

Rebuilding Kazakhstan's Agriculture

Richard Pomfret

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REBUILDING KAZAKHSTAN'S AGRICULTURE

Farm output in Kazakhstan fell dramatically during the 1990s, along with the general decline in the country's GDP. As the economy recovered after 1999 and then boomed, the government put substantial resources into reviving the agricultural sector, most notably the billion-dollar Agriculture and Food Program for 2003-5. In 2006 the government together with the World Bank, undertook an assessment of the Program and of the future of farming. Given the country's resource endowment, this is an important test of the extent to which Kazakhstan's economy can be diversified away from exclusive reliance on oil.

BACKGROUND: At the time of independence, agriculture was a pillar of Kazakhstan's economy, and in 1991 employed over a quarter of the workforce. Kazakhstan had been a pastoral economy, although in the 1930s forced collectivization created a sedentary livestock sector. In the 1950s and 1960s the Virgin Lands program brought 25 million hectares (ie. over 60% of the current arable land) into grain cultivation. By the 1980s Kazakhstan was exporting up to 10 million tons of wheat and around 300,000 tons of meat, 25,000 tons of milk and 150 million eggs a year to other Soviet republics. The cotton sector, concentrated in the south, was less important but accounted for a significant share of hard currency earnings.

During the 1990s output of all major farm products fell substantially. This was part of the economy-wide transitional recession, but also reflected a sharp de facto policy reversal. In the Soviet era agriculture had been supported by budget subsidies and favorable relative prices, as well as benefiting from fuel and transport subsidies which were not specific to agriculture but helped farmers more than most producers. The 1992 price liberalization led to an increase in the price of key inputs that was much larger than the increase in the price of farm outputs. OECD producer support estimates (PSEs) for Russia and Ukraine indicate substantial positive support for farmers up to 1991, then falling to roughly zero in 1992. Kazakhstan would have had a similar experience as budget support dropped rapidly and relative prices moved adversely. Long distance trade, such as the export of wheat and other grains and the transport of fodder for the livestock sector, were especially hard hit by the cessation of transport and fuel subsidies. Farm subsidies had disappeared by 1995, and the general policy stance towards agriculture was one of neglect as ministers focused on macroeconomic stabilization, privatization, and development of the petroleum sector.

By the turn of the century Kazakhstan's farm sector was in deep crisis. Privatization had generally led to little structural change, outside the cotton sector in the south. The large farms remained intact under the same management. As a result of adverse price movements and reduced subsidies, farms had fallen deep into debt, and this was exacerbated by drought conditions in much of the country in 1996-8.

Concerned about the decline of agriculture and buoyed by burgeoning oil revenues, the government began to increase support for agriculture. This was highlighted by the billion dollars allocated to the 2003-5 Agriculture and Food Program.

IMPLICATIONS: Measures of assistance to agriculture, although difficult to estimate precisely, indicate a clear pattern of negative support in the 1990s which was reversed at some time in the early 2000s. Although the value of farm subsidies has

been gradually increasing, the main driver of the change in support was a shift in the price gap between border and farmgate prices. Price distortions particularly hurt livestock farmers in the 1990s, but they have moved substantially in favor of livestock farmers since 2002. Even the export-oriented wheat sector was characterized by a negative price gap in the 1990s and early 2000s, probably explained by high costs of moving the wheat to the border. These high trade costs exceed normal transport costs, and were heightened by the red tape and the bribery and corruption which surrounded internal trade.

One problem with computing producer support estimates is that many important products had become essentially non-traded goods by the end of the 1990s, so that it is difficult to identify a 'world price' which can be used as a relevant reference price. The number of livestock on large farms dropped dramatically between 1991 and 1998 – from 6.4 million cattle to 0.5 million, from 27.2 million sheep and goats to 1.5 million, from 2.3 million pigs to 0.1 million and from 40 million poultry to 9 million – while the numbers on small household plots remained steady, so that by the turn of the century most cows were in 'herds' of two to four head producing milk, cheese and meat for domestic use or local sale. Potatoes, the second largest crop after wheat, are largely grown for household or local consumption. In this context, it is difficult to measure price distortions due to uncertainty about the appropriate reference price to compare to the farmgate price in order to calculate the price gap.

Nevertheless, the general pattern of a shift to a positive price gap, especially for livestock products, is clear and it elicited a supply response. Output of all livestock products has increased substantially since 1999. The picture for grains is also positive, although the trend is less clear because of the volatility of the harvests. For cotton the output statistics are complicated by the extensive smuggling from Uzbekistan, where cotton prices are heavily regulated. Some of the positive farm output performance would have occurred inevitably as a rebound from the trough of 1998, but the improved policy environment helped.

One consequence of the internal orientation of agriculture was a failure to upgrade quality. Kazakhstan's farm exports are dominated by primary products while agricultural imports are increasingly dominated by processed products of perceived superior quality. Out of almost a billion dollars of agricultural exports in 2003, wheat and flour accounted for \$565million and \$60million, and the next biggest items were cotton (\$146 million) and hides (\$74 million). Agricultural imports are much less highly concentrated, including a wide range of better quality processed food items, mainly coming from Russia.

The AFP aimed to reverse these developments by encouraging not only greater agricultural output, but also an upgrading of quality. The livestock sector, for example, as it became concentrated on small plots lost the support of specialists who had been employed on the large state farms and the quality of breeding practices, veterinary services etc diminished. The AFP increased subsidies for such activities. However, much of the support to the livestock sector was channeled through a parastatal, Mal Onimderi Korporatsiyasi (MOK), which does not appear to have been a good institutional arrangement.

CONCLUSIONS: Kazakhstan's government neglected agriculture during the 1990s and the large farm sector suffered severe decline. In the 2000s the government has reversed this policy stance and has channeled substantial support to the farm sector. This is primarily fuelled from the country's oil revenues, and reflects concerns that

the economy could suffer from Dutch Disease and see its non-oil sectors atrophy beyond recall.

The large assignment of support has reversed the negative price distortions faced by agriculture during the first decade after independence. Today farmers in Kazakhstan face prices substantially distorted in their favor - a distortion worth somewhere between 5 and 20 percent of the value of farm output. They also receive substantial support from the public budget.

These pro-farm policies in recent years have been associated with a revival of agricultural production. Output of most products has regained or surpassed pre-independence peaks. The sector still faces major challenges in upgrading quality and developing agro-processing capabilities. The emergence of modern supermarkets in the major cities is putting greater demands on the value chains that provide high (and reliable) quality processed foods, and a big question is whether domestic farmers can meet this challenge.

Richard Pomfret is Professor of Economics at the University of Adelaide in Australia and Agip Visiting Professor in International Economics at the Johns Hopkins University SAIS Bologna Center in Italy. The research reported here was conducted as part of a World Bank project on agricultural distortions world-wide, and will appear as a chapter in a book *Distortions to Agricultural Incentives in the Transition Economies of Europe and Central Asia*, edited by Johan Swinnen and Kym Anderson.