

OVERVIEW OF AGRICULTURE'S PERFORMANCE: 1960's TO 1990's

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ABSTRACT

The share of agriculture in the economy decreased from 53 percent of the real Gross National Product (GNP) in 1950-51 to 24.7 percent in 1999-2000. Major reason has been policies of achieving rapid industrialization at the expense of agricultural sector. It is argued that over past 40 years the policy of low prices of agricultural produce was adopted so that the industrial sector may get excessive advantage over agriculture produce.

This paper largely presents a detailed review of policies that have been adopted over past 40 years towards agricultural development in Pakistan. The objective is to provide an assessment of agriculture performance by relating it with the policy interventions. For assessment purpose, policies adopted during the periods between 1960 to 2000 have been selected. The paper mainly provides an elaborate historical review of policies towards agriculture development in Pakistan. It highlights the agriculture growth rate trends for past 40 years, and causes of comparatively lower growth rates achieved by the agriculture.

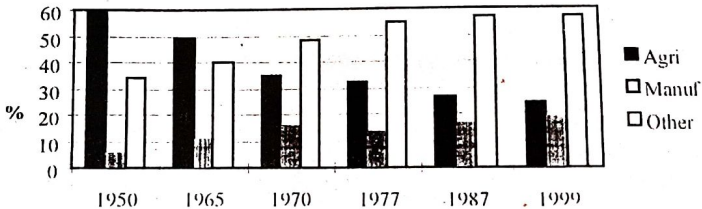
INTRODUCTION

Agriculture is a vital sector in Pakistan's overall economic development, given its share of national output, foreign exchange earnings and direct and indirect employment. The paper highlights the importance of agriculture in the economy and focuses briefly the various causes that contributed to slow growth in agriculture.

The share of agriculture in the economy decreased from 53 percent of the real Gross National Product (GNP) in 1950-51 to 24.7 percent in 1999-2000. The major reason has been the policies to achieve rapid industrialization through

import substitution (Faruqee 1995 a and b; World Bank 1994 a; Economic Survey 1994-95, and Nasim et al. 1990).¹ However, despite fluctuating growth rates and declining contribution towards GNP over the last 50 years, agriculture is still regarded as the backbone of the economy. As it employs more than 50 percent of the labor force and earns² 70 percent of export revenues (Faruqee 1995 a; and Mustafa 1989).

Figure 1
Structure of Economy: 1950 to 1999
Sectoral Origin of GDP at 1950 Factor Cost



Source: Nazir 1991, and Economic Survey 1999-2000

Appreciating the role of agriculture in Pakistan's economic development, Moazam 1994; and Sohail 1991, explained that agriculture has both direct and indirect roles in determining economic growth. They reported that agriculture directly contributes to the economy by earning substantial foreign exchange as a source of major purchases from other sectors, and it has multiplier effects of agricultural income.

1. Nasim, 1990; Faruqee 1995a, argue that a large implicit tax burden was placed on the agricultural sector such that growth in industrial sector has been achieved at the cost of agriculture.

2. Directly or indirectly.

It is mentioned that growth in agriculture has a very positive relationship with rural poverty alleviation. The World Bank 1994a, suggested that among the rural poor, agricultural laborers, marginal farmers, and rural artisans constitute the majority. It further narrated that like many countries, Pakistan has also seen a decline in absolute poverty³. However, despite growth rates that rivaled those of East Asian countries, Pakistan has not achieved commensurable poverty reductions largely because it did not follow appropriate agriculture policies. Supporting this, Faruquee, 1995b, explained that compared to Pakistan, Indonesia's faster rate of poverty rate reduction, was achieved largely through increased incomes in the agricultural sector.

Commenting upon Pakistan's agriculture growth rate Nabi et al. 1986 reported that Green Revolution period did not reduce poverty as fast as in some East Asian countries (such as Indonesia). They argued that this was largely because after the green revolution, growth in Pakistan tended to be unduly labor displacing. Further, they narrated that labour-displacement was rooted in policy distortions, notably policy relating to machinery, land reforms, and credit. This undermined the direct contribution of agricultural growth to poverty reduction. In fact, Pakistan's record in poverty reduction could have been worse, if migration to the Middle East had not played a vital role in absorbing part of the vast pool of rural labor (Iqbal 1985).

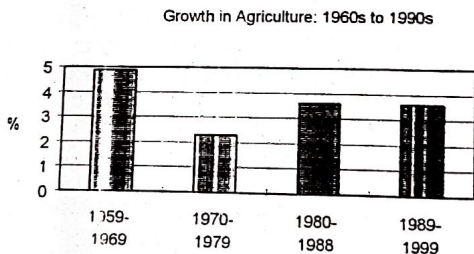
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Figure 1.2 indicates that agricultural growth in Pakistan is divided into four periods (1960s, 1970s, 1980s, and 1990s) with a different pattern of growth at each period. Following is a brief explanation of varying patterns of growth in each of these four periods.

3. According to World Bank 1994a estimates the absolute poverty in Pakistan declined from 40 percent of the rural population in the early 1960s to 24 percent by the mid 1980s.

Mustafa 1989; and Sartaj 1990, reported that soon after independence in 1947, Pakistan adopted a policy of import control with an exchange rate that was generally overvalued. This created an excess demand for imports at duty-paid prices and rationing of imports. The stringent quantitative controls and high tariffs raised the prices of domestic goods well above world market levels, while capital goods imports were much more lightly taxed. The prices of food and raw materials were held below world market prices and procurement policies for crops such as, wheat and cotton was imposed. The prices for agricultural produce were kept low to give the industrial sector an advantage which redistributed income from agriculture to industrial sector.

Figure 2



Source: World Bank 1993, and Faruqee 1995 a.

Nasim et al. 1990, reported that the transfer of income from agriculture to manufacturing was nearly Rs.3.6 billion in 1955 alone. This equaled 15 percent of value added in agriculture and approximately 70 percent of value added in manufacturing in the period. They argued that the early industrialization was thus financed by the agriculture sector, the support prices were kept low and farmers did not receive sufficient incentives to increase their production. For example, in the case of wheat, its support price increased only marginally from Rs.10.18 per 40 kgs in 1947-48 to Rs.10.72 per 40 kg in 1956-57. This indicates that there was little change in the support prices of wheat in the first ten years after independence.⁴

In the 1960s however, government adopted a more realistic approach towards economic development and the importance of the agricultural sector was largely recognized. An agreement with India⁵ was reached regarding the shared rivers for irrigation, and to increase agricultural productivity greater emphasis was put on: greater use of irrigation water, increased application of fertilizer-seed packages, the development of groundwater

4.It was only later (i.e., Green Revolution and post Green Revolution) that prices for wheat began to rise Rs.18.22 per 40 Kg in 1971-72, and Rs.80 per 40 Kgs in 1986-87 (Mustafa 1989).

5.According to Mundroff et al 1976, shortly after the sub-continent was partitioned in 1947, India began to divert water from the three eastern rivers (Ravi, Sultaj, and Beas) upstream, en-dangering irrigated agriculture in Pakistan. Pakistan's immediate protest led to negotiations chaired by the International Development Bank of Reconstruction and Development (IBRD). These negotiations began in 1952 and ended in 1960, led to a solution satisfactory to both sides, with the signing of the Indus Waters Treaty, which sanctioned India's diversion of the waters of the three eastern rivers for its own use. In return, Pakistan received substantial foreign aid for building two large storage dams in the western rivers (Jhelum, Chenab, and Indus) to conserve the flood waters of the rainy season for irrigation when the rivers ran low. The treaty provided for a sophisticated series of new inter-river link canals, which were constructed in the 1950s and 1960s to feed water more effectively to the irrigation canal system developed by the British in the 19th century. The treaty also authorised six barrages to divert river water to the canals, and it provided for remodelling of some existing structures.

resources, and electrification of rural areas. These efforts enabled the agricultural sector to achieve relatively strong growth.

Table 1
Output Per Acre of Selected Crops in Pakistan
and Provinces for 1959-60 to 1963-64

Crops	Average Yield in Kg/Acre		
	Pakistan	Punjab	Sindh
Wheat	331	354	299
Rice	363	375	355
Cotton	99	99	96
Sugarcane	12752	12319	16306

Source: Adopted from Khan 1981.

It must however, be noted that the vibrant growth in 1960s exhibited wide variation between regions and income groups. For instance, the variations between regions can be explained by the rate of change of output per unit of land (i.e. yield/acre) as the agriculture performance indicator. Using this indicator Khan 1981 noted that the average yields of all major crops excluding sugarcane for 1959-60 to 1963-64 remained higher in the Punjab to that of Sindh (Table 1).

In 1970's a series of 'Economic Reforms' were introduced, these included nationalization of commercial banks, life insurance and certain industries. A new labor policy was introduced, giving security of employment to workers and greater freedom to trade unions as well as land and tenancy reforms. To encourage exports excise and customs duties⁶ were reduced, and the rupee was devalued

6.For example, a 50% reduction in tax on income from exports was introduced.

from Rs.4.76 to Rs.11 against the U.S. dollar. The devaluation combined with the world commodity boom, improved the country's terms of trade. During this period the country faced severe climatic shocks, political disruptions.⁷ During the late 1970's and 1980's, the country was ruled by the military. The major steps taken were the de-nationalization of some industries and introduction of constitutional safeguards against arbitrary nationalization of industry in future. This considerably widened the scope of private sector involvement, by permitting private involvement in fertilizer, tractors, automobiles and other industries, which had earlier been restricted to the public sector. In the early 1980s, the rupee was devalued against the US dollar but the unprecedented rise in the dollar during 1984 was not fully adjusted at the time of devaluation, resulting in an overvaluation of the rupee, which significantly reduced country's exports.

Realizing the impact of declining exports on the economy, the government introduced a new agricultural policy. The major features of this policy were to promote agricultural development by gradually increasing domestic agricultural prices and bringing them at par with world prices. Focus was placed upon the reducing subsidies on agricultural inputs and in future limit their use only to promoting new inputs, technologies or crops; and to expand the role of the private sector by reducing government's direct intervention policies. For example, the price of sugar was not fixed by the government;⁸ and the distribution of pesticides was completely opened to the private sector and subsidy on public sector operations was eliminated. However, the substantial depreciation of the rupee during this period⁹ made it difficult for the government to reduce

7. During 1971, India and Pakistan were at war as a result, East Pakistan gained independence as "Bangladesh".

8. However, at any point if government realised that the price of sugar was excessive it released its stocks in the market which were then replenished, mainly by imports.

9. Rs.9.90 to one US dollar in 1982; and Rs.18.20 in 1987.

the gap between domestic and border prices.

Moreover, as in the case of the 1970s, this period also witnessed extreme internal and external shocks that significantly reduced the benefits of policies introduced in this period. At the domestic level a popular movement throughout the country was launched to oust the military regime and more than three million Afghan refugees took shelter in Pakistan as a result of the Soviet invasion of Afghanistan (see for example, Iqbal 1985; and Reeves 1985 for details).

Since the late 1980s and throughout the 1990s, the political stability that is crucial for development remained the main issue. Over the past eight years, four general elections were held so that political stability be restored. The political instability has put immense pressure on overall economic and agricultural development, as throughout this period adhoc policies adopted by successive governments have failed to achieve targets.

The main features of the 1990s have been: the gradual liberalization policy towards imports (reducing the number of banned goods and lifting import restrictions); privatization increased protective policies of industries; and policies to introduce tax on agriculture income.

Moreover, issues such as the extent of subsidies, their likely impact on farmers and public procurement policies were the key debate during this period. World Bank 1994a, reported that in Pakistan subsidies were not helping farmers, especially small farmers. For example, inefficient irrigation water distribution practices encourage rent seeking and limit the benefit of subsidized canal water for small farmers. It is reported that public procurement suffers from similar abuses; evidence suggests that procurement agents exploit farmers by absorbing most of the difference between the market price and support price when the support price regime is in effect. Thus intermediaries and not the farmers absorb the rents in the system.

CONCLUSION

The literature review demonstrated that the primary objective of commercial policy in Pakistan has been import-substituting industrialization. In the early years, terms of trade were distorted against agriculture, through a series of protective measures that resulted in an over-valued exchange rate and lower prices for agricultural exports. It was revealed that agriculture in a very direct sense was used to promote industrial growth. Although, after 1970 some of the exchange rate distortions have been removed which did raise the prices of agricultural exports and has improved terms of trade vis-a-vis industry. However, policy biases against agriculture still remained in 1990s as well.

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