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AGRICULTURE

This article highlights the role of agriculture in the economy. It supplements the official statistics by bringing out facts and figures that may not be apparent at first sight. It is also an attempt to explain the underlying factors behind changes in the major economic indicators of the agricultural sector.

1. Contribution to national output

1.1 The percentage share of agriculture in national output is estimated to have stabilized around 14% of GDP in the period 1981-85. This figure relates to primary agricultural production only and excludes sugar milling, tea manufacture, cigarette manufacture etc. which are accounted for elsewhere. By excluding these activities, the sectoral aggregate for agriculture does not reflect the real importance of this sector. Although according to statistical convention segregation of economic activities is necessary for the purpose of national accounting, some caution in interpretation in regard to agriculture is needed.

1.2 Total value added by agriculture increased in current terms at an average annual rate of 10%, from Rs 1,257 million in 1981 to Rs 1,965 million in 1985 (Table I). Sugar is by far the most important contributor, followed by foodcrops, livestock and fisheries. Output of the last three sub-sectors has increased over the last five years as a result of the intensification of agricultural diversification and the development of industrial fishing.

Table I: Value Added of Agriculture at Current Factor Cost (1981-85)

	1981	1982	1983	1984	1985
Total value added (agriculture)/GDP (%)	14	15	14	14	14
Value added (Rs m)	1,257	1,530	1,465	1,736	1,965
of which:					
Sugar cane (Rs m)	899.3	1,140.0	1,010.0	1,166.0	1,395.0
Green tea "	24.7	38.0	62.0	131.0	86.0
Tobacco leaf "	31.2	14.2	19.8	24.2	22.1
Foodcrops "	96.2	108.0	122.2	150.0	150.0
Fruits, flowers, forestry (Rs m)	41.5	41.5	41.7	41.5	48.6
Livestock and poultry products "	99.8	114.2	117.1	121.7	144.4
Fishing "	27.5	34.3	45.8	64.7	86.1
Agricultural services "	36.5	39.8	46.4	36.9	32.8

1.3 Since virtually all arable lands are under cultivation, no spectacular increase in agricultural output is expected in the years to come. The expected additional output can only come from an intensification of land use, particularly cane land, and from the livestock and fisheries sub-sectors. As there are limits to the extent to which land utilization can be intensified further, and to the pace at which livestock development can take place, expected incremental output from agriculture will be moderate compared to outputs from other sectors such as manufacturing and tourism. In future, the percentage share of agriculture in GDP may even fall below 14% as growth in other sectors gathers momentum.

1.4 However, this decrease should not be interpreted as a sign of stagnation. It is rather an indication that the sector is approaching its limits. The need for maintaining agricultural output will continue to remain a major national concern. The potential foreign exchange saved or earned and the tempering effect on the CPI of any incremental unit of agricultural output cannot be ignored.

2. Export Earnings and Balance of Payments

2.1 Over the last five years, gross export earnings from the agricultural sector registered a 78% increase in current terms, from Rs 1,860 million in 1981 to Rs 3,303 million in 1985 (Table II). Although sugar and its by-product, molasses, still account for 90% of total agricultural exports, it is worth noting that over the same period, fish exports more than doubled, and exports of horticultural produce increased more than five times. This serves to indicate that fish and horticulture do have significant potential as foreign exchange earners although their present contribution in absolute terms is small.

Table II: Export Earnings from Agriculture

	1981	1982	1983	1984	1985
Total agricultural exports (Rs m)	1,860	2,678	2,934	2,975	3,303
of which:					
Sugar and molasses "	1,735	2,529	2,742	2,584	2,938
Tea "	49	67	97	249	178
Fish and fish preparations "	61	56	76	107	143
Horticulture "	5	9	11	16	26

2.2 In 1985, gross export earnings from the EPZ sector exceeded earnings from sugar for the first time. However, in net terms, foreign exchange earnings brought in by sugar and its by-product (Rs 2,034 million and Rs 2,338 million in 1984 and 1985 respectively) exceeded by far earnings from the EPZ which were of the order of Rs 501 million and Rs 753 million respectively (Table III). Again, net export earnings as a percentage of total export earnings for sugar and its by-product was 80% in 1985 whilst the ratio for the EPZ was only 23%. Agriculture, and in particular, sugar is still the major foreign exchange earner of the country, and as such, its contribution to balance of payments exceeds by far that of other sectors.

Table III: Foreign Exchange Earnings from Sugar and EPZ

	1984	1985
SUGAR & BY-PRODUCT		
A. Gross Exports (Rs m)	2,584.1	2,938.0
B. Imports 1/ (Rs m)	550.0	600.0
C. Net Earnings (Rs m)	2,034.1	2,338.0
D. Net Earnings/Gross Exports(%)	78.7	79.6
EPZ		
A. Gross Exports (Rs m)	2,151	3,283
B. Imports (Rs m)	1,650	2,530
C. Net Earnings (Rs m)	501	753
D. Net Earnings/Gross Exports(%)	23	23

1/ Based on estimates of total annual foreign currency requirements of the sugar industry.

3. Food Self-Sufficiency

3.1 Following the trends in GDP and consumption expenditure, food imports rose from Rs 1,242 million in 1981 to Rs 1,577 million in 1985. Although the increase in absolute terms is remarkable, the percentage of food in total imports fell from 27% in 1982 to 19.5% in 1985 (Table IV).

3.2 However, ratios of imports of a commodity to total imports do not mean much in themselves; nor do they reflect any improvement in a particular sector. Of more relevance is the ratio of food imports to agricultural exports. As shown in Table IV, this ratio has decreased from 67% in 1981 to 47% in 1985. The decrease of 20% over a five year period is quite remarkable, and highlights the increasing role of agriculture in meeting more of the food requirements of the country either directly, through the supply of foodstuffs, or indirectly, through the generation of foreign earnings for purchasing food.

Table IV: Food Imports, 1981-85

	1981	1982	1983	1984	1985
Total Consumption Expenditure (Rs m)	8,699	9,925	10,592	11,735	12,987
Food Imports (Rs m)	1,242	1,364	1,259	1,478	1,577
Food Imports/ Total Imports (%)	25	27	24	23	19.5
Food Imports / Agricultural Exports (%)	67	51	43	50	47

4. Employment

4.1 The agriculture sector as a whole accounts for a little less than a quarter of total employment. Large agricultural establishments only presently provide employment to 52,651 people. As an employment generating sector, agriculture has been superseded for the first time in 1985 by another productive sector, manufacturing (Table V).

Table V: Employment in Large Establishments by Selected Industrial Groups, September 1976 - September 1985

	1976	1981	1982	1983	1984	1985
Total	184,539	196,314	195,078	193,827	200,627	215,354
of which						
Agriculture/ fishing	64,182	56,955	56,711	55,826	53,453	52,651
Manufacturing	29,348	37,178	36,884	38,310	48,613	62,949

4.2 Since all cultivable lands are already being exploited, primary agriculture will not create more jobs in the future, and its declining share in proportionate terms is not unexpected. However, the decrease in the number of agriculturally employed, especially in the large establishments, is a matter of concern because labour shortages can hamper agricultural diversification. There are indications that both large and small agricultural establishments are experiencing labour shortages at peak periods of field activities. With the growth of the manufacturing sector, and the creation of industrial sites in the rural areas, it will become increasingly difficult for agricultural establishments to fill in vacancies arising from attrition in that sector.

5. Capital Formation

5.1 Gross Domestic Fixed Capital Formation (GDFCF) in agriculture has stabilised around 5% of total GDFCF. Investment in agriculture is mainly geared to land improvement and land preparation. The relatively higher productivity of sugar estates' and large planters' lands is due to the investment made regularly. On the other hand, poor land productivity of small planters is attributable in a large measure to inadequate investment. Under the Sugar Industry Action Programme there is one component whereby special facilities are being given to small planters to enable them to develop their lands and thereby increase productivity.

Table VI: GDFCF and Output in Agriculture
(at current prices)

	1981	1982	1983	1984	1985
Value added (Rs m)	1,257	1,530	1,465	1,736	1,965
GDCFC Agriculture (Rs m)	127	135	102	140	155
Total GDFCF (Rs m)	2,240	2,100	2,300	2,560	3,020
GDFCF Agriculture/ Total GDFCF (%)	5.6	6.4	4.4	5.4	5.1

5.2 A special mention should be made of investment in sugar manufacture although this investment is not accounted for in the GDFCF estimates of agriculture. It ought to be pointed out that a minimum amount of investment is necessary for maintaining productivity and output in the long run. In this context the replacement of obsolete milling equipment and maintenance of existing assets assumes particular importance. Government recognizes this need and has already negotiated a loan with the World Bank for meeting the funding requirements of the Sugar Industry Action Programme. Part of this loan is being made available for replacement of equipment. The provision of more loan facilities will depend on the rate at which this is utilized.

5.3 Judicious use of the loan finance coupled with the rationalisation of production will ensure the long-term viability of the sugar sector as a whole (i.e. including by-products). It is essential that economies of scale be exploited to the fullest extent possible so as to maintain the international competitiveness of the sector. Hence, the overriding preoccupation of Government from the national perspective is to restructure the industry such that it continues contributing even more effectively to national growth and development.

6. Outlook

6.1 The programme of agricultural diversification based on a more intensive use of cane lands will be encouraged to enable self-sufficiency to be reached in a selected number of foodcrops. The potential of high value horticulture for the export market will be tapped to the maximum. The fisheries sector will sustain further growth with additional investment in infrastructure and fishing vessels. But in the long run, agriculture can only contribute significantly towards food self-sufficiency and national food security if parallel to changes in the supply side, the demand pattern undergoes a shift towards commodities for which production potential exists.

7. Conclusion

7.1 The contribution of agriculture to national output and employment is still significant. Agriculture earns the country more foreign currency in net terms than any other sector. It also caters for a significant fraction of food requirements and contributes to Government revenue. Although agricultural growth is not expected to be as high as in other sectors, principally because of land constraint, improvement of productivity and output levels will continue to be a major thrust of national policy.