A STUDY OF THE IMPACT OF LIBERALIZATION ON INDIAN AGRICULTURE

DR LAXMI KUMAR

PhD IN ECONOMICS,

B R A BIHAR UNIVERSITY, MUZAFFARPUR, BIHAR.

Abstract

India is an agrarian economy. Its share in the GDP is 15.4% in 2016-17, and about 50% of the workforce is still employed in this sector. Indian agriculture has experienced remarkable transformation due to policy changes at the national and international levels. The article entitled "A study of the impact of liberalization on Indian agriculture" provides many insightful inferences in connection to the impact of liberalization on the Indian agriculture. The article has illustrated ample evidences showing that economic reform and liberalization programme facilitates diversified economic growth. WTO-induced reforms have now come to be believed as the first step towards achieving greater openness and integration in the world trading system. Study illustrated that how reforms, followed the adoption of phase-wise liberalization since 1991, have impacted the many aspects, viz. growth rate of agricultural output, food security, nutrition, regional equity, price stability, farm income, export of agricultural goods, welfare of consumers and producers affected by changes in prices. The present work looks at the impact of liberalization on agricultural trade. Due to special attention of government, a number of policy changes have been introduced to make agricultural export more viable as well as more visible. Agreement on Agriculture, attempts to establish free and fair trade in agriculture. The main components of AoA are: market access, domestic supports and abolishing exports subsidies. Despite the encouraging result arising out of the agreements, we still observe the non-compliance of agreement by some of the member countries to their fullest. The proportion of agricultural imports to total national imports experienced a declining trend since 1998–99, the year in which it reached its peak. Moreover, there were wide inter-temporal fluctuations in exports and imports of agricultural products, and these fluctuations increased significantly during the post-WTO period relative to the pre-WTO period.

Keywords: Liberalisation, WTO, AoA, GDP, Imperfection.

Introduction:

In India agriculture is a way of life, a tradition, which for centuries has shaped the thought, the outlook, the culture and economic life. It has acquired great importance even before the publication of 'Wealth of Nations'. The rapidly growing literature on the history, theory and policy of economic development has recognized the dominant place of agriculture in economic development. The importance of agriculture in economic development is due to the fact that it is the primary sector and provides the basic ingredients necessary for the existence of mankind and provides most of the raw materials which when transformed into finished goods fulfill the basic necessities of human race. It provides a surplus for export to finance the capital equipment and other imports required for development process. It also contributes to the growth of industry.

Agriculture growth has direct impact on poverty alleviation. Moreover, it is an important factor in promoting employment generation and containing inflation. Agriculture has described as the backbone of the Indian economy as it constitutes the major share of the country's national income and provides employment to about two-thirds of workforce of the country. Agriculture in India is in the hands of millions of peasant households, most of which comprise tiny land holdings with a preponderance of owner cultivation.

India signed the Uruguay Round Agreement on 15th April 1994 at Marrakesh. This treaty introduced agricultural trade in the WTO for the first time. The aim of this Agreement was to liberalize agricultural trade by replacing physical controls by bound tariff rates. It is further agreed that these tariff rates would be gradually reduced over a period. The overall objective was to provide a framework for the long-term reform of agricultural trade. The Agreement on Agriculture came into effect from 1 January 1995. This marked the beginning of a new era of agricultural trade policy in India.

Agriculture has a prime role in Indian economy and forms her backbone. Historically, India's agriculture sector is a net foreign exchange earner. During the year 2017-2018, agriculture is accounted for 12.8 per cent of the total export earnings and 15.4 per cent of the gross domestic product (GDP) comes from agriculture sector and is still providing livelihood to the large proportion of population. This sector provides employment to about 50 per cent of country's total work force and is the single largest self-employment occupation. A large number of industries products are getting raw material from agriculture. A nation of more than one billion people cannot be dependent on imports for the staple diets like wheat and rice. The agriculture sector, therefore, acts as a bulwark in maintaining food security and, in the process, national security as well. Further, India's agriculture is the key sector for poverty reduction. Majority of the Indian poor (74%) are in the rural economy (Tenth Five Year Plan) and draw the bulk of their income directly from agriculture and those do not mostly rely on it indirectly by providing goods and services to farmers. Thus, any change in the agriculture sector, has a spillover effect on the entire Indian economy.

Further, any study on "A Study of the impact of liberalization on Indian agriculture-remains incomplete without reference of recent WTO Agreement on Agriculture. WTO has three important components namely Market Access, Export competition and Domestic Support policies.

Thus, keeping the contemporary importance of the above aspects of the main theme of the present study, examines the implications of liberalization policies, introduced in Indian agriculture in line with the AoA, in terms of their impact on agricultural trade.

WTO(AoA) and India's Commitments

World Trade Organization (WTO) came into existence on January 1, 1995, as a result of the Uruguay Round of Trade Negotiations. In this negotiation, many subjects were taken up for discussion for the first time. Agriculture was one of them. The Uruguay round of Agreement on Agriculture, later known as the WTO Agreement on Agriculture, attempts to establish free and fair trade in agriculture. The main components of the WTO AoA are: providing market access, regulating domestic support and abolishing export subsidies.

Market access

The market access agreement on agriculture requires ratification of all non-tariff barriers, and a reduction in those tariffs by an average of 36 per cent for developed countries and 24 per cent for developing countries. Developed countries have 6 years to bring about these reductions, while developing countries have 10 years. The least developed countries were exempted from these reductions. A minimum market access of 3 per cent internal consumption is to be provided for each product, which would increase to 5 per cent over a period of six years.

India has made a commitment regarding tariffication by binding the tariff rates at 100% for primary agricultural products, 150% for processed foods and 300% for edible oils. For some agricultural products, the bound rates were raised substantially after the negotiations under Article XXVIII of the General Agreement on Tariffs and Trade (GATT) were successfully completed in December 1999. The bound tariff rates were raised from zero to 60% for skimmed milk powder, from 60 to 80% for cereals (including maize, rice, spelt wheat, and millets) and from 45 to 75% for rapeseed and mustard oils (Gulati 2002).

Domestic Support

All types of domestic support to agriculture (both product and non-product specific), measured in terms of Aggregate Measurement of Support (AMS) are subject to rules. The WTO has classified domestic subsidies into three categories viz. Amber Box, Blue Box, and Green Box. For developed countries, the AMS (Amber Box subsidies) during 1986–88 should be reduced by 20% over six years commencing 1995, and by 13% in developing countries over 10 years. Domestic support, both under the product and non-product- specific categories at less than 5% of the value of production for developed countries and less than 10% for developing countries, are excluded from any reduction commitments (*de minimis* level).

Other forms of support, which have no or at most minimal trade distorting effects on production, are excluded from any reduction commitments (Blue Box/Green Box subsidies). These include (1) government assistance for general services such as research, pest and disease control, training, extension and advisory services, public stockholding for security, domestic food aid, direct payment to producers for income insurance and safety nets, relief from natural disasters, and payments for environmental programmes. (2) Direct payments under production-limiting programmes in accordance with the requirements set out in Paragraph 5 of Article 6 of the Agreement (Blue Box measures) which is considered most relevant to the developed countries. (3) Special and

Differential Treatment (S&DT) provisions are also available for developing countries. These include (1) untargeted subsidized food distribution to the rural and urban poor; (2) investment subsidies generally available to agriculture, and agricultural subsidies generally available to low-income and resource-poor farmers in the developing countries; and (3) purchases for and sales from food security stocks at administered prices provided that the subsidies to producers are included in the computation of AMS (Government of India 1999).

During the reference period (1986–88), India had provided price support to 22 products, out of which 19 are included in the list of commitments. The total product-specific AMS (the difference between domestic price and the external reference price multiplied by the quantity of production) was estimated to be hugely negative during the reference period, as the domestic prices were far below the corresponding external reference prices. Non-product-specific support is computed by taking into account subsidies on inputs such as fertilizers, irrigation, credit, and *electricity*. Then nonproduct-specific AMS was positive but far below the *de minimis* level during the reference period. Combining both product-specific and non-product-specific AMS, the total AMS was found to be hugely negative [about (−) 18% of the total value of production of selected agricultural commodities in India] and hence does not require any reduction commitment (Gulati and Narayanan 2003). India has notified domestic support for the period 1995 to 2010 and Amber Box support for this period was below the *de minimis* limit.

Export subsidiy

The AoA has listed the types of subsidies to which reduction commitments are applicable. Export subsidies are defined as “subsidies contingent on export performance” and the list includes export subsidy practices such as direct export subsidies contingent on export performance, and many others (Government of India 1999). The Agreement specifies that the developed countries are to reduce export subsidy expenditure by 36% and volume by 21% in six years in equal installment from 1986–90 levels and the developing countries are to reduce these by 24 and 14%, respectively, in equal annual installments over 10 years. Developing countries are free to provide some of the listed export subsidies (viz., reduction of export-marketing costs, internal and international transport and freight charges). The Agreement also stipulates that for products not subject to export subsidy reduction commitments, no such subsidies can be granted in the future.

As the Indian exporters of agricultural commodities are not given any direct export subsidy, the issue of reduction of export subsidy on agricultural products does not arise in the case of India. The only export subsidies available to them are in the form of (1) exemption of export profits from income tax under section 80-HHC of the Income Tax Act and this is not subjected to any reduction commitments and (2) subsidies on the cost of freight on export of certain agricultural products such as fruits and vegetables, which the developing countries are free to provide.

Negotiations on the provisions of the AoA have been going on. Agriculture is one of the subjects included in the Doha Round of trade negotiations, continuing since November 2001. The negotiations in the “Special

Session" of the WTO's Committee on Agriculture take place on the basis of draft texts on modalities issued from time to time. During the Doha Development Round, many issues related to the agriculture sector were discussed and analysed through various modalities. India along with other developing countries raised the issue of food security. For India, the issue of public stockholding for food security is very important and WTO members are engaged in finding a permanent solution to the issue of public stockholding at administered price.

Impact of liberalization on trade in Agriculture

Due to India becoming a signatory to the Uruguay Round of Agreement (URA), which makes it mandatory for member countries to gradually open agriculture to world markets, was a momentous development. The nation has simultaneously launched its domestic economic liberalization reform that is also directed at integrating the domestic economy with the global economy.

This section evaluates the impact of liberalization on India's exports and imports of agricultural products by comparing their trends between the pre-WTO (1990/91–1994/95) and post-WTO (1995/96–2013/14) periods. Table 1 show that exports and imports of agricultural products have steadily increased over time, with continuously increasing trade surplus in agriculture. However, while the proportion of agricultural exports to total national exports declined steadily during the period from 1996–97 to 2010–11 after which it has started increasing. The proportion of agricultural imports to total national imports experienced a declining trend since 1998–99, the year in which it reached its peak. Moreover, there were wide inter-temporal fluctuations in exports and imports of agricultural products, and these fluctuations increased significantly during the post-WTO period relative to the pre-WTO period. The inter-temporal fluctuations in exports, measured in terms of coefficient of variation (CV), increased from 31.74% during the pre-WTO period to 96.28% during the post-WTO period. Similarly, the CV in imports increased from 68.51 to 90.74%. It may be noted that imports had no statistically significant relationship with the average import duty.

Table 1: Trend in exports and imports of agricultural products in India

(Value in Rs. crore)

Year	Agriculture Exports	%age of Agri-Exports in Total Exports	Agriculture Imports	%age of Agri-Imports in Total Imports	Balance of trade due to Agriculture(X -M)	BoT Impact Ratio
1990-91	6012.76	18.49	1205.86	2.79	4806.9	9.54
1991-92	7838.04	17.80	1478.27	3.09	6359.77	10.14
1992-93	9040.30	16.84	2876.25	4.54	6164.05	10.18
1993-94	12586.55	18.05	2327.33	3.18	10259.22	8.64
1994-95	13222.76	15.99	5937.21	6.60	7285.55	8.78
1995-96	20397.74	19.18	5890.10	4.80	14507.64	11.48

1996-97	24161.29	20.33	6612.60	4.76	17548.69	11.94
1997-98	24832.45	19.09	8784.19	5.70	16048.26	11.82
1998-99	25510.64	18.25	14566.48	8.17	10944.16	12.6
1999-00	25313.66	15.91	16066.73	7.45	9246.93	11.04
2000-01	28657.37	14.23	12086.23	5.29	16571.14	9.48
2001-02	29728.61	14.22	16256.61	6.63	13472	10.12
2002-03	34653.94	13.58	17608.83	5.92	17045.11	9.46
2003-04	36415.48	12.41	21972.68	6.2	1444.28	8.94
2004-05	41602.65	11.08	22811.81	4.55	18790.84	7.35
2005-06	45716.97	10.02	15977.75	2.42	29739.22	5.52
2006-07	57767.87	10.10	23000.28	2.74	34767.59	5.71
2007-08	74673.48	11.39	22549.81	2.23	52123.67	5.82
2008-09	81064.52	9.64	28719.24	2.09	52345.28	4.96
2009-10	84443.95	9.99	54365.29	3.99	300078.66	6.28
2010-11	113046.58	9.94	5103397	3.03	61972.61	5.82
2011-12	182801.00	12.47	70164.51	2.99	112636.5	6.63
2012-13	227192.61	13.90	95718.89	3.59	131473.7	7.50
2013-14	262778.54	13.79	85727.3	3.16	177051.2	7.54
2014-15	239681.64	12.64	121319.02	4.43	118362.6	7.79
2015-16	215396.32	12.55	140289.22	5.63	75107.1	8.45
2016-17	226651.91	12.26	164726.83	6.39	61925.08	8.84
2017-18	251563.94	12.86	152095.2	5.07	99468.74	8.14
CV % Pre WTO	31.74	5.78	68.51	39.15		
CV % Post WTO	96.28	23.33	90.74	32.11		
Growth % Pre- WTO	22.49		63.30			
Growth % Post- WTO	18.17		18.61			
Growth % entire period	18.97		26.38			

Source: Agriculture at a Glance 2018

Note: Pre-WTO: 1990/91-1994/95; Post-WTO: 1995/96-2013/14; Entire period: 1990/91-2013/14.

Exports and imports of agricultural products at nominal prices grew at the annual average rate of 18.97 and 26.38%, respectively, during the entire period. However, contrary to the expectation that liberalization of trade would promote growth in external trade, India's exports and imports have experienced slowing down of growth during the post-WTO period. The growth rate of exports declined from 22.49% in the pre-WTO period to 18.17% during the post-WTO period; the growth rate of imports declined from 63.3 to 18.51%. The temporal behaviour of India's exports and imports shows that India had been a net exporter of agricultural products during the past 28 years, and even though the growth rate of imports exceeded the growth rate of exports, trade surplus in agricultural products widened consistently during the period.

It is clear from table that BoT impact ratio has decreased over the said period too (post liberalization). This is mainly because the share of agriculture-imports has risen and the fall in agriculture-exports share is steeper.

Conclusion

We have examined the impact of trade liberalization policies, introduced in Indian agriculture since the mid-1990s, on the exports/imports of agricultural products. External trade in agricultural commodities has been liberalized from 1994–95 as a part of the structural adjustment and liberalization programmes since 1991, and in pursuance of the obligations contained in the AoA of WTO. The QRs on agricultural products have been removed and brought under the tariff system. Average tariffs on agricultural imports have been reduced. Export policies have been liberalized to promote export of agricultural commodities through relaxation in export quotas. However, India did not have to undertake any reduction commitments regarding domestic support on the ground that both the product and non-product specific supports were below the *de minimis* level.

The temporal behaviour of India's exports and imports shows that India had been a net exporter of agricultural products during the past 28 years, and even though the growth rate of imports exceeded the growth rate of exports, trade surplus in agricultural products widened consistently during the period. A consistent trade policy for agricultural products, balancing the interests of both consumers and farmers, needs to be carefully formulated, keeping in view our commitments to the WTO and the increasing integration of our agriculture with the world market.

References:

1. Ghosh, Madhusudan, "WTO, Trade Liberalization, and Indian Agriculture".

Rao, C.H.H. and Galati, A. (1994). "Indian agriculture: emerging perspectives and policy issues". Economic and Political Weekly, 29 (53) : A-158-A-169.

2. Chand Ramesh(1999) Effect of Trade Liberalisation on Agriculture in India: Commodity Aspects. Working paper no. 45, The CGPRT Centre, Jalan Merdeka 145, Bogor 16111,Indonesia.

3. Ahmad, M.M. and Khan, M.A. (2001)." WTO challenges and opportunities- a case of Indian agriculture." National Bank News Review, Mumbai, 17 (1) : 8-19.

4. Mathur, Sanjiv (2001). Liberalisaataion of trade and implementation of WTO commitments." Cooperative Sugar, 33 (2) : 129-133.

5.World Trade Organization (2005), "Understanding the WTO", book available at www.wto.org.

6. Jha, Brajesh (2001), 'Indian Agri and the Multilateral Trading System", para 1-2, p-1.

7. Gulati A (2006) Trade policies, incentives, investment and institutions in Indian agriculture. In Radha krishna R, Rao S K, Dev S M, Subbarao K (eds.) India in a globalizing world.Academic Foundation: New Delhi, p 347–371

8. Gulati A, Jain S, Hoda A (2013) Farm trade: Tapping the hidden potential. Discussion Paper No. 3, Commission for Agricultural Costs and Prices, Ministry of Agriculture, Government of India:New Delhi

9. Gulati A, Narayanan S (2003)The subsidy syndrome in Indian agriculture. Oxford University Press: New Delhi

10. Hoda A, Gulati A (2007) WTO negotiations on agriculture and developing countries.Oxford University Press: New Delhi