THE NEWS

Reviving agricultural growth: Part – I

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March 31, 2023

Agriculture forms the backbone of Pakistan's economy as it provides livelihoods to almost two-thirds of the population, food, water, energy security to the country, and three-fourth of export earnings. The industrial and services sectors are dependent upon it for their sustenance.

However, a country endowed with one of the largest contiguous irrigated areas (43 m acres) and vast reservoir of underground water in the world cultivating about 21 million hectares of land has not only been able to fully exploit this rich potential but in fact is facing stagnation over the last two decades. Estimates show that the value of output from this irrigation system, if properly managed, can fetch $200 billion instead of the current value of $70 billion.

Despite such a potential, the country spends its scarce foreign exchange to import about $10 billion worth of cotton, wheat, sugar, edible oil, milk powder, pulses. Just to put it in perspective, between 1960 and 2000, the agriculture sector maintained a long-term growth rate of 4.0 per cent annually. In 1950, the country of 30 million could produce only three million tons of wheat and had to rely upon the US government's PL 480 imports to feed its population.

By 2020 it was producing 27.5 million tons and meeting the consumption needs of 220 million people but also exported the surplus in several good harvest years. This became possible because agriculture growth rates from 1960 to 1989 exceeded 5.0 per cent and for a brief period from 2004 to 2006 over 6.0 per cent. Since 2000 it is the rapid growth of livestock poultry and dairy that is the main driver while the crops have lagged behind. The most recent period 2007-08 to 2022-23 shows a dismal record averaging 2.0 per cent – which is below the population growth rate.

Per capita food availability also rose in the earlier 60 years as the cereal crop output growth exceeded the population growth rate. In the last few years, domestic production has hardly been keeping pace with the consumption of the rising population and hence there is a resort to imports.

The slowing down of agriculture sector growth is causing serious repercussions on all aspects of the economy – inflation, poverty, employment, income distribution, current account and food security.

Let us take inflation. The lowest income quintile consumes about 40 per cent of their income on food. Increased supply of food items – cereals, sugar, vegetables, pulses, milk, etc through higher domestic production would lower the prices and thus subdue the inflationary pressures.

The latest estimates show that rural poverty is 28.2 per cent while urban poverty is down to 10.9 per cent. Additional cash income from cotton, milk and livestock combined with higher yields and better returns on calibrated sales of staples and storage facilities would push up the incomes of poor farm households, expand non-farm employment opportunities, and lift a lot of them above the poverty line.

Income distribution in rural areas is highly skewed as the top one per cent of the population owns, operates and controls 22 per cent farm area while 90 per cent of farm holders own 45 per cent of the total farm area with holdings varying from less than one acre to maximum 12.5 acres.

Pakistan’s food trade balance had a deficit of $3.6 billion in FY22. Floods, global commodity price hikes, exchange rate depreciation, domestic inflation, rising population and stagnating output of food grains have accentuated food insecurity. Higher domestic production of wheat and rice would improve the affordability and accessibility of foodgrains. Government procurement and producer price support schemes have also contributed to widening income disparities as large farmers receive preferential treatment and benefit from subsidies.

Had average wheat yields grown at the same rate as in the 1965-95 period, production in 2022 would have reached 40 million tons – stabilizing consumer prices, adding value to wheat-based products and earning foreign exchange by selling exportable surplus at international prices.

The agriculture sector employs 37 per cent of the total labour force while producing only 20 per cent of the national income. This shows that there is a lot of disguised unemployment or underemployment. As the use of modern technology and implements is extended to small farmers, there will be a reallocation of surplus labour from farming to rural nonfarm, agro-processing, marketing, input supply, mechanics and operators, to urban areas and to the Gulf States.

Until 2000 and then the mid-2000s when the agriculture sector was growing rapidly, the employment rate in rural Pakistan ranged between 94 and 98 per cent. When there is significant growth in agriculture output, rural employment – directly on the farm and in ancillary activities – does rise. Agriculture's indirect contribution to employment is much higher through the supply chain, transportation, processing, marketing.

Past experience in Pakistan shows that whenever agricultural growth rates were in excess of the threshold levels of 4.5–5.0 per cent, positive changes were recorded in income distribution and poverty. Thus the proposed high growth strategy for the agriculture sector outlined below, if implemented faithfully, should be able to address most of the problems outlined above and guide Pakistan's future development in the wake of demographics, urbanization, technology and climate change risks.

The popular notion of pointing out the neglect of agriculture is to lament its declining share in GDP over time. This metric that is used to depict the status of agriculture development is, however, fallacious. To illustrate this point, let us look at the evidence. In 1950, the agriculture sector accounted for more than 50 per cent of GDP but produced only three tons of wheat which was insufficient to feed a 30 million strong population at that time.

Seventy-five years later, the population has multiplied seven-times but wheat production by nine times while the agriculture sector's share in GDP has declined to around 20 per cent. Is the country better off today when the share is relatively low or was it better off when agriculture accounted for more than half of the national income?

In the United States, the share of agriculture is less than one per cent of GDP, but it not only feeds 334 million of its population but exports surplus commodities to the rest of the world. Thus the correct measure to focus on is not the share of agriculture in total GDP but the measures of agriculture productivity – output per acre land , output per labourer employed and output per unit of water.

The higher the productivity, the lower would be the sector's share of GDP as the surplus labour released from agriculture is used for other sectors of the economy. Agriculture consumes 93 per cent of freshwater at present. As urban population rises, some of this has to be diverted for drinking purposes at the same time meeting the full needs of agriculture. Similarly, some of the land would be utilized for growing urbanization.

An increasing number of the labour force would find jobs in industry and services sectors in urban areas. The urban population in the US has risen to 83 per cent of the total and contributes 99 per cent to the GDP. In other words, the reallocation of labour away from agriculture that is relatively less productive than non-agriculture accelerates the growth momentum.

The share of agriculture in India is now down to 16 per cent of GDP but it produces 323 million tons of foodgrains and exports $50 billion worth of agricultural commodities. Per capita availability of food has risen by 11 per cent in the last seven years – all this due to higher productivity in the agriculture sector as the land and water resources did not rise proportionately.

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