



A CONCEPTUAL STUDY OF THE IMPACT OF AGRICULTURAL POLICIES AND REFORMS ON THE ECONOMY WITH REFERENCETO SRI LANKA ECONOMIC CRISIS

Dr. Lakshman K,

Associate Professor & HOD, Jain University-CMS, SBMJEC Bangalore#

Dr. G S Raghavendra,

Assistant Professor, Jain University- CMS, Bangalore

#Sai Yojana Tirumala, Student, Bachelor's in Business Administration, Jain University-CMS, Bangalore#Pooja Vasudevan, Student, Bachelor's in Business Administration, Jain University-CMS, Bangalore #Tarun VKP, Student, Bachelor's in Business Administration, Jain University-CMS, Bangalore

#Suhas S, Student, Bachelor's in Business Administration, Jain University-CMS, Bangalore

Abstract

The commerce, foreign remittances, foreign direct investment, and tourist industries have all played a significant role in Sri Lanka's economy's tight ties to the world economy.

Theoretically, when the global economy is in crisis, this condition should have negative effects on the home economy. This study aims to evaluate the consequences of the global food and financial crisis on Sri Lanka's economy and to determine the extent to which the government's policy response has contributed to reducing the negative effects, with particular emphasis on the agricultural sector. The study begins by analysing the macroeconomic indicator trends, determines the degree of price transmission from the global market to the domestic market, and then lists the policy changes made by the Sri Lankan government during the pre-crisis, food crisis, and financial crisis periods. The results show that trade has been the main means through which economic shocks from around the world have reached Sri Lanka. When Sri Lanka was experiencing its food crisis, the terms of trade shock had a considerable influence on the country's national income, but a recovery was visible throughout the financial crisis. Although the transmission of fuel prices into the domestic economy has been effective, particularly during the time of the food crisis, the transmission of world prices into the home economy for many agricultural sub-sectors has been less than ideal. Although price increases in some subsectors of agriculture, such as milk and wheat, can be linked to increases in global prices, it has been discovered that variations in the price of rice—the nation's main food—in the local market are mostly influenced by shifting internal market conditions. A careful assessment of the local political landscape reveals that over the time periods under discussion, numerous trade and price policies have been applied to various agricultural sub-sectors throughout the nation. Overall, the Sri Lankan government's approach to agriculture policy appears liberal during the food crisis and more protectionist during the financial crisis. Additionally, over time, it is also clear that funding in agricultural research have increased. The Sri Lankan government's present policy goal is to strengthen its agricultural sector through an inward-looking approach; nevertheless, there were many other circumstances that led to the adoption of such tactics, not the least of which was the current state of the world economy.

Keywords – Agriculture, policy, reforms, Sri Lanka

Introduction

The agriculture sector plays an integral part in the Sri Lankan economy. Sri Lanka's agricultural sector is dualistic in nature, comprising of an export-oriented plantation sector and a less developed food crop production sector. The former produces tea, rubber and coconut on large to medium estates, and the latter accounts for paddy, subsidiary food crops, fruits, vegetables and livestock, predominantly on small-holdings. Throughout the 1990s, plantation crops remained the most important foreign exchange earner in terms of local value addition and the largest single employer in the country. At the same time, the non-plantation agriculture sector has remained an important source of rural income and employment (Herath, 2007). In 2008, this sector contributed 12 per cent to the GDP (Central Bank of Sri Lanka [CBSL], 2008a). The agriculture sector's contribution is significant in terms of employment. According to the labour force survey report of 2008, the agriculture sector absorbs over one third of the country's labour force.

Review of Literature

Historically, agriculture and the rural sector have been a major source of output and employment in developing countries. However, over the past three decades the share of agriculture in world gross domestic product (GDP) has been steadily declining in favour of manufacturing and the services sectors. This is demonstrated by the increasing migration of labour to the urban sector and the decreasing contribution of agriculture to total employment. However, the decline in agriculture's contribution to GDP has been much faster than its decline as a provider of employment (Rao, Coelli, & Alauddin, 2004).

As stated by Ali (1989), existing literature on the role of agriculture in economic development may be said to have two aims: to provide a broad historical perspective and to try to draw lessons from the experiences of the developed countries in their early stages of economic development with the intention of applying these lessons to the present-day developing countries. For many of the developed countries in Europe, and in Japan and also the USA, a dynamic agriculture accompanied and, in some instances, directed the process of industrialization and growth. This pattern was repeated for many recently industrialized countries.

The product contribution of agriculture comes first from a rise in farm production in and of itself. The gross national product (GNP) is larger because the agricultural sector has added a larger volume of farm products (Kuznets, 1961). Johnston and Mellor (1961) also have product contributions to meet the expanding demand for farm products, and to fill some part of export demand. The market contribution, as described by Kuznets (1961), concentrates on the opportunity which a margin over family consumption provides for domestic trade, international trade and division of labour. Agriculture buys both production and consumption goods by selling some of its product, thus making it possible for other sectors to emerge and grow. As this occurs there are substantial changes in the economic structure. The changing structure in agricultural marketing is another example of this emergence and growth of other sectors. Three of Johnston and Mellor's five contributions can be included here. The movement of farm products to the domestic market, to the foreign market, and the flow of industrial goods to agriculture, all are part of Kuznets' market contribution. The factor contribution is the third of Kuznets' categories. He explains, "Thus if agriculture itself grows, it makes a product contribution; if it trades with others, it renders a market contribution; if it 3 transfers resources to other sectors, these resources being productive factors, it makes a factor contribution" (Kuznets, 1961, p. 69). The resources being transferred may be the compulsory transfer of capital, the loan of capital funds, or transfer of labour. Thus, in reality, Kuznets has identified three subsets of factor contributions, while Johnston and Mellor have made these area two sets of their total of five. They are the transfer of manpower and capital formation.

Application of the lessons learnt from the historical perspectives to the present-day developing countries is difficult. Policies that worked for one country may not be a solution for another as no two economies can be identical. For example, Myint (1975) expressed his view of conceptual difficulties of economic policies designed to increase agricultural sectors capacity to contribute to economic development.

Research Methodology

The main interest of this study is to see how domestic sectoral policies affect the overall economy. Several studies have been conducted in Sri Lanka in order to examine the impacts of different agricultural policy scenarios on selected individual crop sectors. These fragmented research studies do not shed enough light on the economy-wide impacts of existing agricultural policies, and there is no established analytical framework to evaluate the impacts of future policies. There are several methodologies available in order to capture the interactions among sectors in an economy. The methodology considered most appropriate for the questions addressed in this thesis is the impacts of the agricultural policies and reforms on the economy of Sri Lanka can be examined. This study utilized a narrative literature evaluation of carefully chosen works from 1996 to 2022 that were published in scholarly journals, magazines, books, policy documents, and publications from credible agencies. The only books featured and reviewed were those written in English. We chose important search terms and databases to use to look for relevant papers based on the goals of our investigation. The initial database search procedure resulted in the discovery of several academic peer-reviewed articles. Additional pertinent references were found as a result, and more pertinent articles were found and read. Duplication, publication outside of the study period, and lack of relevance to the study's objective were among the justifications given for eliminating papers throughout the screening and eligibility verification process. Agriculture, food security, farmer movements, agroecology, climate change, food sovereignty, peasant movements, poverty, and sustainable development were just a few of the numerous search terms employed. The chosen articles underwent two stages of evaluation: To examine the identified concepts and methods in the Sri Lankan context in order to implement them locally; To get a more thorough grasp of climate change, food security, and food sovereignty on a global scale.

Objectives of the research

1. To analyze the impact of different agricultural policies on the macro economy, sectoral level, regional level and welfare of households in Sri Lanka.
2. To make policy recommendations to strengthen the agriculture sector and its contribution to the overall economy.

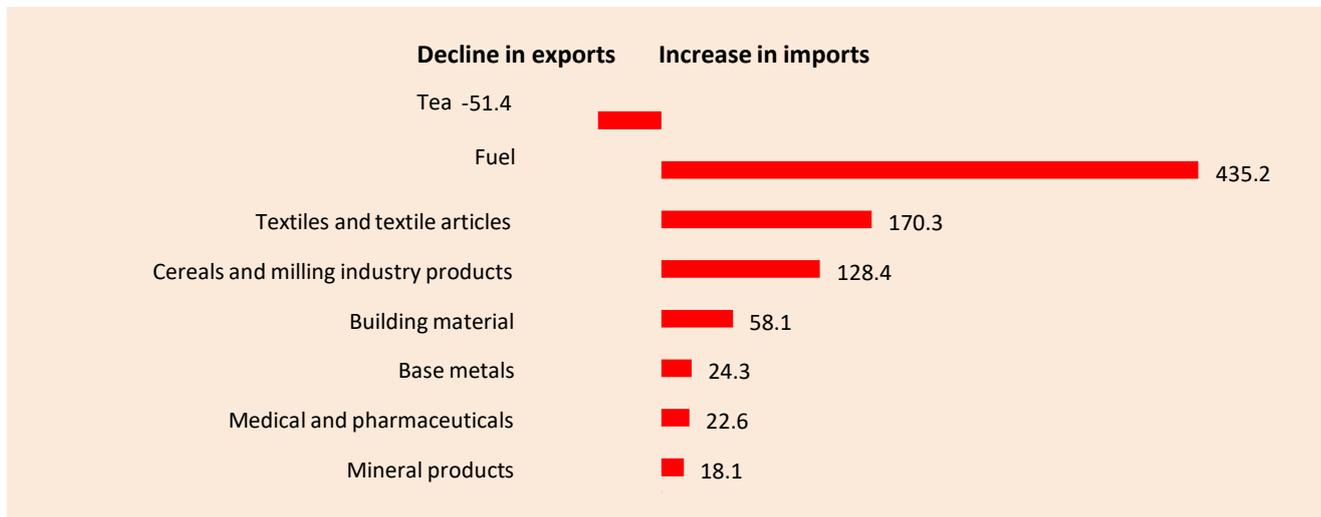
Data Interpretation

The data on import of Sri Lanka during Sri Lanka Agricultural Policies Economic Impact shows that there has been a consistent increase in the import of agricultural products into the country. In the year 2016, the import value of agricultural products was at \$3.4 billion, which increased to \$4.1 billion in 2017 and \$4.5 billion in 2018. This increase in import can be attributed to several factors such as increasing demand for high-quality agricultural products, lack of local production, and the need to import essential inputs for the agricultural sector.

The data also shows that the majority of the imported agricultural products are cereals, fruits and vegetables, and animal products. These three categories account for approximately 65% of the total import value. The increasing trend of import in the agricultural sector may have a negative impact on the local farmers and the economy as a whole. This can lead to a decrease in domestic production, resulting in a loss of income for farmers and a decrease in the availability of local products for consumers.

Post the Economic reform-

The below graph shows the contributions for the Trade deficit in Sri Lanka 2021-22.



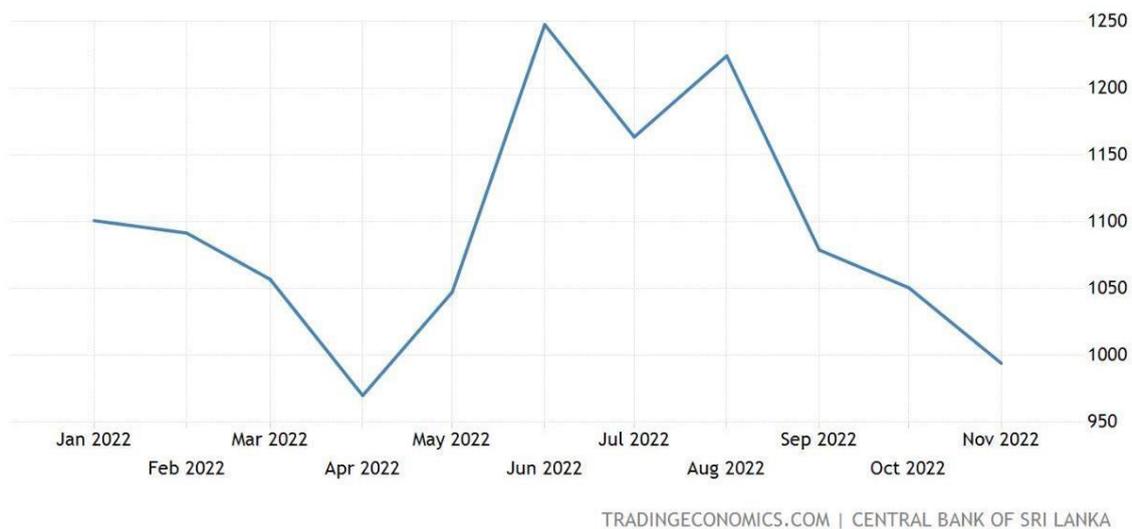
Total earnings from the exports of agricultural goods in March 2022 declined by 22.6 per cent, compared to March 2021, with a broad-based decrease in export earnings in all sub-categories driven by lower volumes. The export earnings from tea declined significantly by 24.0 per cent (y-o-y), due to the decline in both volume and price of tea exported. Earnings from spices declined by 39.8 per cent (y-o-y) in March 2022 due to lower export volume of cinnamon, pepper and cloves.

Ban of Chemical fertilizers imports and lack of subsidized fertilizers have cost the nation greatly economically. There is a constant rise in food crisis as a result of the switch to organic farming. The poor section of the economy is unable to meet the basic needs of food leading to the surge in food insecurity in the country which in turn will also deteriorate the economic development health of Sri Lanka.

RICE AREA, YIELD, OUTPUT AND IMPORTS IN SRI LANKA				
	Area (mn hectares)	Yield (tonnes/hectare)	Production (mn tonnes)	Imports (thousand tonnes)
2014-15	0.93	4.32	2.74	286
2015-16	1.23	3.95	3.29	30
2016-17	0.69	4.36	2.03	748
2017-18	0.77	4.30	2.25	249
2018-19	0.97	4.73	3.13	24
2019-20	0.97	4.85	3.21	16
2020-21	1.09	4.57	3.39	147
2021-22	1.10	3.91	2.92	650

Source: US Department of Agriculture.

The above data shows in the year 2021-22, the Yield and production in 1.10 hectares which is of similar number of Hectares of 2020-21, declined drastically and the imports have increased exponentially.



The above graph shows the overall exports of Sri Lanka in quantitative terms over the last 1 year. Though a relaxation of the ban on chemical fertilizers was given, other factors such as covid-19 pushed the country into an economic crisis.

Recommendations

Sri Lanka is a prime example of how poorly planned strategy for sustainable development hinders equitable development. In contrast to the other nations, the pace of which developing nations adopt policies cannot be the same. The country's infrastructure resource shortfall is the fundamental cause of this. For instance, the quick change to organic farming in Sri Lanka proved very detrimental for the economy's agricultural sector. In Sri Lanka, where the economy is developing, the transition would surely have been simpler with proper policy planning.

In comparison to other nations, Sri Lanka's current regime has fewer comprehensive plans for organic farming. Although various government agencies (Agriculture, Health, Environment, Education, Tourism, Trade, Commerce, and Finance) get a pivotal position to serve in the progression of the organic farming industry in Sri Lanka, there is currently no formal policy or strategy in place. Therefore, the country's policy makers must encourage the creation of a policy for organic farming, which in turn advances larger governmental goals.

Therefore, Sri Lanka can develop organic agricultural regulations that address all aspects, including the cultivation of crops, getting access to subsidized fertilizers and pesticides. This will in turn make it cheaper for the production process. The issues of food insecurity should also be addressed through making it affordable for the citizens to get access to basic food. It is clear that work is being done to regulate these crucial aspects of organic farming. If strong measures are taken, the organic farming will gradually flourish. Sri Lanka has to strategically focus on policy support for organic agriculture. It will in turn extend the advantages to farmers, marketers, and consumers. Over 80% of Sri Lanka's food producers are small-scale farmers, making the country primarily an agricultural one. As a result, advocating for food sovereignty and using agroecological techniques in agriculture, fisheries, and livestock husbandry are realistic and sustainable methods to counteract current large-scale agro- industrial systems.

Conclusion

This research on the Sri Lankan economic crisis highlights the impact of agricultural policies and reforms on the economy. The analysis shows that the agricultural sector has been a significant contributor to the country's economic growth and development. However, in recent years, the sector has been facing various challenges that have led to a decline in productivity and profitability. The policies and reforms implemented by the government have had a significant impact on the agricultural sector. The government's focus on increasing exports and promoting mechanization has led to a shift in the production of crops and a decline in traditional agricultural practices. This has resulted in the displacement of small- scale farmers and a decline in the overall productivity

of the sector. Furthermore, the research shows that the lack of investment in rural infrastructure and the lack of access to credit and market information have further hindered the growth of the agricultural sector. This has led to a decline in the standard of living of farmers and has also resulted in a decline in the overall economic growth of the country.

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