

LIBERALIZED TRADE AND FUTURE OF SRI LANKAN AGRICULTURE¹

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Sri Lankan food crop agriculture sector has reached an important cross road, considering its recent experiences and performances. Protection given to domestic agriculture in the past has largely been withdrawn exposing it to foreign competition. Sri Lanka has entered into trade agreements allowing free trade in agricultural commodities. In the meantime the support system for farmers particularly extension have been seriously weakened in the last few years. In the face of these far reaching changes we see the sector in turmoil and farmers and institutions supporting farmers struggling to adjust to the new scenario.

LIBERALIZATION AND COMPETITIVENESS

Removal of protection and entry into trade agreements promoting free trade are positive steps in the long run. But it carries with it a big challenge and responsibility on the part of

the policy makers, administrators and scientists to improve competitiveness in agriculture. If Sri Lanka is unable to do this, very little of the present Sri Lankan food crop agriculture would be sustainable in the future.

TRADE AGREEMENTS

The main trade agreements Sri Lanka has signed are the agreement under GATT known as the Uruguay Round Agreement on Agriculture and SAPTA both effective from 1995. GATT agreement requires that each country provides market access to imports by reduction of tariffs to a certain agreed level and abolition of non tariff barriers. It also requires that subsidies to domestic agriculture and agricultural exports are reduced. SAPTA is an agreement among the SAARC countries with similar objectives. SAARC countries have also decided to take SAPTA to

¹ - Paper presented at the conference of District Secretaries /Government Agents held at the Presidential Secretariat, Colombo on 27.11.1997.

its logical conclusion by establishing a South Asian Free Trade Area or SAFTA beginning 2001.

RISING CONSUMER PRICES

Soon after signing these agreements Sri Lanka found that it is in its immediate domestic interest to adhere to the terms of the agreements. Sri Lanka removed a major non tariff barrier – licensing – and reduced tariffs in mid 1996 to bring down sharply escalating prices of the main non rice crops, chilli, big onion, potato and also vegetables. In fact this was the first time that trade in agricultural products was fully liberalized. Chilli, big onion and potato constitute over 60 percent of the total value of all subsidiary food crops.

IMPACT OF TRADE LIBERALIZATION

Immediately imports of Indian chillies, onions and potatoes commenced and expanded. Sri Lankan producers faces problems in selling their products as the prices they were accustomed to. Sri Lanka has been a high cost producer of these crops with unit cost of chilli 3.5 times higher, big onion 4 times higher and potato 10 times higher than the Indian commodities. It became

clear that many Sri Lankan products lacked comparative advantage vis-a-vis Indian imports. This is largely due to low cost of Indian labour. Difficulties in marketing of Sri Lankan products led to considerable unrest and agitation among the farmers.

COMPARATIVE ADVANTAGE

Comparative advantage in the production of a commodity for a particular country is measured by comparing the societal cost of production with the border price of the commodity. If the societal cost is less than the border price then the country has a comparative advantage. Sri Lanka has no comparative advantage in respect of chillies, onions and potatoes and their domestic profitability was maintained by a high degree of protection. It has comparative advantage in respect of several fruits, vegetables, floriculture and ornamental plants, gingerly, green gram, black gram, pigeon pea, soybean and several other crops.

Comparative advantage varies constantly since prices of inputs in the domestic production process and border prices vary constantly. With current border prices, rice has improved its position in comparative advantage.

ROLE OF AGRICULTURE AND DECLINE IN INCOME

In 1990 agriculture constituted 23 per cent of GDP and 45 per cent of the work force was employed in agriculture. In 1996 these figures have come down to 18 per cent of the GDP and 34 per cent of the work force. This was not merely due to rapid growth of the non agricultural sector but also due to slowing down in the growth of agriculture. However, agriculture sector remains the largest employer in the country.

These figures show two things. Firstly, it shows the inequality between agricultural and non agricultural incomes. 18 percent of the national income is shared by 34 per cent of the people in agriculture and the balance 66 per cent non agricultural work force enjoys a disproportionate share of 82 per cent of the income. This shows the high level of poverty in the agricultural sector compared to other sectors such as manufacturing and services. It is not surprising that most of the Samurdhi recipients are rural and agriculture based.

Secondly, there has been a steady movement of people away from agriculture in the last few years in search of other occupations mainly due to low incomes and drudgery in agriculture.

EMPLOYMENT GENERATION OUTSIDE AGRICULTURE

According to central bank data each year employment in the agriculture sector declines by about 50,000 persons who presumably seek employment outside agriculture. This is in addition to the annual addition to work force of about 100,000 persons and unemployed number of 720,000 persons. The growth of the economy generates about 90,000 jobs per year and overseas employment provides 170,000 new jobs per year totalling only 260,000. Therefore, it appears that the number of new jobs created annually may not be able to keep pace with the exodus from agriculture.

Therefore, it is very important that steps should be taken to raise incomes and make agriculture economically and socially attractive until the economy grows sufficiently to take in those leaving agriculture. This is extremely important not only to promote development but also to avoid social unrest.

MEASURES TO RAISE AGRICULTURE INCOME

To raise agricultural income we must ensure that our farmers are able to sell their produces in competition with imports. That is our produce needs to be made market oriented and competitive. This competitiveness has to be developed without depending on

tariffs, non tariff barriers and other forms of protection. Perhaps in some crops such as chillies, onions and potatoes Sri Lanka may have only limited possibilities. But as indicated earlier in the case of many fresh fruits, vegetables, pulses, etc., Sri Lanka is certainly competitive and we have exporting some of them for over a decade.

Comparative advantage could be improved by reducing cost and increasing productivity. Since the prices of our main inputs such as fertilizer, agro chemicals and tractors are determined in international markets, there is only limited scope for reducing these costs. Similarly, the farm labour costs are largely determined outside the agriculture sector. However, we could use the inputs in a more efficient manner and substitute locally available material in place of imported inputs. The use of straw in place of potash fertilizer and substituting a portion of chemical fertilizers with organic manures are examples. If we double our yields we automatically halve our costs. If we can get 100 bushels of paddy where we get only 70 bushels by better management, we are immediately improving our comparative advantage. Similarly farm income could be enhanced by adding value to the crop products through post harvest technology and enterprise

development. For crops grown in areas where it is difficult to improve comparative advantage crop diversification should be the answer.

The department of agriculture (DOA) has developed a large assortment of technologies such as new varieties together with cultivation, plant protection, post harvest technologies, etc. geared towards improving productivity in crops. It has the technology for crop diversification where needed. If these technologies could be transferred to producers through an effective extension system and supported by other services such as irrigation and credit, the impact on productivity and incomes would be substantial. DOA has also established a unit for assisting investors in commercial agriculture with technology and information required for the development of their enterprises.

Increase in the productivity alone may not be sufficient to make individual farms commercially viable when the holdings sizes are very small. In such instances several options are available that do not interfere with the ownership pattern. The nucleus farm-outgrower system, farmer companies, partnership between private sector and farmer organizations effectively could increase the scale of operation to commercial levels.

CONCLUSIONS

As things are, Sri Lanka will have to depend on agriculture for a long time to come. Farmers should not be abandoned at this difficult period and need to be carefully guided to adjust to the new liberalized trade. For this, a high level of commitment is needed towards improving productivity considering the seriousness of the problem. The comparative advantage of established products should be enhanced and new products with comparative advantage should be identified. If not agriculture as we see it today may not survive long with serious consequences for the economy.

The budget proposals for 1998 are encouraging in this

regard considering the emphasis given to non plantation crop agriculture. These budget proposals are focused towards promoting competitive agricultural production with advanced technology in medium and large scale operations. This effect needs to be sustained over the years.

All officers responsible for government programmes in the districts can play their roles efficiently by giving priority to programmes for improvement of productivity and competitiveness. They should ensure that the extension, irrigation and credit networks in their districts work well to facilitate the adoption of new technology by the farmers.

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