IMPACT OF TRADE LIBERALIZATION ON AGRICULTURE IN PAKISTAN: A REVIEW

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ABSTRACT

Pakistan endowed a very poor industrial base at the time of independence in 1947. It was considered to emphasize more on import substitution policies to develop a strong economy. The new era of trade liberalization started in 1989. Government took number of steps towards free economy, and gradually introduced comprehensive macroeconomic and structural reforms in the country. Since 1999, Pakistan embarked on export led growth strategy which is being managed through successive trade regimes. This study was conducted in 2008 which covered the research work already undertaken related by impact of liberalization on agriculture. A total of fourteen studies were included in the review. These studies covered broad concept of globalization, free trade and its implications for the agriculture sector.

KEYWORDS: Agriculture, trade liberalization, gatt, WTO, Pakistan.

INTRODUCTION

The developing countries have witnessed a profound advancement of economic policy, particularly in case of trade strategies during the last five decades. Both domestic and global factors have impressed upon the need for more outward-oriented (or liberalized) trade policy regimes. The foundation of General Agreement on Tariffs and Trade (GATT) in 1947 and World Trade Organization (WTO) in 1995 have been the key forces for free trade. The major quantitative barriers to trade, i.e. tariff and non-tariff barriers (quotas, licenses and technical specifications, among other restrictions) have substantially been reduced or dismantled after the enforcement of agreements under auspices of GATT and WTO (10). According to proponents of free trade, trade liberalization is beneficial for all countries regardless of their size and level of development. Though, some sectors within an economy may suffer as it opens up and adjusts to foreign competition, yet aggregate gains from free trade outweigh possible losses.

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The counter argument is that a country's capacity to derive benefits from trade liberalization primarily depends on its size and level of development. Free trade, no doubt increase the size of pie but the distribution of enlarged pie is uneven with bigger and relatively more advanced countries getting the lion's share (13).

The pace of trade liberalization in Pakistan has been quite irregular compared with other developing countries. At the time of independence in 1947, Pakistan endowed with a very poor industrial base. To develop a strong economy, it was considered to emphasize on more import substitution policies. Government imposed restrictions and bans on import of industrial products, devices like quota, licensing and bans were used to protect domestic producers (1). The new era of trade liberalization started in 1989.

There are three interrelated aspects hindering trade liberalization i.e. the country's dependence on tariff as a source of revenue, incidence of illegal trade and dependence on import of intermediate goods (6). Government took number of steps towards freer economy, and gradually introduced comprehensive macroeconomic and structural reforms in the country e.g. shifting from fixed exchange rate to a policy of flexible exchange rate, privatization policy, removal of subsidies, tariff reduction, etc. Since 1999, Pakistan embarked on export led growth strategy which is being managed through successive trade regimes.

Agriculture remains the single largest sector of Pakistan's economy. Although its share in GDP is declining overtime, it still accounts for 21.6 percent of GDP and employed bulk total labour force (44.8 percent). Approximately 66.7 percent of country's population lives in rural areas and directly or indirectly depends on agriculture for their livelihood (5). Trade liberalization policies have an impact on agriculture sector which in turn affect growth rate of agricultural output, food security, regional equity, price stability, farm income, welfare and rural livelihood.

The study in hand will focus the research work already been undertaken related to the impact of liberalization on agriculture. A total of 14 studies were included in the review. These studies covered broad concept of globalization, free trade and its implications for the agriculture sector.

Impact of trade liberalization on agriculture

Akhter (2) highlighted and analyzed the institutional aspects of trade liberalization, including a review/analysis on history of trade regime, various

trade related government policies, infrastructure related to foreign trade, and analysis of trade related indicators. The findings of the study summarized that Government had undertaken various steps to meet the country's towards globalization of merchandized trade under WTO. These included reducing tariff for more than 90 percent to 45 percent on many products and lifting some bans and quantitative restrictions. It simplified the existing complicated rules and procedures of export and import. The Government privatized many public owned trade related institutions and instituting market oriented monetary and fiscal policies. It maintained outward looking trade policy and developing a package of incentives for exporters and importers, establishing industrial and free trade zones, etc. The author (2) contends that the country may not see the impacts of these market oriented policies in short run, but it expected in the long term, the economic situation will improve with these structural reforms.

Khan (7) summarized the trade liberalization measures undertaken during the last 50 years in Pakistan. He reviewed the trade strategy followed in Pakistan over the last five decades with major emphasis on post 1980 developments on trade liberalization. The study also presented an overview of trade regime including discussion on import substitution versus export promotion and their pros and cons terms of increasing exports. Fifty years of export performance clearly suggested that policy regime in Pakistan had generally been biased against exports. The extent of bias had declined ever since Pakistan started implementing tariff reforms and started focusing more on export expansion.

Akhter (1) studied the impact of trade liberalization on selected agricultural commodities like wheat, rice, and maize in Pakistan using simple welfare analysis. This study is the second part of the trade liberalization project implemented in Pakistan. It also included a case study to determine the area specific impact of trade liberalization on these commodities in the rice-wheat areas of Punjab, Pakistan. The producer and consumer surpluses were determined using standard regression analysis based on demand, supply and price linkage equations for welfare analysis of these commodities. With regards to wheat, it was assumed that international prices of wheat would increase by 7 percent due to trade liberalization. It was further assumed that wholesale price of wheat would also increase by another 7 percent due to termination of wheat subsidy on the issue price in Pakistan. The impact of this 14 percent increase in wheat prices on wholesale and farm level prices of wheat in Pakistan was estimated using elasticity coefficients from estimated supply, demand and price linkage equations. Due to this increase in wheat prices, it was estimated that wholesale and farm level prices of wheat in

Pakistan would have increased by 14.295 percent and 13.58 percent, respectively during 1997-98. The increase in farm level prices would have increased the total production of wheat from 18.69 to 19.22 million tons (increased by 2.852%) during 1997-98. This increase in wheat production would have generated a gain of producers' surplus of Rs. 15,771 million. On the other hand, due to increase in wholesale price of wheat, domestic demand of wheat would have declined from 18.67 million tons to 18.40 million tons (1.49%) in 1997-98, and caused a loss of consumers' surplus of Rs. 19,482 million. Overall, impact of increase in international price of wheat would have resulted in a net loss to Pakistan of Rs. 3,711 million during 1997-98.

For rice (both Basmati and non-Basmati types), it was assumed that international prices of rice will increase by 7 percent. Due to increase in international price of rice, it was estimated that wholesale and farm level prices of Basmati rice in Pakistan would have increased by 7.763 and 8,377 percent, respectively (1). On the other hand, wholesale and farm level prices of non-Basmati rice would have increased by 7.889 and 7.02 percent, respectively. The increase in farm level price would have increased the total production of Basmati rice from 1.539 to 1.572 million tons (increase by 2.123%), and total production of non-Basmati from 2.799 to 2.883 million tons during 1997-98. This increase in Basmati and non-Basmati rice production would have generated a gain of producers' surplus of Rs. 1,872 million, and Rs. 3,393 million, respectively. Due to increase in international price of rice, total production of rice would have increased from 4.338 to 4.455 million tons, and generated a total gain in producers' surplus of Rs. 5,264.96 million. On the other hand, due to increase in wholesale price of Basmati rice in Pakistan (by 7.763%), its domestic demand would have declined from 894.28 thousand tons to 866.74 during 1997-98, and caused a loss of consumers' surplus of Rs. 1,190.54 million. Due to increase in wholesale price of non-Basmati rice (by 7.889%), its domestic demand would have declined from 1,090.65 thousand tons to 1,080.23 thousand tons during 1997-98, and caused a loss of consumers' surplus of Rs. 841.66 million. Overall the impact of increase in international prices of rice would have resulted in a gain to Pakistan by Rs. 3,232.76 million during 1997-98.

The study (1) further elaborates that prices of maize in Pakistan were considerably higher than international prices. The impact of trade liberalization on maize was estimated by assuming that international prices of maize will increase by 4 percent. Due to increase in international price of maize, it was estimated that wholesale and farm level prices of maize in

Pakistan would have increased by only 4.02 percent and 4.03 percent, respectively. The increase in farm level price would have increased the total maize production from 1.251 million tons to 1.254 million tons during 1997-98. This increase in the production of maize would have generated a gain of producers' surplus of only Rs. 387.87 million. On the other hand, due to increase in wholesale price of maize, domestic demand of maize would have declined from 1.323 to 1.315 million tons in 1997-98, and caused a loss of consumers' surplus of Rs. 452.73 million. Overall, increase in international price of maize would have resulted in a net loss to Pakistan by Rs. 64.86 million.

Saeed (9) studied the effects of globalization in terms of trade, wages, employment and social progress in Pakistan. The work was of theoretical nature. However, secondary data were used in analyzing the effect of gradual and selective approach to globalization. He observed that Pakistan's economic performance since integration with global economy can be characterized by an increase in GDP growth rates, decline in import duties, and increase in foreign direct investment (FDI) during post 1988 decade. The deteriorating balance of payments situation and continued high levels of poverty and unemployment due to a sharp increase in openness of economy.

Sulheri *et al.* (12) analyses the people's livelihood assets (rural factor markets) in Northern areas of Pakistan and their change over time under the influence of Agreement on Agriculture (AoA) and Trade Related Intellectual Property Rights (TRIPs). They also assessed general awareness level of the community members about WTO and its various agreements, impact of latest policy and institutional arrangements upon people/households and poverty dimensions. The impacts of AoA and TRIPs were analysed indirectly with reference to risk vulnerability, access to public services, rural factor market, and political economy. Community mapping, focus group discussions, and individual interviews were used as tools to collect data for this study. The study provided an overview of history of Northern areas, livelihood strategies of local communities alongwith an introduction of agricultural sector.

Majority of the people living in study area were deprived of basic human needs. Their perception of poverty was the lack of employment opportunities as well as lack of financial resources. There was no direct agricultural subsidy or government grant available in this area. The use of natural resources (land, forests) were being influenced by market forces. People were not aware of various agreements of WTO. People wanted the

government to provide link roads to markets; storage, grading and packaging facilities; and processing plants. They perceived interventions of different Non-governmental Organizations, especially Agha Khan Rural Support Program (AKRSP), as a kind of blessing for them. AKRSP started a marketing program in some areas to safeguard people from the exploitations of middlemen, people want the government agencies to replicate such interventions. People from outside were getting control over local resources.

Bashir (6) investigated the dynamic impacts of economic reforms and trade liberalization policies on agricultural export performance of Pakistan. He examined the impact of both domestic supply-side factors and external demand on the agricultural exports performance. The results suggest that agricultural export performance was more sensitive to the domestic factors' change, due to economic reforms. This supports the importance of policies designed to improve domestic supply conditions aimed at promoting agricultural export performance.

The results also indicated that effects of economic reforms and trade liberalization policies on agricultural exports performance seemed to be slowly modest in case of Pakistan. This was due to fact that degree and extent of implementing economic reforms and trade liberalization policies was an ongoing phenomenon and could not show immediate effect to shift to free trade. The main empirical finding of analysis was that export diversification and openness played a key role in agricultural export performance.

Akhter *et al*. (4) studied the impact of globalization on rice-wheat farming system of Pakistan. He examined the issue through effective incentive and resource use efficiency in rice wheat cultivation through indicators namely effective rate of protection (ERP) and domestic resource cost (DRC). These were compared with producer subsidy equivalents (PSE) of wheat and rice in selected countries of the world. The effective incentive and efficiency in resource use reveal that Pakistan's Punjab is an efficient producer of Basmati rice showing higher efficiency in wheat and IRRI rice production against backdrop of global economy.

Akhter and Sharif (3) evaluated the effective incentives and resource use efficiency in cotton-wheat production during selected period in Pakistan. They examined this issue through level of protection using indicators namely ERP and DRC. The results of economic efficiency indicated that Punjab and Sindh maintained a good economic efficiency in the use of resources in cotton production. Punjab showed higher level of economic efficiency (lower RCR

ratio) as compared to Sindh. However, wheat production in Punjab has slightly higher level of economic efficiency than Sindh. Overall, the results indicated that cotton and wheat growers in Pakistan are moderately disprotected and have comparative advantage. In order to reap the benefit from globalization of agriculture under WTO regime, Pakistan should give greater emphasis on production strategy for cotton and wheat through incentives to sustain resource use efficiency.

Pirzada (8) addressed the issue of impact of Uruguay Round Agreement on Agriculture (URAA) in Pakistan. The author discussed the quantitative and qualitative impacts of AoA on Pakistan. The process of trade liberalization was initiated in many of developing countries (DCs) including Pakistan under Structural Adjustment Programs (SAPs). As such, effects specific to the implementation of Uruguay Round results, and for that matter of WTO AoA, were difficult to identify and distinguish from SAPs. As a result of implementation of SAPs, many of the DCs, including Pakistan, had very low or zero Aggregate Measure of Support (AMS) in 1986-88, base period for purpose of AoA. Similarly, the average applied tariffs these days in DCs varied from 10 to 20 percent, which in Pakistan's case was 25 percent, considerably lower than 20-60 percent range of a decade ago. Further tariffs applied to food stuffs were very close to the general tariffs. It is natural, that with subsidies being done away and tariff dismantled, the low-income food deficit countries were concerned that more liberal world agricultural markets would lead to higher import prices or reduce their food aid and reduced food security. Thus the likely impacts of URAA, on the level and stability of market prices, raised food security concern among DCs. It was in this context that during URAA many DCs viewed liberalization of world agricultural markets as a threat to their economic well-being; and that: the AoA was threatening and undermining sustainable agriculture, agricultural biodiversity and rights of small farmers and communities, particularly in the South. The shift in focus from producing food crops in order to profit from export had also serious implications for agricultural biodiversity. The resultant intensive use, because of this shift, of herbicides and pesticides had a devastating impact on fragile ecosystems, biological diversity and human and animal health. The right of small farmers and communities, who for millennia have lived symbolically with biological diversity, was seriously being threatened.

When one compares Pakistan's compliance with SAPs/AoA and their impact on socio-economics of communities, one can safely conclude that whereas Pakistan was compliant and with SAPs and WTO commitments yet Pakistan was net loser as far as trade gains were concerned under WTO, and in terms of socio-economic development and food security.

Sheikh (11) suggested ways and means to face WTO challenges coming into force in 2005. This report contained a comprehensive analysis of various WTO agreements and their implications for Pakistan's economy. It also provided a set of policy recommendations to enable the country to maximize gains from multilateral trading system under WTO. Pakistan started trade liberalization in the early 1980s. The maximum tariff rate was reduced from 225 percent to 25 percent except for automobiles and alcoholic drinks and the number of tariff slabs has been reduced to four. The trade weighted tariff was just 11 to 12 percent at present. Similarly, there were neither any quotas nor any import licensing for imports.

In compliance with the requirements of Agreement on Subsidies and Countervailing measures, Pakistan has introduced legislation, which conforms to WTO law. Pakistan Safeguard Measures Law (Safeguard Measure Ordinance 2002 and Safeguard Measures Rules 2003), which conforms to the WTO agreement has been promulgated. The National Tariff Commission is the body responsible for administering this law. Before the implementation of WTO Agreement on Customs Valuation, a number of developing countries were using the method based on market prices for valuation. These countries were allowed a maximum transitional period of five years, i.e. upto 1st January 2000 for changing over to the system established by the Agreement. Pakistan opted to use this flexibility in the Agreement and amended relevant clauses of section 25 of the customs act in 1999 to bring it in conformity with the Agreement.

Pakistan had implemented most of the WTO commitments but in the current round of negotiations may have to negotiate on market access to agriculture and industrial products; reduction in tariff rates. In addition to this, it would also discuss domestic support and export duties, dispute resolution systems, trade in services, trade related investment measures, competition, state trading, trade facilitation, intellectual property rights and movement of workers across borders.

Conclusions and areas for further research

The studies suggested that free trade regime affect the social and economic conditions of the farming community. It concludes that increase in international prices of rice would result in a gain to Pakistan but the situation is opposite to it in case of maize and wheat. The overall economic performance of the country since integration with global economy marked by an increase in GDP growth rates, an increase in FDI, a sharp increase in

openness leading to a deteriorating balance of payments situation and continued high level of poverty and unemployment.

The impact of economic reforms and trade liberalization on agricultural export performance of Pakistan suggested that agricultural export performance is more sensitive to the domestic factors. In compliance with the requirements of WTO agreements, Pakistan has fulfilled almost all aspects of these agreements.

In brief, most of research work was of theoretical in nature and lacks empirical research on the topic. The research studies cover trade strategies followed at the national level, discussion on WTO agreements and status of compliance with reference to Pakistan, development of institutional frame work and commodity aspects also explored. Overall the impact on agriculture sector is positive. However, the distribution of benefits will vary depending on the size and level of development of the country. In fact, there is a dire need to quantify the impact of trade liberalization on agriculture in Pakistan by employing appropriate analysis techniques.

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Table 1. **Mean performance of bread wheat lines, testers and their crosses, 2007-08**

Cross No.	Parentage	Grain Yield/ plant	Tillers/ plant	Spike-lets/ Spike	1000 grain wt	Spike length	Days to 50% heading	Days To 50% maturity	Plant height
1×5	HI666/PVN"S" × PBW65/ROER/3/PB6//MIRLOW/BUC	15.2	9.93	23.65	31.33	12.43	101.33	151.33	95
1×6	HI666/PVN"S"×FAISALABAD 2008	13.4	10.5	20.67	30.72	11.97	103.33	152	93
1×7	HI666/PVN"S"×PBW502	13.67	9.07	18.13	33.8	11.1	107	151.67	93.33
2×5	HUBARA"S"×PBW65/ROER/3/PB6//MIRLOW/BUC	13.53	8.83	20.63	33.2	12.75	106	152	96.67
2×6	HUBARA"S"×FAISALABAD 2008	13.8	10.27	20.73	31.97	11.4	105	150.67	91.67
2×7	HUBARA"S"×PBW502	11.33	8.7	22.57	28.17	11.23	105.67	151	94
3×5	FAISALABAD 85×PBW65/ROER/3/PB6//MIRLOW/BUC	18	10.02	20.87	39.38	11.55	105.33	153.33	96
3×6	FAISALABAD 85×FAISALABAD 2008	13.87	10.67	19.63	33.4	11.83	105.67	153.67	99
3×7	FAISALABAD 85×PBW502	17.53	11.28	20.2	33.92	10.1	108.67	154.67	92.33
4×5	FAISALABAD 83×PBW65/ROER/3/PB6//MIRLOW/BUC	21.27	10.57	21.73	39.9	13.63	104	153.67	98.33
4×6	FAISALABAD 83XFAISALABAD 2008	11.7	10.77	20.47	34.2	13.42	103	153.33	96.33
4×7	FAISALABAD 83×PBW502	18.33	10	19.13	31.43	11.77	103.33	153	109
Line 1	HI666/PVN"S"	15.87	9.4	23.13	26.97	12.7	106.33	149.67	94
Line 2	HUBARA"S"	15.2	9.6	20.87	29.33	10.92	106	154.67	87
Line 3	FAISALABAD 85	16.6	11.17	20.33	34.43	10.17	105.67	153.67	101.67
Line 4	FAISALABAD 83	16.8	10.13	21.53	31.28	13.6	102.67	154.33	93
Tester 5	PBW65/ROER/3/PB6//MIRLOW/BUC	16	8.58	21.5	31.97	11.87	105.33	153.67	95
Tester 6	FAISALABAD 2008	21.4	12.95	19.53	30.8	11.27	110.33	153.33	96.67
Tester 7	PBW502	18.47	9.43	19.67	35.3	10.47	110	153.33	96.33
	Grand mean (x)	15.89	10.10	20.89	32.71	11.80	105.51	152.79	95.70
	MS (genotypes)	25.083	3.332	5.578	31.582	3.065	16.792	5.868	60.55
	MS (error)	0.242	0.4	0.938	0.255	0.165	0.78	2.205	2.078
	F. Ratio	103.556**	8.333**	5.944**	123.748**	18.604**	21.541**	2.661*	29.138**
	S. E.	0.284	0.365	0.559	0.292	0.234	0.51	0.857	0.832