

Policy Brief

Economic Reforms and Agriculture in Bangladesh: Assessment of Impacts using Economy-wide Simulation Models

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Agriculture is a major economic activity in Bangladesh. It currently employs around 50 percent of country's labour force and contributes around 20 percent of country's GDP. It is increasingly becoming established in economic literature that the development of a growing economy critically depends on the development of the agricultural sector. As poor people are concentrated in the agricultural sector, alleviation of poverty also calls for reducing poverty in the rural areas with utmost importance. In Bangladesh, around 70 percent of the poor people live in the rural areas.

Growth in agricultural sector has important linkages with the overall economy through various channels. Firstly, agriculture provides critical supply of raw materials to many non-agricultural sectors. Secondly, consumptions of agricultural commodities have important implications for poverty of the households both in rural and urban areas. Therefore, the demand and supply of agricultural commodities, especially food items, and their prices influence much of the welfare of the poor households. Thirdly, rural sector is the dominant source of supply of unskilled labour to the economy.

Crop is the major agricultural sub sector, which accounts for about 14 percent of the country's GDP. There are a number of agricultural crops produced in Bangladesh. Rice is the most important crop in Bangladesh. It is by far the staple food for 160 million people and the major means of livelihood for 13 million farm households in the country. The dependence of the poor people on cereals (rice and wheat) for their livelihood is clearly understood from the fact that the bottom 40 percent of the rural households, in the per capita income scale, in Bangladesh spends nearly 52 percent of their budget on the crop sector output, with 35 percent on rice and wheat alone. The corresponding numbers for the urban areas are 42 percent and 25 percent, respectively. The top 10 percent households also allocate some significant proportions of their budget on crop sector output both in the rural and urban areas. Bangladesh is the fourth largest rice producing country in the world, and it also happens to be the fourth biggest rice consuming country. Because of the huge domestic consumption, the country turns out to be a net rice importing country. Bangladesh is also a large exporter of jute. There are other agricultural crops, i.e., wheat, potato, lentils, vegetables, spices, tea, which are partly produced and the rest are imported to meet the domestic demand.

It is important to note that, at the WTO, Bangladesh, as an LDC, is not bound to undertake any liberalisation in its domestic agricultural sector in terms of tariff cut or subsidy withdrawal. However, there are concerns that actions taken by the developed and developing countries in terms of reduction in agricultural domestic support measures might have important negative implications for the net food importing countries like Bangladesh. It can however be noted that agriculture has been at the centre stage of multilateral trade negotiations during the past 25 years. Despite having a major progress in improving the rules for trade, the overall achievement, in terms of increasing market access for agricultural

goods, was considered to be 'disappointing' at the end of the Uruguay Round. Although under the WTO Agreement on Agriculture members committed to carrying on reforms, not much progress has so far been made in further opening-up of the markets. Nevertheless, agriculture continues to be an active area of negotiation. While the modalities for future liberalisation in the sector are being negotiated, the potential implications arising from such liberalisation have drawn a lot of attention. Several studies predict that, with the elimination of export and production subsidies, prices of agricultural commodities are likely to increase. This will be beneficial to a number of developing countries that have clear comparative advantage in the sector. Liberalisation will also imply further market access opportunities for these countries as a result of reduced tariff barriers in the developed country markets. However, not all developing countries are net-exporters of agricultural products, and many of them actually depend on the world market for their supplies. Consequently, a global agricultural trade liberalisation under WTO could adversely affect these countries.

It is also important to note that under bilateral trading arrangements, such as India-Bangladesh bilateral FTA, there are scopes for increased trade in agricultural products between Bangladesh and India. Bangladesh's market access for its agricultural exports in India is likely to increase whereas there will be increased imports of agricultural products from India. Therefore, liberalisation in the trade in agriculture has important implications for the agricultural commodities which are either exported or imported. Increased market access of agricultural exports from Bangladesh under such trade agreement will lead to rise in production and employment in those export-oriented sectors; whereas, domestic liberalisation in the agricultural sectors may dampen output and employment in the import-competing agricultural sectors.

It thus appears that the growth in the domestic agricultural sector doesn't only rely on the domestic policies and programs, rather global and regional trade policies have important implications for this sector. Moreover, the various economic policies and programs, such as domestic fiscal policies, import policies and programs for growth in agricultural productivity also affect the development of the agricultural sector in an economy.

Against the backdrop of the aforementioned discussion, this study explores the links between major economic policy reforms and growth the agricultural sector in Bangladesh. The overall objective of this study is to explore how economic policy reforms affect the agricultural sector in Bangladesh in terms of output, import, export and employment. The study explores three trade liberalization scenarios (a global agricultural trade liberalization scenario under WTO-Doha agreement, Bangladesh – India bilateral FTA, and domestic agricultural trade liberalization), one fiscal policy scenario (rise in agricultural subsidy) and one technological change scenario (rise in agricultural productivity).

The major results of this study are as follows:

1. Global agricultural trade liberalisation under WTO-Doha agreement will lead to rise in prices of agricultural products in the global market as well as in the domestic market. Taking the benefit of rise in the prices of agricultural products there will be some positive effects on the sectoral production and employment in agricultural sector in Bangladesh. However, this could also have some concerns for the

households who are net consumers and therefore would likely to be negatively affected because of the rise in food prices.

2. Bangladesh – India bilateral FTA would result in limited expansion in the agricultural and some export-oriented sectors, though most of the import competing sectors would contract. However, the expansion of the agricultural and export-oriented sectors would be larger enough to result in a net employment generation.
3. The domestic agricultural trade liberalisation would lead to increased imports of agricultural products and this would result in the contraction of the agricultural sectors. Overall industrial and services sectors would contract. There would be a large employment loss of the unskilled labour.
4. Rise in subsidies in agricultural sectors would lead to rise in the production in the agricultural sectors and some of the industrial and services sectors would contract. There would be rise in overall employment of unskilled labour because of larger employment generation in the agricultural sectors and lesser loss in employment in the industrial and services sectors. The effect on the employment of skilled labour would however be negative.
5. Rise in total factor productivity in the cereal crop sector would lead to large expansion of the cereal crop sector. Also, rice milling and grain milling would experience expansion. Import will fall in all these sectors. The industrial and services sectors would experience some expansion. Overall agricultural sector would experience large fall in employment of unskilled labour because of the rise in productivity in the cereal crop sector. Therefore, despite that employment would increase in the overall industrial and services sectors, the net employment effect of the unskilled labour would be negative. However, there would be a net positive effect on the employment of skilled labour.

The policy implications of this study are as follows:

1. The policy implication that emerges from the global agricultural trade liberalisation scenario is that government would have to facilitate the smooth marketing operations of the agricultural products in the market so that the farmers, not the middlemen, receive the maximum benefits of higher prices of their produces. Therefore, enforcing competition policy and laws are very important. On the other hand, government's safety net programme should address the problem of poorer households who are likely to experience the burden of high food prices.
2. The policy implication of Bangladesh – India bilateral FTA scenario is that the government needs to be careful while perusing any bilateral FTA deal with any country. It is very important to identify the sectors who are likely to be gainers and also equally important to identify the sectors who are likely to be the losers. For the later category of sectors the policy makers may think of strategic and slower pace of trade liberalisation. Also, temporary fiscal support can be provided for these sectors.

3. In the case of a domestic agricultural trade liberalisation the government also needs to be careful. The agenda of agricultural trade liberalisation needs to be in consistent with the broad agenda of trade liberalisation in other sectors of the economy. The major protected sub-sectors in agriculture are poultry and fishing. These two sectors in fact have grown over the last decade under significant trade protection. Any trade liberalisation agenda for these sectors is therefore needed to be strategically placed.
4. Rise in subsidies in agricultural sectors would certainly enhance agricultural production. It would also provide extra incentives for investing in agriculture. However, it should also be kept in mind that such subsidies put heavy burden on government's exchequer. Therefore, phased reduction of such subsidies would be warranted.
5. It appears that rise in total factor productivity in the cereal crop sector would result in loss in employment in the agricultural sector and there will be increased demand for employment in the non-agricultural sectors. Therefore, it is very important that while investing in agricultural research for the rise in agricultural productivity, the policy makers take necessary measures to promote industrialisation to absorb the labour realised from the agricultural sectors.