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THE IMPACT OF TRADE LIBERALIZATION ON INDIAN AGRICULTURE – A STUDY

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ABSTRACT :

Agriculture is still a very important component of the Indian economy. More than 65 per cent of the country's population is involved in agriculture and related activities and hence dependent on it- directly or indirectly. Agriculture contributes a major share in GNP. Moreover, the problems of general poverty and inequality and other forms of underdevelopment are primarily influenced by the conditions of agriculture. Unlike the agricultural sector in the developed countries, agriculture in a country like India operates mainly with traditional modes of production and suffers from different forms of structural and institutional rigidities creating problems on both the supply as• well as demand sides. This has also serious developmental consequences.

India is a founder member of the World Trade Organization (WTO) and is thus committed in moving in the direction of liberalization of trade in agricultural commodities. Quantitative restrictions on imports are being phased out and exports are also being liberalized. Both agricultural exports as well as imports are now permitted through private trade, except for a few commodities. There is lot of anxiety, interest and apprehension about the impact that trade liberalization may have on producers, consumers and the economy. The present study is an attempt to analyze the impact of trade liberalization on selected commodities and locations and it reviews production, marketing and trade-related policy concerning these commodities. It also discusses the strategy and prospects of trade liberalization to meet WTO obligations.

KEYWORDS : *Indian Agriculture, Liberalization, WTO.*

INTRODUCTION

India initiated decisive economic reforms in mid-1991, making a break away from a strongly inward-oriented policy regime, towards creating a liberal environment for an efficient competitive economy and better trade performance. The new policy regime was designed to strike at the main cause of India's high-cost low-quality economic structure. Industrial licensing requirements were drastically rolled back to give private sector a free hand. Import licensing was done away with for most goods except consumer goods, and duty rates were cut. The exchange rate was devalued by about 20 percent.

The initial response to the reforms was quite encouraging including faster growth, good export performance and better financing of imports through export earnings, leading reforms to argue for faster liberalization. Constraints from infrastructure bottlenecks, resistance from vested interests and need for strong political will/support in a democratic framework, created some difficulties.

Frequently reforms are considered hostile to the poor. Reforms should be designed to be good not only for overall growth, but also for labour-intensive and rural growth on which poverty alleviation depends. It was believed that liberalization of the economy should help agriculture and would have the potential for raising rural output, wages and employment. Apart from within the agricultural sector per se, a large part of this impact may come through demand from the liberalization of the non-agricultural sector.

In recent years, most state governments were in fiscal crisis and did not have funds for capital expenditure. 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 percent of GDP and in real capita terms.

India's financial liberalization strategy involved, to varying degree, the standard package such measures designed to make the Banks more independent, to relieve financial repression by freeing interest rates and allowing financial innovation, to reduce directed and subsidized 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.

Table 1.1 Import tariff rates for selected agricultural commodities

	1991-92	1995-96	1999-2000	2000-01	2001-02	2002-03
Non-basmati rice	0	0	0	92	77	70-80
Wheat	0	0	50	108	100	50
Maize	0	0	0	60	50	50
Pulses	10	10	5	5	5	10
Oilseeds	55	50	35	35	35	
Soya bean oil	45	30	18	45	38	45
Groundnut oil	45	30	15	35	35	75
RBD palm oil				75	75	65
Refined palm oil				100	85	75-85
Cotton	35	50	40	25	35	5
Sugar	35	0	40	100	60	60

Sources: Ramesh Chand (2004) based on Government of India data.

Above Table 1.1 shows that suggests, tariff rates for most agricultural commodities were low or zero in the early 1990s, largely because quantitative restrictions on imports rendered tariffs irrelevant, and also because world prices were substantially higher than Indian prices over that period. Subsequently, and especially after 2000, tariff rates have generally been coming down, and (except in the case of soya bean) have been significantly below the bound tariffs. What is possible even more significant, however, is that tariff rates have been relatively stable despite tremendous volatility in world trade prices, so that Indian agriculturalists effectively had to deal with all the volatility of world prices.

Table 1.2 Per capita output and availability of food grain

Average of triennium ending March	Net per capita output (kg)		Net per capita availability (kg)		Per capita total food grain availability	
	Cereals	Pulses	Cereals	Pulses	Kg per year	Grams per day
1992	163.43	15.34	162.8	14.2	177.0	485
1995	166.74	14.85	160.8	13.5	174.3	478
1998	162.98	13.93	161.6	12.6	174.2	477
2001	164.84	12.87	151.7	11.5	163.2	447
2002-03 only	161.63	11.67	144.5	10.6	155.15	425

Source: Utsa Patnaik (2004)

Table 1.2 gives some idea of the extent of such decline in both per capita food grain output and availability over the period since the early 1990s. It is evident that both output and availability have fallen, but the decline in per capita availability has been even sharper than for output, and that this has been marked for both cereals and pulses. Consumption data based on the national sample surveys suggest that both food grain consumption and total calorie consumption have declined substantially over the period, in the aggregate and even for the bottom forty per cent of population in terms of expenditure classes.

ASYMMETRIES IN THE WORLD TRADING SYSTEM:

The main objective and purpose of the emerging world trading system is to liberalise trade so that efficiency gains become available to the world economy at large. However it has been observed that the developing countries are not the equal players in the game. Some of the asymmetries that exist in the present world trading system are as under:

- The agenda of the WTO, the implementation of its agreement, and the much praised dispute settlement system all serve to advance the interest of developed countries.
- The least developed countries (LDCs) are marginalized in the world trade system and their products continue to face tariff escalations.
- Rules uniformly applied to WTO members, have brought about inequalities because each member has different economic circumstances.

Developing countries are not a homogeneous group with common interest in the international trading system.

However, there are certain considerations which suggest that sometimes all and some major group of developing countries have common interest in strengthening the multilateral trading system. This includes their interest to discuss some new issues i.e. competition policies and public procurement. These considerations are first, the protection that a well functioning international trading system can offer is far more important to developing countries than it is to larger developed countries. Most of the developing countries are relatively smaller in size to developed nations like US and EU and their bargaining power vis-à-vis they are limited. Infact most of the developing countries have economies that are small and therefore highly depended on trade, they have comparative advantage in a much smaller ranger of goods than do large developed countries. There are certain instances where it impossible to link issues in such a way that developing countries as a group are able to present a solid front (agricultural negotiations). In many instance, however, it is likely that countries may find alignments with those other developing countries with similar interests and with developed countries. Further there are issues like competition policies in which bargaining as a group may enhance the outcome for all.

Agricultural trade still accounts for a very significant proportion of exports of developing countries, and has been presented as an important avenue of development in recent years. This is different from the post-war tendency, which was for developing countries to try and break out of primary commodity export dependence and seek to diversify their economies in various ways, in order to avoid the problems of volatility, secular price declines and so on that were seen to be typical of primary commodity markets in world trade.

In sharp contrast to this earlier widespread perception, the Uruguay Round GATT agreement was negotiated with the dominating perception of agricultural exports and textiles and garments exports as the principal means to increase incomes and employment in the developing world.

The renewed focus on agricultural exports by developing countries has also been linked to liberalization of trade in agriculture, even though there is no clear economic mechanism that could require such a link. The WTO rules have imposed quite substantial agricultural trade liberalization upon developing country members, both original and new members.

NEED OF THE PRESENT STUDY:

Keeping the above implications in mind, development of agriculture is a vital aspect for the Indian economy more so when we have joined in WTO. Since India has inherent advantage in producing and exporting the commodities like Tea, Coffee, Cereals (rice and wheat), cashew kernel, tobacco, spices. Sugar, raw cotton, marine products and horticultural products etc., the impact of liberalization policies in influencing these products is essential to know. The study will focus and analyze the growth trends composition and destination of India's agricultural products exports and the consequent changing pattern of the cultivation coupled with policy implications.

Almost all developing countries have made major moves towards eliminating quantitative restrictions, moving towards tariff-based protection with progressive reduction of tariffs, reducing or removing export subsidies directed towards crop exports. In addition, most developing countries have also undertaken measures towards deregulating imports and exports through decentralization of external trade and reduction of the role of state trading and marketing corporations.

The relationships between trade liberalization and agricultural growth and rural poverty are complex, multi-directional and not always easy to predict. They depend upon external factors emanating from international markets as well as on domestic supply capacities and the effects upon livelihood and income distribution within the sector. These variables in turn are affected by land relations and other government policies towards agriculture and rural development, which determine the degree to which cultivators can take advantage of international markets and the extent to which they are threatened by them. The issues that are directly relevant from the perspective of poverty reductions are those relating to the possibilities for agricultural growth and the viability of cultivation; the effects on employment and livelihood; and the effects on food security.

OBJECTIVES OF THE STUDY:

1) To examine the factors influencing agricultural exports in the light of liberalization of Agricultural trade.
2) To assess the competitive advantage of Indian agricultural products.
3) To examine the effect of agricultural trade on changing pattern of cultivation, and
4) To find out the impact of liberalization on the influencing farm income wages and employment.

METHODOLOGY ADOPTED:

The study is basically depends upon secondary source. Basic data for the study is collected from the various reports such as Centre for Monitoring Indian Economy (CMIE), Economic Survey Government of India RBI Bulletin, statistics on Foreign Trade, Reports on Production on Yields of Principal crops of India, Bulletin of Food statistics, United Nations Conference on Trade and Development (UNCTAD) Commodity year Book, World Development Reports etc.,

Trade Performance of Developing Countries in the Post-WTO era

We have seen earlier that the world trading system under the GATT aimed at promoting international trade through the removal/reduction of trade barriers. The WTO system seeks to achieve the same objective by reducing tariff, removing qualitative restriction and subsidies and other barriers to free flow of international trade

The data given in Table 1.3 shows that ever since the WTO has become operational, the developing country has experienced a drop in the share of global trade.

Table No.1.3 Share of Export and Import by Region and Economic Grouping

	1980	1990	1995	2000	2004
Developed economies	65.27	72.04	69.78	65.72	63.04
Developing economies	29.47	24.26	27.61	31.64	33.46
Developing countries excluding China	28.57	22.46	24.81	27.74	27.07
Developing America	5.50	4.14	4.36	5.50	5.12
Developing Africa	5.91	3.17	2.18	2.27	2.51
Developing Asia	17.95	16.87	20.99	23.81	25.78
Developing Asia excluding China	17.05	15.07	18.19	19.91	19.39
Least developed countries	0.75	0.56	0.47	0.56	0.64
China	0.95	1.80	2.80	3.90	6.39

Source: World Trade and Development Report (2007), Research and Information System, New Delhi, p.9.

China has increased its share in world trade rapidly from 0.9 per cent in 1980 to 6.39 per cent in 2004. But China was not a member of WTO or its predecessor until 2002. Hence the rising share cannot be attributed to the emerging GATT/WTO regime. Among the developing regions, Africa has been gradually squeezed out from 5.91 per cent in 1980 to just 2.5 per cent in 2004 despite liberalization of its trade and investment regime under structural adjustment programme undertaken by most of the African countries. Developing America has just struggled to maintain its share at around 5.5 per cent. Developing Asia's share in world trade has increased significantly but the bulk of the increase in accounted for by China. The groups of least developed countries have continued to remain marginal player with their share in export being squeezed from 0.75 per cent to 0.64 per cent over the 1980-2004 periods.

CONCLUSION

The liberalized WTO regime has opened up both challenges and opportunities for India's foreign trade. The opportunity lies in terms of expansion in the form of gaining entry in more and more countries and the challenges arise from issue relating to quality of products, reliability services and the protectionist policies of the developed countries.

India is trying her level best to maximize the benefits and faces the challenges through a series of policy measures. India took the first decisive step to open up its economy in 1991. Since then a series of reform have been implemented aimed at integrating the national economy with the world economy as a part of a conscious strategy to boost economic growth and development. Openness of the economy has proved to be a major factor in economic growth.

Developing countries are not a homogeneous group with common interest in the international trading system. However, there are certain considerations which suggest that sometimes all and some major group of developing countries have common interest in strengthening the multilateral trading system. This includes their interest to discuss some new issues i.e. competition policies and public procurement. These considerations are first, the protection that a well functioning international trading system can offer is far more important to developing countries than it is to larger developed countries. Second, most of the developing countries are relatively smaller in size to developed nations like US and EU and their bargaining power vis-à-vis they are limited. Thirdly, not only most of the developing countries have economies that are small and therefore highly depended on trade, they have comparative advantage in a much smaller ranger of goods than do large developed countries. Fourth, there are certain instances where it impossible to link issues in such a way that developing countries as a group are able to present a solid front (agricultural negotiations). In many instance, however, it is likely that countries may find alignments with those other developing countries with similar interests and with developed countries. Further there are issues like competition policies in which bargaining as a group may enhance the outcome for all.

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