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Agricultural Trade in Pakistan: Impact on People

This policy brief discusses the implications of agricultural trade liberalization for Pakistan. It particularly addresses the following questions:

- How have agricultural trade reforms affected the agricultural exports and imports?
- What are the particular concerns of Pakistan with regards to the World Trade Organization (WTO) rules related to agricultural trade?
- Has agricultural trade openness improved human development?

Key Points

a) Rapid fluctuations in international commodity markets have worsened the poverty.

b) Domestic policies of Pakistan government are also responsible for poor outcomes of the agricultural trade liberalization in Pakistan.

c) It would be significant for Pakistan to have access to instruments like SSM and SPs to ensuring food security and related issues.

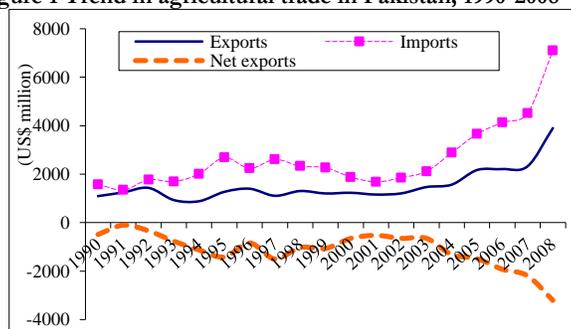
State of agricultural trade in Pakistan

Agricultural trade liberalization has not benefited Pakistan in terms of its role in economic growth and human development. This is attributed to global agricultural trade which has led to volatile and uncertain international commodity prices. However, domestic policies are also responsible for poor human development outcome of the agricultural trade. They have resulted in decrease in public investment for rural development, cut in subsidies, increase in input prices, inadequate performance of the agricultural knowledge system, insufficient land reforms, poor performance of institutional credit and agricultural insurance system, insufficient water management, and inefficient markets. The question is how to manage the domestic policies as well as international agricultural trade rules to protect rural livelihoods and to ensure food security for the poor and landless farmers.

Till early 1980s, agricultural trade in Pakistan was affected indirectly by manufacturing trade reforms and currency devaluations. During the Uruguay Round of trade negotiations, Pakistan agreed to liberalize its agricultural sector. The Agreement on Agriculture (AOA) was one of the most promising agreements, as it was considered to benefit the developing countries by eliminating market distortions. However, in practice the implementation and effectiveness of this Agreement failed the developing countries.

In Pakistan, agricultural trade has been volatile and unfavourable after 1995 as a result of deteriorating terms of trade. Both agricultural exports and imports increased after 1995; however, imports outpaced exports. During 1995-2008, net agricultural trade has not been positive even once underlining the high dependence of domestic agricultural trade on the volatile global market (see figure 1).

Figure 1 Trend in agricultural trade in Pakistan, 1990-2008



Source: UNCTAD.

WTO agreements on agriculture: Why these are harming agricultural trade?

- **Agreement on Agriculture (AOA):** Although rich countries have decreased the subsidies to farms, as agreed under the AOA, however by a clever use of rules they have in fact increased agricultural sector support. In 2007, the OECD countries were providing about US\$1 billion a day support to their farmers. Besides farm subsidies, developed countries have also reduced the market access for developing countries because of a number of factors, such as tariff peaks, tariff escalation, tariff rate quotas etc.
- **Trade-related Intellectual Property Rights (TRIPS) Agreement:** Because of the TRIPS Agreement, it has been difficult for developing countries to adopt modern technology for human development. Technological development has not been compatible with geographic requirements. The application of intellectual property rights (IPRs) has enhanced the cost of seeds and

About Mahbub ul Haq Human Development Centre

Under the umbrella of Foundation for Human Development in Pakistan, Mahbub ul Haq Human Development Centre was set up in November 1995 in Islamabad, Pakistan by the late Dr Mahbub ul Haq, founder and chief architect of UNDP Human Development Reports. With a special focus on South Asia, the Centre is a policy research institute and think tank, committed to the promotion of the human development paradigm as a powerful tool for informing people-centred development policy, nationally and regionally.

cultivations, and patent regime has reduced biodiversity as a result of the use of genetically modified (GM) technologies, promotion of uniform varieties and neglect of preservation of plant varieties.

- **Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) Agreements:** From human development perspective, it is logical to meet the requirements of the TBT and the SPS Agreements; however, from the perspective of Pakistan, where more than two-fifth of the population depends on farming, such measures have constrained the agricultural sector exports and affected the livelihoods of people depending on agriculture. Pakistan is unable to meet the requirements of these agreements due to the shortage of financial resources and technical support needed to upgrade the quality and standard of agricultural sector, and limited technical, legal and scientific resources to challenge such rules.

Impact on human development

- **Impact on marginal farmers:** During the Uruguay Round, it was expected that more open and less distorted trade would reduce poverty and food insecurity in developing countries. However, as a result of continued distortion in global agricultural trade, none of the promised benefits has occurred to developing countries like Pakistan. The opening up of agricultural sector has exposed the landless, marginalized and poor farmers of Pakistan to the market distortions and the volatility of global agricultural trade. It has threatened food security and livelihoods of millions of farmers engaged in subsistence farming. For the majority of farmers in Pakistan farming is not a commercial activity, rather it is a way of life. The most vulnerable are the female farmers who are the poorest in rural Pakistan. They are unpaid family labourers, landless or marginal farmers and have very low access to institutional credit, agricultural knowledge system and markets.
- **Impact on poverty:** Agricultural trade reform has worsened poverty in Pakistan by replacing labour-intensive crop production with subsidized cheap imports, and introducing capital-intensive practices. In Pakistan, 80 per cent of the poor live in

rural areas. Also an increase in rural poverty has a strong link with urban poverty. In case of rise in poverty, rural poor migrate from rural to urban slum areas which are already deprived of basic necessities of life. As a result, urban poverty also increases, rising the overall poverty level. Between 1998-99 and 2005-06, the percentage of population living below national poverty line decreased from 30.6 per cent to 22.3 per cent. Rural poverty declined from 34.7 per cent to 27 per cent during the same period. However, rapid fluctuations in international commodity markets have worsened the poverty. The incidence of poverty in Pakistan increased to 36.1 per cent in 2008-09 or 62 million people were poor with majority living in rural areas (The World Bank's Task Force on Food Security).

- **Impact on food security:** Agricultural trade reform has worsened the state of food security in Pakistan by increasing the number and incidence of hungry people. United Nations' Inter-Agency Assessment Mission 2008 revealed that the share of hungry people in Pakistan increased to 28 per cent in 2008, or to put it differently, in 2008 45 million people were undernourished. Such outcome can be attributed to diversion from food crops to cash crops and exposure to international food market volatility.
- **Impact on women:** The share of women working in agricultural sector increased from 64.5 per cent to 73.8 per cent between 2002 and 2008. However, the vulnerability of female farmers also increased from 78.6 per cent in 2000 to 92 per cent in 2008 which indicated an increase in their economic insecurity (*Pakistan Employment Trends for Women 2009*). Such an increase was the result of two factors: migration of male family members to urban areas due to high incidence of poverty, and inability of farmers to hire additional labour due to increase in small and marginal landholdings and involvement of female family members in farming.
- **Impact of domestic policies on human development in Pakistan:** Besides global factors, domestic policies of Pakistan government are also responsible for the poor outcomes of agricultural trade liberalization in Pakistan. The Doha Round of negotiations aims to reduce the market distortions in global agricultural trade and production. However, in case of Pakistan it is doubtful whether poverty and hunger would reduce as a result of these negotiations. Pakistan is already passing through an agricultural crisis. The institutions such as agricultural insurance system, formal sector credit provision, land reforms,

agricultural education, research and development (R&D), extension services, and agricultural marketing system—all are in a very poor state.

Policy recommendations

From domestic policy perspective, Pakistan needs to take a number of steps to make its agricultural sector more competitive while protecting small farmers.

1. Pakistan's existing land holding policies and laws must be reformed. As the Mahbub ul Haq Human Development Centre has suggested in *Human Development in South Asia 2002* report, the minimum reform requires: transfer of tenancy rights into either ownership or permanent tenancy, computerization of land records to ensure proper taxation, and transfer of uncultivated and state owned land to the poor, marginalized and landless farmers.
2. The provision of agricultural credit as well as agricultural insurance systems be improved to benefit the small farmers.
3. Steps must be taken to correct inequities in access to water and improve water management.
4. Agricultural marketing system must be run more efficiently than at present in order to reduce post-harvest losses and price differentials paid by consumers and received by farmers. Mass media, especially information and communications technology can play a significant role to improve agricultural marketing system in Pakistan.
5. A strong link between agricultural education, R&D and extension services should be established.
6. A system of public and private partnership is needed to resolve financial constraints in the agricultural knowledge system and to make it more effective for small and marginalized farmers.

Besides improving domestic policies, there is also a need to correct international trade rules to protect rural livelihoods and food security of millions of marginalized farmers from the volatility of global agricultural market. For example:

1. There should be a balance in reaping benefits from agricultural research. Besides benefiting the patent owners, the TRIPS Agreement should also focus on spreading the benefits of agricultural innovations as widely as possible. In WTO negotiations,

Pakistan should highlight the importance of strengthening the role of international agricultural research centres for providing quality seeds to farmers. These institutes should be supported to offer financial, technical and scientific support to upgrade the quality and standard of agricultural products in countries like Pakistan.

2. The Doha Round is supposed to reduce gaps between applied and bound tariff rates. But this will reduce policy flexibility and increase the vulnerability of agricultural sector. In such a scenario, it would be significant for Pakistan to have access to instruments like Special Safeguard Mechanism (SSM) and Special Products (SPs) to ensuring food security and related issues.

This policy brief is based on the analysis and findings of *Human Development in South Asia 2009: Trade and Human Development*. The author, Nazam Maqbool Cheema, is a senior research fellow at the MHHDC.

Themes of the Report of Human Development in South Asia

1997	The Challenge of Human Development
1998	The Education Challenge
1999	The Crisis of Governance
2000	The Gender Question
2001	Globalisation and human Development
2002	Agriculture and Rural Development
2003	The Employment Challenge
2004	The Health Challenge
2005	Human Security in South Asia
2006	Poverty in South Asia: Challenges and Responses.
2007	A Ten-Year Review
2008	Technology and Human Development in South Asia
2009	Trade and Human Development

Other Books on Human Development

1995	Reflections on Human Development by Mahbub ul Haq
2002	The South Asian Challenge by Khadija Haq (editor)
2003	Readings in Human Development by Sakiko Fukuda-Parr and A. K. Shiva Kumar (editors)
2008	Pioneering the Human Development Revolution: An Intellectual Biography of Mahbub ul Haq by Khadija Haq and Richard Ponzio (editors)