

THE NEWS

Reviving agricultural growth: Part - VI

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Pakistan will have to develop a unified market linking the farms to retail outlets covering the full supply chain particularly in high-value commodities.

Corporate investment and competition in on-farm storage, refrigerated vans and specialized trucks, silos and warehouses, wholesale distribution channels supplying to the processors, and opening up the highly inefficient and regulated marketing will eliminate the excessive rents earned by those involved in the present arrangements. This 'unearned' premium under a reconfigured modern value chain bolstered by competitive forces will then accrue to the farmers and the consumers while acting as a restraint on food inflation.

The cotton gene revolution that has raised yields and output in neighbouring countries has bypassed Pakistan. Despite proven evidence that Bt cotton has an advantage over open pollinated varieties in yields, costs and environmental benefits, successive governments have been unable to make a decision. Laws and rules including those for plant breeders protecting their intellectual property rights have been approved but the leading international companies have been kept at bay because of the vested interests of unscrupulous seed companies. This indecision which has promoted plagiarism in the spread of undesirable varieties has led cotton production to decline from 12-14 million bales to less than five million.

Where benign government interventions are needed, they are found missing. Pakistan produces fruits and vegetables that are in demand worldwide but lack of cold-chain arrangement for storage and transport has been a major constraint. The private sector should be incentivized to take the lead in investment and value chain development through performance-linked tax credit for a limited period.

In the livestock sector, animal disease control, veterinary services and artificial insemination are some of the measures that would improve the productivity of small farmers. However, the pricing of water used by poultry, meat and dairy products has to be significantly higher as they consume more water than traditional crops.

The unfortunate switch from cotton – raw material for textile exports – to water-intensive sugarcane illustrates biased decision-making guided by policymakers' consideration of patronage and self-enrichment. The support price of sugarcane is set higher than the import parity price. The ex-mill price of refined sugar that directly benefits the politician-owners of the mills are also fixed by the government. Exports are allowed when sugar production is in surplus, and subsidies are provided by the government. When there is a shortage, the government has to import and bear the difference between landed cost and retail price.

To prevent the reckless and haphazard conversion of fertile agricultural land into unplanned, illegal and irregular housing societies that are spreading like wildfire, provincial governments have to set up a transparent mechanism for making changes in land utilization. District councils should have proper planning departments which can make on-the-spot assessment and give permission if the stipulated conditions are met. Only uncultivable, unproductive, saline plots of land in non-irrigated areas should be allowed for conversion under an integrated plan for each tehsil. The generous implicit incentives for tax-free and speculative investment in real estate are policy induced and are diverting resources from productive to speculative activities – an anti-growth strategy.

Land rental markets have not been able to operate as land titles are not clearly defined and litigation on land disputes has congested our court system. Although computerization of land records has taken place, digitization is still pending; it would establish the title and show all the encumbrances for each parcel of land. Pass books are used by banks for agriculture credit, and it is imperative that these pass books be digitized and stored in a centralized database such as that of NADRA.

Changing tastes and preferences: Rapid urbanization, rising middle class and growing health consciousness are likely to change dietary preferences and taste away from cereals towards meat, poultry, fish, seafood, dairy, fruits and vegetables. It is propitious that livestock and horticulture have been fast expanding as the composition of the agriculture sector has undergone a dramatic reversal of 30:65 in the form of livestock and crops to 60: 35 the other way around.

The rate of growth of livestock products in the last two decades has been almost twice that of major crops (leaving maize out). Maize has shown phenomenal growth, tripling its yield since 2001. As 70 per cent of maize is used as poultry feed there has been a revolutionary upsurge in the poultry industry in the last 13 years. The bird population has quadrupled due to hybrid maize, controlled sheds and disease management, and commercialization of production. Due to the increase in supply, real prices of poultry have in fact fallen.

In addition to meeting the growing domestic demand, meat, poultry, fish, fruits and vegetables have also increased their exports. The total exports of these commodities in FY22 were valued at \$1.5 billion. As pointed out earlier, if adequate measures aimed at modern supply chain, preservation, storage and cool chains are put in place then the possibility of doubling the amount does not appear too unrealistic. International certification, packaging, vapour heat treatment facilities, and direct linkage with international supermarket chains can help achieve this goal.

There is, however, a tradeoff between the expansion of meat and dairy exports and moderate water usage. One kilogram of beef consumes a much larger amount of water compared to cereals.

To sum up, this series of articles has demonstrated that Pakistan's economic crises can be redressed if we pay the highest priority to the revival of growth in the agriculture sector. There is no single economic activity that has such a large, pervasive and intertwined footprint on the entire economy – direct or indirect – as has agriculture. Not only that, two-thirds of the population lives in rural areas, two-fifths of direct employment is generated from this sector,

and three-fourths of the country's exports originate from agriculture commodities.

Food inflation can be contained when the prices of vegetables, pulses, meat, wheat, vegetable oil are lowered due to increased supply. As rural incomes of the bottom 40 per cent and middle 40 per cent farmers rise due to improved productivity, poverty can be reduced, food security and nutrition ensured, income distribution improved, and regional disparities minimized. The current account balance can be brought under control as the need for imports of food items and cotton is obviated.

Other sectors of the economy such as trade and transportation which account for 30 per cent of GDP are heavily dependent upon the volume of marketable surplus agriculture produce. We are not talking about a pie in the sky as the existing wide gap between the progressive farmers and the average farmers shows the potential that can be realized under the right set of policies, incentives, investment and institutions. Climate change risks can also be mitigated if the proposals made in this series are faithfully implemented.

The enhanced purchasing power of the rural population would create demand for domestic manufactured goods which would expand their scale of production. The resulting economies of scale would reduce their unit cost of production and make them competitive both against imported substitutes but also allow penetration in export markets. This simultaneous increase in agriculture and manufacturing would allow the aggregate demand to be met by domestic productive capacity avoiding the spill over to imports. This is possible because in the early 2000s, the bulk of our imports were financed by exports and the country had a current account surplus, low inflation, a stable exchange rate, declining interest rates and falling debt ratios.

The above strategy to focus on increasing productivity, if implemented faithfully with strong political will, would be able to get the country out of the frequent economic crisis it has been facing for the last 15 years or so. The frequent recourse to the IMF and friendly country donors would then also become redundant.

The task ahead is by no means easy. Complacency with the status quo, entrenched vested interests, lack of coordination between the federal and provincial governments and the private sector and plethora of inefficient institutions make the task enormously difficult. The silver lining is that reviving agriculture growth would put the country on a steady path of inclusive and sustainable growth.

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