

## Pakistan Agriculture Economy and Policy

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The Indus Valley, home to ancient civilizations, has been settled for over 5,000 years. Subjected to frequent invaders, including Alexander the Great, the region flourished under the Mughal Empire in the 16<sup>th</sup> and 17<sup>th</sup> centuries. British rule began to dominate in the 18<sup>th</sup> century, ending when the Muslim state of Pakistan was established in 1947 with the partition of the Indian sub-continent.

### Macroeconomic Situation and Trends

Pakistan has a population of about 165 million people in an area slightly less than twice the size of California. It is bordered by Iran, Afghanistan, China, India and the Indian Ocean. Pakistan is subject to frequent earthquakes, flooding during the summer monsoons, and a severe lack of potable water. Highly pathogenic H5N1 has been identified in Pakistan with one confirmed human death.

In 2008, Pakistan's economic growth slowed to an eight-year low of 5.7 percent, and is project at only 2.2 percent in 2009. The economy was pulled back from the brink of crisis by a \$7.6 billion, International Monetary Fund (IMF) loan agreement agreed to in November 2008. The IMF program is anchored on fiscal and monetary tightening that will drain further momentum from the economy. The IMF program highlights the array of structural problems that continue to hamper sustained economic development and a reduction in pervasive poverty rates. Infrastructure shortcomings and lack of skilled labor constitute a major deterrent to sustainable medium-term growth. Unreliable power and telecommunication networks may be the main difficulties that businesses face, but the transport sector in particular is in need of investment to meet increasing demand from personal and freight traffic. Endemic corruption, a slow and opaque bureaucracy, a weak legal framework, and inconsistent policy implementation continue to thwart investment activity.

### The Agricultural Economy

Agriculture is the single largest sector of the Pakistani economy. This sector accounts for 22 percent of GDP and employs nearly half of the labor force. Agriculture contributes to economic growth as a supplier of raw materials to industry, as a market for industrial products, and is Pakistan's main source of foreign exchange earnings.

Approximately 67 percent of the country's population lives in rural areas and directly or indirectly relies on the agricultural sector for their livelihood. The average farm size has declined from 13.1 acres in the early 1970's to 7.7 acres in 2000. While per capita income is approaching \$1,000, there is wide disparity between urban and rural incomes. The World Bank estimates that about 14% of the population in urban Sindh Province lives below the poverty line, while 41% of people living in the rural North West Frontier Province bordering Afghanistan live in poverty.

The agriculture sector consists of crops, livestock, fishing and forestry. Major crops include wheat, cotton, rice, sugarcane, corn and chickpeas. Minor crops include oilseeds, other pulses, potatoes, onions, chilies and garlic. The crop sector has gradually declined from 65 percent of agricultural activity in 1990-91 to 48 percent in 2006-07. By contrast, the share of livestock in agriculture has increased from 30 percent to 50 percent over the same period. The contributions of fishing and forestry have been insignificant at only 0.3 percent and 0.2 percent of the sector, respectively. Growth in the agricultural sector bounced back from a modest 1.6 percent in 2005-06 to 5 percent during 2006-07.

Agriculture provides basic inputs for key industries, particularly textiles. Pakistan is the world's fourth largest producer and consumer of cotton. Overall, Pakistan is a net importer of agricultural commodities.

### Domestic Agricultural Policy Overview

About two-thirds of Pakistan's live in rural areas and depend on agriculture for their livelihood. Unlike India, land reform was limited in Pakistan. As a result, less than half of arable land is held by a large number of small farmers, while the remainder is held by a small number of large landowners. There are a large number of landless sharecroppers and agricultural laborers.

Cotton, rice, and sugarcane are grown during the "kharif" season, (May-November) and wheat and oilseeds are grown during the "rabi" season (November-May). About half of all agricultural income is derived from livestock.

A majority of Pakistani politicians and legislators are from rural backgrounds. These political leaders, along with powerful industry groups including the All Pakistan Textile Mills Association and the Pakistan Sugar Mills Association, heavily influence agricultural policy. These pressure groups consider their own particular interests over those of small farmers.

Pakistan's agricultural sector is characterized by low productivity, limited investment, and a weak extension service. In addition, inefficient resource use, a skewed distribution of farm holdings, a thin land market reflecting insecure tenure, inefficient non-price allocation of water and irrigation systems in a drought-prone region, and poor quality inputs and infrastructure continue to hinder the sector. Food security based on self-sufficiency is a potentially costly policy and a major government priority.

Agricultural policy is aimed at maintaining a growth rate higher than population growth. The average agricultural growth rate for the past forty years was 4.3 percent. As arable land is limited to about 25% of total land area, increased productivity is critical. The GOP plans to increase yields through biotechnology, better water and crop management practices and focused research and extension. Availability of agricultural credit and inputs has improved. Crop production is heavily dependent upon irrigated water systems fed by

snowmelt and monsoon rains. Improvements to Pakistan's irrigation system—one of the world's largest—are critical to the future success of this sector.

Major issues facing Pakistan's agricultural sector include a lack of adequate irrigation, improved marketing infrastructure, WTO compliant sanitary and phyto-sanitary regulations, development and implementation of food safety regulations, avian influenza surveillance and public health measures, and the development of improved plant and animal genetics.

### General and Agricultural Trade Situation

Pakistan is one of the pioneering members of the World Trade Association (WTO) and is an active member of various groups and alliances. Within the G-20, Pakistan has played a pivotal and leading role. Pakistan joined the Cairns Group in 2005 to lobby for what it deems a fair and market-oriented agricultural trading system. In negotiations on market access, domestic support and export competition, Pakistan's stance is supportive of the G-20 collective position. Pakistan strongly supports improvement in market access by reducing tariffs, reducing tariff escalation, and eliminating tariff peaks. Pakistan also works closely with the Cairns Group on tropical products issues.

Pakistan has entered into Free Trade Agreements (FTA) with China, Malaysia and Sri Lanka and has exchanged a draft FTA with Singapore which includes an investment protection clause. In addition to WTO membership, Pakistan is party to two agreements for regional trade liberalization: the Economic Cooperation Organization (ECO) comprised of Turkey, Iran, Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz, Tajikistan and Turkmenistan; and the South Asian Association for Regional Cooperation (SAARC) with India, Bangladesh, Sri Lanka, Bhutan, Nepal and the Maldives.

A Trade and Investment Framework Agreement (TIFA) has been in place between Pakistan and the United States since July 2003. Both countries are now negotiating a Bilateral Investment Treaty (BIT).

### Trade and Trends

During FY 2006/07, Pakistan's imports totaled \$27 billion while exports were \$17 billion. Textiles dominate exports, accounting for 59 percent of export value. Other major exports include rice, seafood and products, sporting goods, leather and products and carpets. Major imports include petroleum, machinery, edible oil and chemicals. The GOP has had limited success in bridging the gap as a widening trade deficit continues to strain resources.

### Agricultural Trade

Vegetable oil is the largest agricultural import, totaling 1.5 million tons annually. In FY 2006/07, Pakistan imported over \$3.0 billion in agricultural products, including vegetable oil (\$883 million), cotton (\$647 million), sugar (\$313 million), pulses (\$225 million), tea

(\$184 million), milk and milk products (\$62 million), and dry fruits (\$45 million). Pakistan's main agricultural exports in FY 2006/07 included rice (\$1.13 billion), fruits and vegetables (\$234 million), fish and fish preparations (\$191 million), raw cotton (\$76 million), meat and meat preparations (\$55 million) oilseed nuts and kernels (\$22 million) and spices (\$16 million). Pakistan is a growing market for consumer-ready food products and FAS/Islamabad is actively facilitating increased U.S. participation in the retail sector.

#### Agricultural Trade with the United States

The volume of agricultural, fish and forestry trade between the United States and Pakistan during CY 2007 totaled \$410 million. Agricultural exports from the United States to Pakistan totaled \$355 million, while exports from Pakistan to the United States remained at about \$55 million.

#### Duties on Agricultural Products

Tariffs range from 0 to 25 percent and will be reduced further under a long-term plan to rationalize the duty structure. The GOP levies surcharges on certain items, including vegetable oil, to protect the domestic industry. Revenue collection remains problematic due to, for example, a narrow tax base. As a result, the GOP finds it effective to collect sales and income taxes on imports upon arrival.

#### SPS and Regulatory Systems

Pakistan is in the process of developing an sanitary and phytosanitary (SPS) regulatory system compatible with international standards. A new regulatory agency, the National Animal and Plant Health Inspection Service (NAPHIS), is being established for this purpose. The Plant Protection and Quarantine Department and the Office of Animal Husbandry Commissioner under the Ministry of Food, Agriculture and Livestock (MINFAL) are responsible for SPS issues.

The Pakistan Pure Food Laws (PFL) of 1963 are the basis of the existing trade-related food quality and safety legislative framework. These laws cover 104 food items falling under nine broad categories: milk and milk products, edible oils and fat products, beverages, food grains and cereals, starchy food, spices and condiments, sweetening agents, fruits and vegetables and miscellaneous food products. The regulations address purity issues in raw food and as well as additives, food preservatives, food and synthetic colors, antioxidants, and heavy metals.

Pakistan has been known to establish SPS barriers without reference to either accepted international guidelines or to any risk assessment methodology.