liberalization Privatization Globalization Impact on Agriculture Sector

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Abstract

Agriculture employs 60% of the Indian population today, yet it contributes only 20.6% to the GDP. (Isaac, 2005) Agricultural production fell by 12.6% in 2003, one of the sharpest drops in independent India’s history. Agricultural growth slowed from 4.69% in 1991 to 2.6% in 1997-1998 and to 1.1% in 2002-2003 (Agricultural Statistics at a Glance, 2006). This slowdown in agriculture is in contrast to the 6% growth rate of the Indian economy for almost the whole of the past decade. Farmer suicides were 12% of the total suicides in the country in 2000, the highest ever in independent India’s history. (Unofficial estimates put them as high as 100,000 across the country, while government estimates are much lower at 25,000. This is largely because only those who hold the title of land in their names are considered farmers, and this ignores women farmers who rarely hold land titles, and other family members who run the farms. Agricultural wages even today are $1.5 – $2.0 a day, some of the lowest in the world.

The term globalization refers to International Integration. It includes opening up of world trade, development of advanced means of communication, internationalization of financial markets, growing importance of MNC's, population migrations and more generally increased mobility of persons, goods, services, capital, data and ideas. It is a process through which the diverse world is unified into a single society. In short it is a creation of world into a global village. It is the recent concept that has come to govern the world since end of the 20th century with the end of the cold war and melting down of Soviet Union. The need of structural changes in various world economies, dominance of market related economies, growing importance of private resources and capital and pressure of world bank and other International organizations like IMF have started this process in many of the developing countries like India. It has brought in new opportunities to developing countries. Greater access to foreign markets, technology transfer, improved productivity and higher living standard are some of the advantages of this process to the countries like India. But it has also creates new challenges like growing inequality across and within nations, volatility in financial market and environmental deteriorations. As Indian is agrarian economy it is wise to know the impact of Globalization on Indian economy.

Key words: Globalisation, liberalisation, privatization, International integration, agriculture, social inequality, subsidy.

Introduction

India entered in the process of globalization by 1991, when there was a severe economic crisis in the country. To overcome the economic crises, India approached the International Monetary Fund for financial assistance. IMF granted such assistance on the condition to make some structural changes and reforms in Indian Economy. In 1994, 124 countries along with India were signed Dankel Proposal, giving the final pass to proposal World Trade Organization was established in
January 1995. The member countries involved themselves in globalization through WTO. These reforms and changes can be broadly classified into three areas: Liberalization, privatization and globalization (LPG). It includes withdrawal of government control of the market, privatize public sector organizations and reduce export subsidies and import barriers to enable free trade. India signed GATT too and opens up its economy to the world market. Initially this process was restrained by the barriers to trade and investment but after liberalizing it, the pace of globalization has speeded up. As India is the country which is known as agrarian economy, it is essential to know that how agricultural sector in the country is connected to this process. Initially the World Trade Agreement of 1994 brought agriculture within its policy framework. The obligations and disciplines incorporated in the agreement which seek to reform trade in agriculture and provide the basis for market-oriented policies on agriculture, relate to the aspects of market access, domestic support, export competition/subsidies, and Trade Related Intellectual Property Rights (TRIPS). Some agreements are made for the simplicity in international dealings. Liberalization created an unprecedented demand in all sectors of trade including agriculture. This demanded pragmatism on the part of Indian Government. With globalization making headway everywhere, Government had to introduce reforms in agricultural sector too. Reforms in agricultural policies were felt necessary for achieving trade liberalization in the agricultural sector (Kumar et. al., 2008). Institutional credit (or regulated credit) accounts for only 20% of credit taken among small and marginal farmers in rural areas, with the remaining being provided by private moneylenders who charge interest rates as high as 24% a month. An NSSO survey in 2005 found that 66% of all farm households own less than one hectare of land. It also found that 48.6% of all farmer households are in debt. The same year, a report by the Commission of Farmer’s welfare concluded that agriculture was in ‘an advanced stage of crisis’, the most extreme manifestation of which was the rise in suicides among farmers. Given the performance of agriculture and figures of farmer suicides across the country, this can be said to apply to Indian agriculture as a whole.

An overview of Indian agricultural sector indicates that globalization did not yield the desired results in India. It has marginally contributing in minimizing poverty, and removing social inequalities. The desired objectives of this process have not been achieved in India. As far agricultural sector is concerned we have seen mixed results in the country. It is clear with the study that agriculture plays key role in the economy. Agriculture employees 60% of Indian population, yet it contribution varies only from 15 to20% of the GDP. After adoption of globalization in 1991 Indian agriculture growth rate increase but at present the economy condition of the farmers is not satisfactory because input cost is high and output cost is low. Cut off of subsidies are hindering growth of agricultural sector. In the words of Gamani Corea, former Secretary- General, UNCTAD, “Globalization instead of being an equalizing process, has only widened the gap between the two in terms of monopoly in science and technology, flow of capital, access to natural resources, communication and nuclear armament”.

Objective:

This paper seeks to study positive consequences of Liberalisation Privatisation Globalisation on Indian agriculture
The Crisis faced by Indian Agriculture:

The biggest problem Indian agriculture faces today and the number one cause of farmer suicides is debt. Forcing farmers into a debt trap are soaring input costs, the plummeting price of produce and a lack of proper credit facilities, which makes farmers turn to private moneylenders who charge exorbitant rates of interest. In order to repay these debts, farmers borrow again and get caught in a debt trap. The researcher will examine each one these 3 causes which led to the crisis in Andhra Pradesh, Kerala and Maharashtra, and analyse the role that liberalisation policies have played.

Andra Pradesh’s experience is particularly relevant in this analysis because of its leadership. Chandrababu Naidu, Chief Minister of Andhra Pradesh from 1995-2004, was an IT savvy neo-liberal, and believed that the way to lead Andhra Pradesh into the future was through technology and an IT revolution. His zeal led to the first ever state level (as opposed to national level) agreement with the World Bank, which entailed a loan of USD 830 million (AUD 1 billion) in exchange to a series of reforms in AP’s industry and government. Naidu envisaged corporate style agriculture in AP, and implemented World Bank liberalisation policies with great enthusiasm and gusto. He drew severe criticism from opponents, saying he was using AP as a laboratory for extreme neo-liberal experiments. Hence, AP’s experience with liberalization is critical.

General consequences of globalization on Indian agriculture-

With the operationalisation of the provisions of the World Trade Organisation, the process of globalization commenced in the major parts of the world. There has always been an air of confusion among the members and non-members of the WTO in assessing the pros and cons of globalization on the health of their economy. The sector which has created the highest number of deliberations in the WTO as well as views and counterviews has been the agriculture, an area of utmost concern for the developed and the developing world alike. India is no exception to it. Better say it has been among few countries in the world spear-heading the campaign against the biased provisions of the WTO concerning agriculture.

Liberalization and its effects on Agriculture: The neo-liberal economic policy package. The policies of the central government since the beginning of the 1990s have had direct and indirect effects on farmers’ welfare. The economic reforms did not include any specific package specifically designed for agriculture. Rather, the presumption was that freeing agricultural markets and liberalizing external trade in agricultural commodities would provide price incentives leading to enhanced investment and output in that sector, while broader trade liberalization would shift inter-sectoral terms of trade in favour of agriculture. However, there were changes in patterns of government spending and financial measures which also necessarily affected the conditions of cultivation. In particular, fiscal policies of reducing expenditure on certain areas especially rural spending, trade
liberalization, financial liberalization and privatization of important areas of economic activity and service provision had adverse impact on cultivation and rural living conditions. The neo-liberal economic reform strategy involved the following measures which specifically affected the rural areas:

Actual declines in Central government revenue expenditure on rural development, cuts in particular subsidies such as on fertilizer in real terms, and an the overall decline in per capita government expenditure on rural areas. Reduction in public investment in agriculture, including in research and extension.

Very substantial declines in public infrastructure and energy investments that affect the rural areas, including in irrigation.

Reduced spread and rising prices of the public distribution system for food. This had a substantial adverse effect on rural household food consumption in most parts of the country.

Financial liberalization measures, including redefining priority sector lending by banks, which effectively reduced the availability of rural credit, and thus made farm investment more expensive and more difficult, especially for smaller farmers.

Liberalization and removal of restrictions on internal trade in agricultural commodities, across states within India.

Liberalization of external trade, first through lifting restrictions on exports of agricultural goods, and then by shifting from quantitative restrictions to tariffs on imports of agricultural commodities. A range of primary imports was decreased and thrown open to private agents. Import tariffs were very substantially lowered over the decade. Exports of important cultivated items, including wheat and rice, were freed from controls and subsequent measures were directed towards promoting the exports of raw and processed agricultural goods.

In terms of fiscal policies, the reduced spending of central and state governments was the most significant feature. Due to tax reforms, the tax/GDP ratio declined at central level. Central transfers to state governments also declined. State governments were forced to borrow in the market and other (often international) sources at high interest rates. As a result, the levels of debt and debt servicing increased in most of the states. In recent years, most state governments were in fiscal crisis and did not have funds for capital expenditures. This has been especially important since state governments are responsible for areas critical for farmers such as rural infrastructure, power, water supply, health and education. Meanwhile, at the central government level, capital expenditure declined as a share of national income, and all public expenditure directed towards the rural areas fell both as a per cent of GDP and in real per capita terms. India’s financial liberalization strategy involved, to varying degree, the standard package such measures designed to make the Central Bank more independent, to relieve financial repression by freeing interest rates and allowing financial innovation, to reduce directed and subsidised credit, as well as allow greater freedom in terms of external flows of capital in various forms. These
measures, especially reduced emphasis on priority sector lending by banks, effectively reduced the availability of rural credit and thus made farm investment more expensive and more difficult, especially for small farmers. In addition to declining credit-deposit ratios in rural areas, the shift of banks away from crop lending and term lending for agriculture, the reduction in the number of rural bank branches and less manpower for rural service provision all meant that the formal sector was increasingly unable to meet the requirements of cultivators. Farmers were therefore forced to turn more and more to private moneylenders (who are often also input dealers and traders) in more exploitative relationships. This has brought back the problem of interlinked markets in which control in one market (say, credit) allows control also in other related rural markets such as those for agricultural inputs and crop prices, as well as the labour market.

Following are some positive consequences of globalization on Indian agriculture.

A) Positive Consequences-

1) Availability of modern Agro-technologies:

There is availability of modern agro technologies in pesticides, herbicides, and fertilizers as well as new breeds of high yield crops were employed to increase food production. These technologies included modern implementations in irrigation projects, pesticides, synthetic nitrogen fertilizer and improved crop varieties developed through the conventional, science-based methods available at the time. Use of High Yielding Varieties (HYVs) like IR8 a semi-dwarf rice variety. HYVs significantly outperformed traditional varieties in the presence of adequate irrigation, pesticides, and fertilizers.

2) Rise in production and productivity:

Due to adoption of HYV technology the production of food grains increased considerably in the country. The production of wheat has increased from 8.8 million tones in 1965-66 to 184 million tones in 1991-92. The productivity of other food grains has increased considerably. It was 71% in case of cereals, 104% for wheat and 52% for paddy over the period 1965-66 and 1989-90. Though the food grain production has increased considerably but the green revolution has no impact on coarse cereals, pulses and few cash corps. In short the gains of green revolution have not been shared equally by all the crops.

3) Growth of National Income-

Receiving the international market for the agricultural goods of India, there is an increase in farmer’s agricultural product. New technology, new seeds, new agriculture practices etc. helped to grow the agricultural product. From the monetary point of view the share of agriculture sector in the economy is raised to 14.2% of the GDP (2010-11).
4) **New areas employment**

While exporting agricultural products it is necessary to classify the products, its standardization and processing, packing etc. Therefore, after LPG the agro allied industries has created employment in various sector like packing, exporting, standardizing, processing, transportation and cold storage etc. The industries depending on agriculture are stored and it made an increase in employments. Agriculture is the biggest unorganized sector of the Indian economy accounting for more than 90% share in the total unorganized labour force. The share of agriculture in total employment stands at 52.1%

5) **Agriculture as a prime moving force**

The growth of agricultural sector in India has correspondent relation with industrial growth and national income in India. It is assumed that 1% increase in the agricultural growth leads to 0.5% increase in the industrial output and 0.7% increase in the national income in India. Especially after LPG the agricultural sector in India is developing rapidly. As a result, the government of India announced agriculture as the prime moving force of the Indian economy in 2002. As per World Trade Organization data, global exports and imports of agricultural and food products in 2011 stood at $1.66 trillion and $1.82 trillion respectively. India’s share in this is 2.07 per cent and 1.24 per cent respectively.

6) **Rise in the share in trade**

Because of the conditions of WTO all of the countries get the same opportunities, so there is an increase in the export of agricultural products. According to data provided by World Bank, India’s share in exports (goods and services) rose from 0.54% in 1990 to 0.67% within five years after globalization took place i.e. upto 1999. Indian exports rose by 103% during the same period.

7) **Growth of Agro exports**

The prices of agricultural goods are higher in the international market than Indian markets. If the developed countries reduced grants, they have to increase in the prices. So there will be increase in the export in Indian market and if the prices grow, there will be profit. Agricultural products account for 10.23% of the total export income of the economy, while agricultural imports account for just 2.74% of the total imports. Agricultural exports was 33.54 billion $ in the year 201-13.

8) **Reduction in poverty**
It is also true that globalization is commonly characterized as increasing the gap between the rich and the poor, but it is a matter of looking at poverty in relative terms. India’s prior concern is to remove poverty, which is worse than death, and if India makes efforts, globalization can be a key to get rid of it. Moreover, the percentage of people below the poverty line has been decreasing progressively, from 36 percent in 1993-94 to 21.9 percent in 2011-12.

These are some positive consequences of globalization on Indian agriculture. But as far as a developing country like India is concerned the negative consequences are proved as more effective. These are as follows.

B) **Negative Consequences**

1. **Vicious debt trap and farmers suicides**

   There is need to examine each of the causes which have led to the current crisis in agricultural sector, and analyze the role that liberalization policies have played. For instance the state of Andhra Pradesh led to the first ever state level agreement with the World Bank, which entailed a loan of USD 830 million in exchange for a series of reforms in his state industry and government. It has implemented the World Bank liberalization policies with great enthusiasm and zest and as result the rate of farmers suicides in the state gone up. The National Sample Survey Organization (NSSO) Report 2005 indicates that 1 in 2 farm households are in debt and only 10 per cent of the debt was incurred for non production purposes. Also, 32.7 per cent of farmers still depend on money lenders. The National Crime Records Bureau reports that between 1997-2005 1,56,562 farmers committed suicide. Nearly 60% of them took place in the 4 progressive states, viz., Maharashtra, Andhra Pradesh, Karnataka and Madhya Pradesh. More than 20 per cent of suicides have taken place in Karnataka. (Pushap, 2007, Kumaraswamy, 2008) Hence, the experience with liberalization is critical.

2. **Migration of labours**

   For the Indian farmer, who is already paralyzed by low productivity and lack of postharvest storage facilities has resulted in heavy loss of produce and revenue. It is only because of low tariff in imports due to liberalized import duties which came as a bombshell. The domestic farmer could not stand the competitiveness of international market, which has resulted in migration of labor from agriculture to other industrial activities.

3. **Lower income of rural farmers**

   According to Nobel Prize-winning economist Joseph Stiglitz, Trade agreements now forbid most subsidies excepted for agricultural goods. This depresses incomes of those farmers in the developing countries who do
not get subsidies. And since 70 per cent of those in the developing countries depend directly or indirectly on agriculture, this means that the incomes of the developing countries are depressed. But by whatever standard one uses, today’s international trading regime is unfair to developing countries. He also pointed out the average European cow gets a subsidy of $2 a day (the World Bank measure of poverty); more than half the people in the developing world live on less than that. It appears that it is better to be a cow in Europe than to be a poor person in a developing country (Jha and Yemeni 2012)

4) Lessening international competitiveness –

In India 60% of population depend on agriculture. This pressure on agriculture is increasing day by day because of the increasing population. Because of marginal land holding the production cost of Indian farmers is higher as well as the quality and standardization of agro produce is much neglected. Along with this, the curtailment in subsidies and grants has weakened the agricultural sector. On the contrary before the reduction in grants by WTO, developed countries had distributed grants on large scale. They had grown the amount of the grants on large scales in agriculture during 1988-1994. So they have not to face many difficulties if there is a reduction in grants. On this background the farmers are not in a position to compete international market.

5) Abnormal hike in Fertilizers and Pesticide prices-

Immediately after globalization Indian rupee was devaluate by 25% and Indian crops became very cheap and attractive in the global market, which led Indian farmer for export and encouraged them to shift from growing a mixture of traditional crops to export oriented 'cash crops' like chilli, cotton and tobacco. These need far more inputs of pesticides, fertilizers and water than the traditional crops require. It automatically increased Fertilizer and pesticide prices by 300%. (Muralidhar and Mamatha et.al Dec.2011)

6) Electricity tariffs have also been increased-

Pre liberalization, subsidized electricity policy helped farmers to keep the costs of production low. The electricity costs increased dramatically when farmers turned to the cultivation of cash crops, which needed more water, hence, more water pumps were needed and there was higher consumption of electricity. Andhra Pradesh being traditionally drought prone, the situation further worsened. In Andhra Pradesh tariff was increased 5 times between 1998 and 2003. This caused huge, unsustainable losses for the Andhra Pradesh State Electricity Board, so it increased the electricity tariff. The fact that only 39% of India's cultivable land is irrigated makes cultivation of cash crops largely unviable, but export oriented liberalization policies and seed companies looking for profits continue to push farmers to the wall. (Muralidhar and Mamatha et.al Dec.2011)
7) Price crash-

As per reforms of WTO, Indian government removed import tariffs and duties. Earlier these were working as cushion to protect and encourage domestic producers. By 2001, India completely removed restrictions on imports of almost 1,500 items including food. As a result, cheap imports flooded the market, pushing prices of crops like cotton and pepper down. As a result, most of the farmers committing suicides in Maharashtra were concentrated in the cotton belt till 2003 (after which paddy farmers followed the suicide trend). Similarly, Kerala, which is world renowned for pepper, has suffered as a result of 0% duty on imports of pepper from SAARC countries. Pepper, which sold at Rs.27,000 a quintal in 1998, crashed to Rs.5000 in 2004, a decline of 81%. (Muralidhar and Mamatha et.al Dec.2011)

8) Fall in agricultural employment-

In 1951, agriculture provided employment to 72 per cent of the population and contributed 59 per cent of the gross domestic product. However, by 2001 the population depending upon agriculture came to 58 per cent whereas the share of agriculture in the GDP went down drastically to 24 per cent and further to 22 per cent in 2006-07. This has resulted in a lowering the per capita income of the farmers and increasing the rural indebtedness. (Malik 2013)

Conclusion

An overview of Indian agricultural sector indicates that globalization did not yield the desired results in India. It has marginally contributing in minimizing poverty, and removing social inequalities. The desired objectives of this process have not been achieved in India. As far agricultural sector is concerned we have seen mixed results in the country. It is clear with the study that agriculture plays key role in the economy. Agriculture employees 60% of Indian population, yet it contribution varies only from 15 to 20% of the GDP. After adoption globalization in 1991 Indian agriculture growth rate increase but at present the economy condition of the farmers is not satisfactory because input cost is high and output cost is low. Cut off of subsidies are hindering growth of agricultural sector. In the words of Gamani Corea, former Secretary-General, UNCTAD, “Globalization instead of being an equalizing process, has only widened the gap between the two in terms of monopoly in science and technology, flow of capital, access to natural resources, communication and nuclear armament”.

It is clear that the liberalisation policies adopted by the government of India played a dominant role in the agrarian crisis that is now being played out. However, this is not to say that privatisation, liberalisation and globalization are per say bad, or inherently inimical to an economy. It is the ‘one size fits all’ brand of liberalisation adopted by the IMF and the World Bank which forces countries to privatize, liberalise and globalize without exception which has failed. Without taking into account the state of an economy, and in this case, the state and nature of the agricultural sector in India, the IMF and the World Bank, with the cooperation of the Indian government, embarked on mismatched reforms, which have caused misery and despair among millions of Indian farmers, driving large numbers of them to suicide.
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