer's average and they receive less than 20 percent of agricultural credit. That is why, small farmers are today at the bottom of the country's poverty ladder. The Poverty Reduction Strategy being implemented, with assistance from the World Bank/IMF, does not offer any relief and benefit to the small farmer. In fact, their problems are not even mentioned in the strategy. The free market policies being advocated by this strategy, at a time when agricultural markets and prices are heavily distorted by subsidies of 360 billion dollars a year by developed countries are adversely affecting the livelihood of millions of small farmers because they are pitted against the wealth of rich nations.

No justification for taxing Agriculture

The failure of world trade talks at Cancun to make progress on the issue of agricultural subsidies should be a renewed warning to policy makers in developing countries like Pakistan with such unequal globalisation in agriculture and the threat of de-industrialisation as a result of intense competition from countries like China, Pakistan has to increasingly depend on its agriculture sector to feed its people, to provide raw material to its industries and to provide jobs and incomes to its rural population. It should eliminate the anti-agriculture bias in its macro-policies, expand investment in agricultural technology and safeguard its right to protect the terms of trade for its agriculture sector from the adverse consequences of subsidies provided by the developed countries. This is not the time to tax agriculture.