

Agricultural Price Distortions, Inequality, and Poverty

Pakistan

Caesar B. Cororaton and David Orden

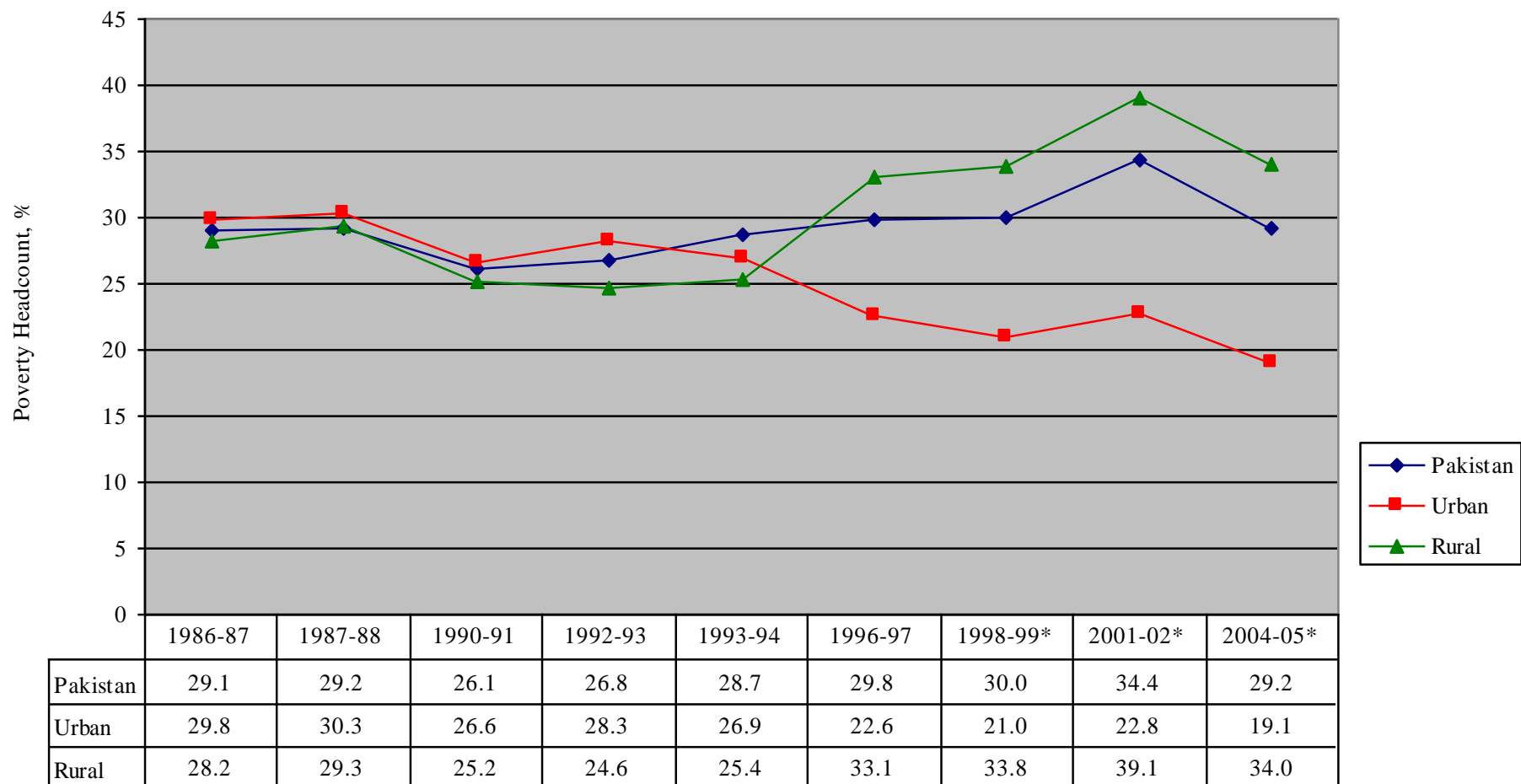
This study builds on earlier IFPRI analysis and the IFPRI/WB study

Pakistan's Cotton and Textile Economy:

Intersectoral Linkages and Effects on Rural and Urban Poverty

(2 reports available at display table)

Poverty Trends in Pakistan



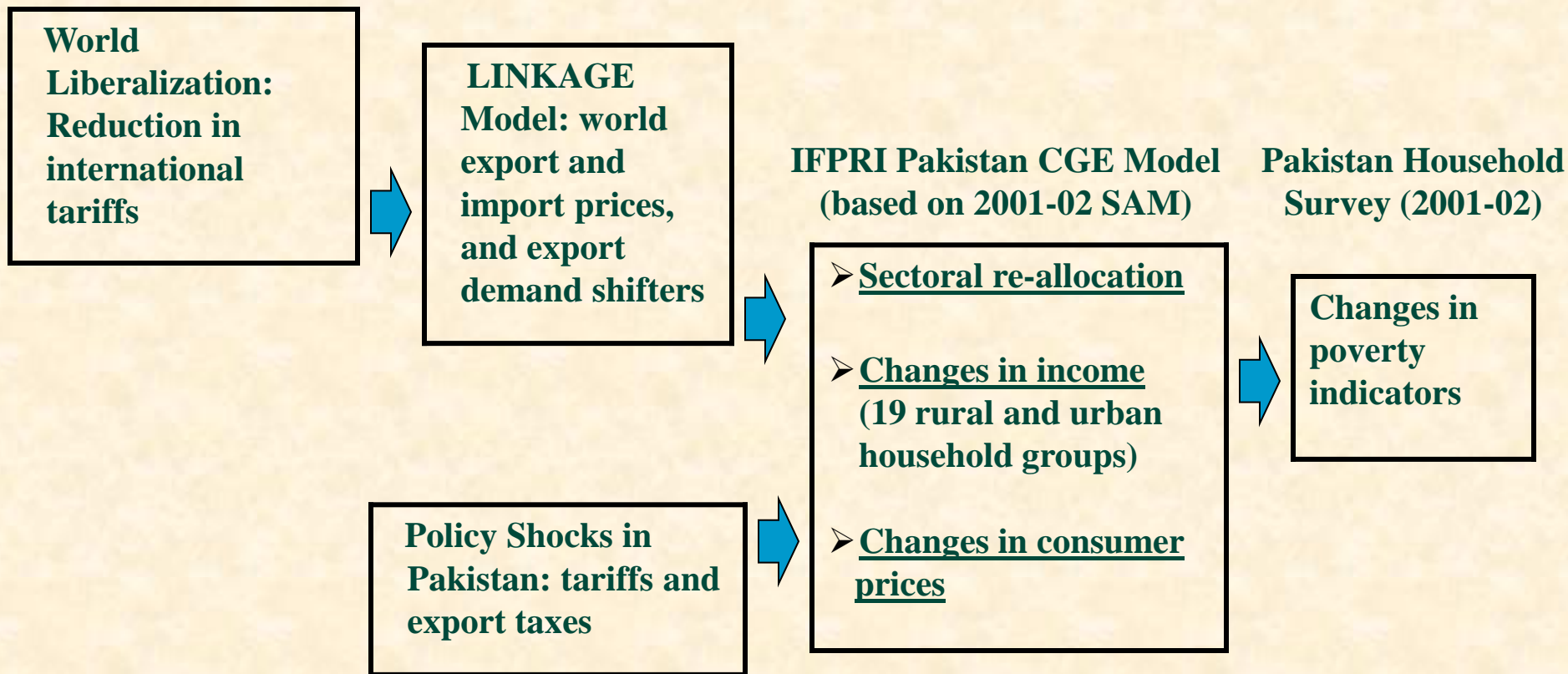
Source: Pakistan Economic Survey 2002-03; World Bank 2007

*From World Bank 2007 "Pakistan Promoting Rural Growth and Poverty Reduction" 2004-05 are estimates of the World Bank

Pakistan's Production and Trade Structure

Sectors	Share (%)		Exports (%)		Imports (%)	
	Output	Value-added	Share	Intensity	Share	Intensity
Agriculture	27.7	26.8	8.5	3.1	6.6	3.6
Primary Agriculture	20.1	23.2	3.9	1.9	3.1	2.4
Lightly Processed Food	7.6	3.6	4.6	6.0	3.4	6.8
Non-Agriculture	72.3	73.2	91.5	12.7	93.4	18.4
Mining and Manufacturing	24.2	13.2	74.1	30.6	88.2	44.4
Other Industry	6.6	6.6	0.0	0.0	0.0	0.0
Services	41.5	53.5	17.5	4.2	5.2	2.0
Total	100.0	100.0	100.0	10.0	100.0	14.5

Framework of Analysis



Pakistan Model: Sectors and Factors

- **34 production sectors**
 - **17 agriculture (12 primary agriculture and 5 lightly processed food)**
 - **17 non-agricultural (mining, manufacturing, other industry and services)**
- **5 factors of production**
 - **skilled labor (mobile across non-agriculture and lightly processed food)**
 - **unskilled workers (mobile across all sectors)**
 - **farm labor (mobile across primary agriculture)**
 - **land (use can shift across agriculture)**
 - **sectoral capital (fixed)**

Scenarios

Trade Liberalization Scenarios

- **World (without Pakistan); Unilateral (Pakistan only); Combined (World and Pakistan)**
 - **Agricultural Liberalization; Full Liberalization**

Tax Policy Scenarios

- **Direct Income Tax versus Indirect Tax replacement to hold government savings fixed**
 - **Applied to Combined Agricultural and Full Liberalization Scenarios**

Agricultural Liberalization: Poverty Effect

(% difference from base level; direct income tax replacement)

Households	Poverty Incidence in 2001-02	2001-02 Pop. Dist., %	% change from 2001-02 index		
			World	Pakistan only	Combined
Pakistan	31.2		-0.1	-1.6	-1.8
Urban	19.9	29.7	-0.1	-2.4	-2.7
Rural	38.2	70.3	-0.1	-1.4	-1.5
Large and Medium Farmers	22.8	4.0	0.0	3.4	3.4
Small Farmers and Agri. Workers	37.4	30.6	0.1	-0.9	-0.9
Rural Non-Farmers	39.9	35.7	-0.2	-1.9	-2.1

Full Liberalization: Poverty Effect

(% difference from base level; direct income tax replacement)

Households	Poverty Incidence in 2001-02	2001-02 Pop. Dist., %	% change from 2001-02 index		
			World	Pakistan only	Combined
Pakistan	31.2		-1.3	-5.2	-6.4
Urban	19.9	29.7	-1.5	2.3	0.4
Rural	38.2	70.3	-1.2	-7.6	-8.6
Large and Medium Farmers	22.8	4.0	0.0	-7.9	-7.9
Small Farmers and Agri. Workers	37.4	30.6	-1.4	-8.3	-8.7
Rural Non-Farmers	39.9	35.7	-1.1	-7.2	-8.5

Combined Full Liberalization: Poverty Effects

(% diff. from base; direct income vs. indirect tax replacement)

Households/Poverty Index	Index in 2001-02	2001-02 Pop. Dist., %	Combined full	
			Direct Tax	Indirect Tax
Pakistan	31.2		-6.4	0.5
Urban	19.9	29.7	0.4	0.0
Rural	38.2	70.3	-8.6	0.6
Large and Medium Farmers	22.8	4.0	-7.9	2.2
Small Farmers and Agri. Workers	37.4	30.6	-8.7	1.5
Rural Non-Farmers	39.9	35.7	-8.5	0.0

Summing Up

- **Full versus agricultural liberalization**
- **Own versus global (external) liberalization**
- **Who pays matters**
- **Additional analysis is needed and a cadre of Pakistani analysts strengthened and sustained to build on this study and the IFPRI/WB project cotton-textile reports**



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