LIBERALISATION AGRARIAN REFORMS AND POVERTY REDUCTION

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ABSTRACT

"India's economic destiny is safe only when India knows how to stand on its own feet, to compete against everyone in the world on an equal footing"– Dr. Manmohan Singh

With the onset of reforms to liberalize the Indian economy in July of 1991, a new chapter has dawned for India and her billion plus population. The new economic reform, popularly known as, Liberalization, Privatization and Globalization (LPG model) aimed at making the Indian economy as fastest growing economy and globally competitive. The series of reforms undertaken with respect to industrial sector, agricultural trade as well as financial sector aimed at making the economy more efficient This period of economic transition has had a tremendous impact on the overall economic development of almost all major sectors of the economy, and its effects over the last decade can hardly be overlooked. Besides, it also marks the advent of the real integration of the Indian economy into the global economy. There is lot of anxiety, interest and apprehension about the impact that trade liberalization may have on producers, consumers and the economy. The present paper is an attempt to analyze the impact of trade liberalization with special reference to WTO on agriculture sector. How far trade liberalistion has removed our problem of poverty? It also discusses the policy recommendations for agriculture sector to meet WTO obligations.

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INTRODUCTION

"Agriculture is the backbone of the Indian economy'' said Mahatma Gandhi six decades ago. Even today, the situation is still the same, with almost the entire economy being sustained by agriculture, which is the mainstay of the villages. Not only the economy, but also every one of us looks up to agriculture for our sustenance too. It is accounted for more than 30 percent of total GDP at the beginning of reforms failed to maintain its pre reform growth. The rural areas are still home to some 72 percent of the India's 1.1 billion people, and most of the rural poor depend on rain fed agriculture and fragile forests for their livelihoods (Gill.S.S. 2006) Agriculture sector provides food for one billion population of the country, raw material for agro based industries and is a source of livelihood to two-thirds of country's population.

Indian agriculture has undergone significant changes and transformation during the last fifty years. The underlying factors for these changes were different in different periods. During 1950s and 1960s institutional reforms like land reforms and development of irrigation and other infrastructure played a major role in output growth. Technological breakthrough has been the prime mover during 1970s and spread of technological changes to wider areas and crops has been the main factor during 1980s. The decades of 1960s and 1970s also witnessed high growth in public investments in agriculture which improved infrastructural base for growth of agricultural output in the country in the following decade. The decade of 1980s show decline in public investments in agriculture and sharp rise in level of input subsidies. The same period, since 1991, has been marked by reforms involving, among other things, change in exchange rate and liberalization of external trade. Measures have been taken to promote integration of domestic economy with global economy. These changes in turn have affected domestic prices of several commodities and, terms of trade for agriculture have undergone changes during the decade of 1990s. Along with liberalization of trade, private sector has been allowed and encouraged to participate in the import and export of major agricultural products. Two, domestic prices of cereals, through government intervention in minimum support prices and open market operations, were given substantial hikes to reduce dis-protection to agriculture because of domestic prices being lower than the international prices of several commodities. This way, prices have become the major driving force for growth and development of agriculture sector during 1990s. There is lot of concern about the impact of trade and other reforms followed since 1991 on growth rate of agricultural output, food security, nutrition, regional equity, price stability, farm income, welfare of consumers and producers as affected by changes in prices brought about by reforms. Therefore it is high time to review the impacts of liberalisation on agriculture sector in India and hence, here, an attempt has been made to view that:

- **What are the impacts of liberalisation on Indian agriculture?**
- **What are the impacts of liberalisation on poverty reduction in India? And,**
- **How can we adjust ourselves to the new world scenario that is what should be the policy measures to be adopted to improve our situation?**

IMPACTS OF LIBERALISATION ON INDIAN AGRICULTURE

The impacts of liberalisation on Indian agriculture are as under:

AGRICULTURAL TRADE BEFORE AND AFTER REFORMS

India's total agricultural exports were at $ 3.35 billion during 1990-91 which corresponds to 4.13 percent of GDP of agriculture sector. Devaluation of exchange rate by 22.5 percent in one go in 1991 followed by subsequent depreciation in the exchange rate, coupled with lifting of some restrictions on export, helped the country to double its exports in next six years (Table 1).

Table 1: India's agriculture trade in post reforms period

	Exports	Imports	Net exports		Trade as % of GDP Agriculture@	
Year Total	$ million	$ million	$ million		Export	Import
1990-91	3352	672	2679	4.13	0.83	4.95
1991-92	3203	604	2599	4.59	0.87	5.46
1992-93	2950	938	2011	4.73	1.50	6.23
1993-94	4013	742	3271	5.67	1.05	6.72
1994-95	4211	1891	2320	5.18	2.33	7.51
1995-96	6098	1761	4337	7.34	2.12	9.46
1996-97	6806	1863	4943	7.23	1.98	9.21
1997-98	6685	2364	4321	7.02	2.48	9.51
1998-99	6064	3462	2601	6.28	3.58	9.86
1999-00	5842	3708	2134	6.01	3.81	9.82
2000-01	6273	2646	3627	6.59	2.78	9.36

2001-02	6183	3408	2775	6.28	3.43	9.71

Source: Agri. Statistics at a Glance, Ministry of Agriculture, GOI,various issues. @Based on Rupee value at current prices.

Imports also moved on a rising trend in the same period but increase in export was much higher than the increase in agricultural imports. Consequently, the net exports increased from $ 2.67 billion during 1990-91 to $ 4.94 billion by 1996-97. The increase in export and import raised the proportion of trade in agricultural GDP from less than 5 percent in the beginning of reforms to close to nine and a half percent by 1995-96. After 1996-97, value of export started shrinking **as international prices started falling** (Chand 2002). Due to falling international prices imports into the country became more attractive and were facilitated due to liberalization of imports followed due to WTO commitments. Thus, after 1996-97 imports kept increasing further and were doubled in the next three years. This way the net earning from agriculture trade in the post WTO period dropped to a very low level. The post WTO period showed increase in ratio of imports to GDP whereas ratio of exports to GDP for agriculture sector followed small decline. This shows that post WTO period has been adverse to export but favourable for imports. This pattern shows sharp contrast with the first five years of reforms period when share of exports in GDP experienced sizable increase.

- **IMPACT ON PRODUCTION**

Agricultural production over time is affected by interacting influences of technological, infrastructural, and policy factors. After mid 1960's, Indian government started intervening in agriculture sector to create favorable environment for exploitation of technology. This was done by creating enabling infrastructure through public investments and by policy changes affecting agricultural marketing, production, processing and trade. Several researches felt that as economic reforms focused mainly on price factor and ignored infrastructure and institutional changes, the overall impact on growth of agricultural sector has not been favorable. When reform period is divided into two sub periods viz., 1990- 91 to 1995-96 and 1996-97 to 2001-02, which represents sub periods of reforms before and after WTO, the growth rates present different picture. In the first sub period following 1991, terms of trade became highly favorable to agriculture sector. After 1995, under its commitments to WTO, India had to remove quantity restrictions (QRs) and liberalized policies. The second sub period during reforms did not remain favorable to agriculture unlike the first phase during 1991 to 1996. This caused adverse impact on growth rate of agricultural output. Growth rate in GDP of agriculture sector showed almost no change during the pre reform decade and post reform period. Table 2 shows agricultural production in main crops in India during the period 2003 – 2006.

Table 2: Agricultural Production in India

	2003-04		2004-05		2005-06	
crops	Target	Achievements	Target	Achievements	Target	Achievements
Rice	87.0	88.5	93.5	83.1	87.8	91.0
Wheat	72.1	72.2	79.5	68.6	75.5	69.5
Coarse Cereals	37.8	37.6	36.8	33.5	36.5	34.7
Pulses	15.2	14.9	15.3	13.1	15.2	13.1
Total Food grains	212.1	213.2	225.1	198.4	215.0	208.3
Kharif	112.0	117.0	113.8	103.3	109.9	109.7
Sugarcane	236.2	233.9	270.0	237.1	237.5	278.4
Cotton #	13.8	13.7	15.0	16.4	16.5	9.6
Jute and Mesta ##	11.2	11.2	11.8	10.3	11.3	10.7

(Million Tonne) $: Fourth Advance Estimates (July 15, 2006), # : Million bales of 170kgs each; ## : Million bales of 180kgs each

Source: Ministry of Agriculture, Government of India, New Delhi.

- **SUBSIDIES TO AGRICULTURE**

Due to the Agreement on Agriculture (AOA), India can no longer remain aloof from the rest of the world. It had to join the WTO. This AOA has established a number of generally applicable rules with regard to agriculture and trade related matters. Most of the developed countries are providing huge subsidies to the agricultural sector. In these countries not more than 10% of the population is dependent on agriculture. The below table gives the information about the subsidies that are being given to agriculture by different countries and the percentage of the population depending on agriculture India provides only 2.33% subsidy to agriculture as shown in **Table 3**. It is very small when compared with other countries.

Table 3: Subsidies to Agriculture

Country	Subsidy per hectare	%subsidies	Population dependant on agriculture
EEC	$82	37%	8%
USA	$32	26%	5%
Japan	$35	72%	4%
China	$30	34%	24%
South Africa	$24	60.67%	18%
India	$14	2.33%	60%
Source: Compilations from WTO reports			

The Aggregate Measure of Support (AMS) to agriculture will be 10 percent in India as against 5% in the developed world. The total subsidy on agriculture in the developed world works out to $150 billion and in the developing world $19 Billion. If the AMS exceeds 10 percent in any country, it has to reduce by 13% by 2004. According to the WTO the AMS in India, product subsidies is 7.5% and subsidy on non-product is minus 38.5%. So there is no question of losing any thing in our agriculture by accepting the AOA.

- **IMPACT OF THE REMOVAL OF QRS ON AGRICULTURE**

Out of the 715 items from which QRs have been lifted from 1st April 2001, 147 items are agricultural and dairy products. The removal of QRs on agricultural commodities makes them vulnerable to global market prices and global competition. Therefore biggest challenge to the developing countries' agriculture in the post WTO period was posed by unprecedented and unforeseen decline in international agricultural prices

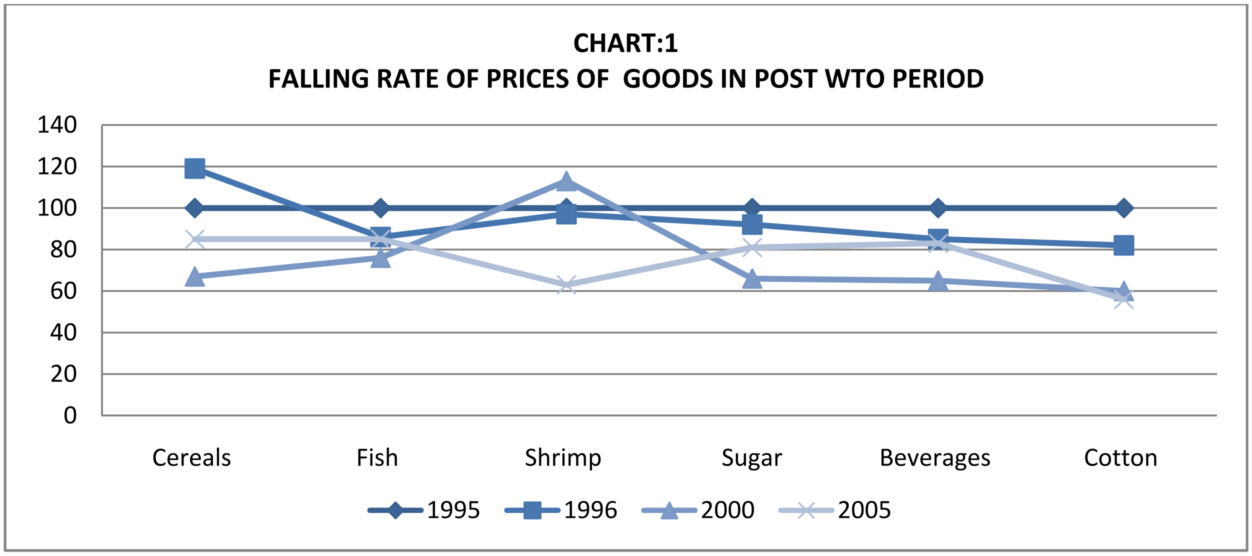
Table 4: Export prices of primary agricultural commodities in post WTO period

	1995	**1996**	**2000**	**2005**
Cereals	100	119	67	85
Fish	100	86	76	85
Shrimp	100	97	113	63
Sugar	100	92	66	81
Beverages	100	85	65	83
Cotton	100	82	60	56

Source: WTO International Trade Statistics 2006 **,** base 1995=100

The prices of cereals, fish, sugar, cotton and beverage started declining after 1996 and reached historically almost the low level during last 25 years around year 2000(Table 4).

Though there is some recovery in the price cycle in the recent years, yet the current level of prices of above mentioned commodities is 15 to 44 percent lower than the prices prevailing in the beginning of WTO as shown in following chart no. 1



Because of this decline in prices in post WTO period, developing countries' exports were badly hit and several countries like India were taken aback by import influx of commodities, in which they thought they had strong competitive edge. This caused adverse impact on farmers' income, employment and livelihood security.

The quantitative restrictions have been removed at the time when the agricultural crisis created by farmers debts, removal of subsidies, corporate seed failures is forcing thousands of farmers to commit suicide in Punjab, Andhra Pradesh, Karnataka, Maharashtra and other parts of the country. Thousands more are being forced to sell their kidneys and other body parts in order to survive.

TRADE LIBERALISATION AND POVERTY REDUCTION

Trade liberalisation has been associated with an increase in employment, but also a slight deceleration in wages. This suggests workers are pulled into labour markets from a reserve army (infinite elasticity of supply in India), but wages do not rise. Trade liberalisation has also been associated with increasing use of casual labour and most of the gains in employment are in the informal sector. India is one of the few countries which have a framework of legislation for the informal sector. OECD calculations support that 79% of total gains from liberalisation for developing countries would come from developed country liberalisation vis-à-vis developing countries. For this reason, it would be wrong to criticize the emphasis by the G20, the group of major developing countries in the WTO, on developed country liberalisation. Here we will analyze three sectors to show the impacts of liberalisation on poverty reduction: services, agriculture and textiles and apparel which are as under:

SERVICES SECTOR

India's share in services trade is higher than its share in manufacturing trade. The service sector boom in India in the post Uruguay Round period shows that India has a competitive advantage in several service sectors. There is potential for poverty alleviation from services trade, although this has been largely ignored. While services may not employ people below poverty line directly, liberalisation has made a number of services accessible at economic prices to a large number of people, including the poor. In addition, the potential for employment of unskilled personnel in some services sectors such as telecommunication, tourism and audio-visual is very high. For example, nearly two-thirds of the employment in the telecommunications sector is of those with low or no skills. It is thus essential to lock in commitments on services liberalisation so that there is no backlash and increase in protection that would restrict outsourcing to India. India also wants to obtain assured market access commitments especially for labour movement. Internally, India needs to impose Universal Service Obligations on service providers to help ensure that rural and backward areas also benefit from the liberalisation of services.

AGRICULTURE SECTOR

In agriculture, barriers such as tariff peaks, tariff escalation, and domestic support and export subsidies continue to restrict effective market access of Indian agricultural products to developed country markets. India's own tariffs have fewer peaks. Peak tariffs are applied to only 1.3% of tariff lines in India, versus 20% of tariff lines in developed countries. India has made reduction of subsidies by developed countries a condition for its own tariff reduction. Domestic prices in general are not linked to international ones. Domestic prices of most agricultural commodities in India are higher than international prices, except in the case of rice and groundnuts. If there is full trade liberalisation in agriculture, India, as a net food exporting country, is likely to see significant **welfare gains**. India's exports are likely to increase by 13% if trade distorting domestic support in developed countries is reduced. The main sectors which would gain would be cereals, sugar and dairy products. Simulations show that roughly 100 million people could be lifted out of poverty by liberalisation in the developed countries in agriculture. The poverty effects of multilateral liberalisation would be increased if adequate reforms are made at the domestic level. Capacity building initiatives are required to help Indian farmers integrate well into the international market and also to meet quality issues in order to overcome the exacting regimes of sanitary and phyto-sanitary measures. Consolidation of land holdings, better infrastructure, better use of IT, and marketing reforms are needed.

TEXTILES AND APPAREL SECTOR

Textiles and apparel is a sector which has a high potential for poverty alleviation. More than 50% of the labour force is women and therefore expansion of this sector would have a significant effect on their conditions. It has a very high exposure to international markets; more than half of the textiles and garments produced in India are exported. This is a high growth sector and some simulations show a very high growth potential with the removal of quotas. The end of the Multi-Fibre Arrangement was agreed in the Uruguay Round, but phased over 10 years, ending December 2004. After that, 310,000 people are expected to be removed out of poverty every year for the next 7 years. Simulations suggest that exports of garments from India could double after the quotas are removed. This could be increased if developed countries reduce their high tariffs in this sector. These gains are likely to be highest in the short-term, before China is freed of controls, because India is less competitive than China. India's competitiveness needs to be improved. The National Textiles policy of India has set very high targets on quality, exports, labour productivity and on timely delivery. Power costs and lack of stable supply are a major handicap for Indian textiles and garments which need to be addressed urgently. However, there is a trade-off between increased labour productivity and employment and so social safety nets need to be put in place. Repeated antidumping investigations would lead to unemployment and closure of factories. Small firms face difficulty in defending anti-dumping cases because of the high costs. Regulating anti-dumping is therefore also an Indian negotiating goal.

POLICY RECOMMENDATIONS

The challenge to policy makers is how to protect Indian agriculture from the impending WTO threat, enhance the competitiveness of Indian farming and make farming a viable and self sustaining enterprise to improve and ensure livelihood security of the farmers. The following policy initiatives and action points can be made for Agriculture sector:

- India needs to devise appropriate domestic policies (extensive domestic market reforms, heavy investment in building and maintaining infrastructure, etc.) to improve efficiency and competitiveness of domestic produce.
- It should continue to play leadership role in negotiating agreements with sound analytical basis and support of other developing countries with similar interest.
- Export of high value products, horticulture products, processed products, marine products and rice should be promoted.
- India has to counter the challenges in the export of traditional items from the developing countries. In this regard, prioritization, enhancing production and processing efficiency, marketing and transport infrastructure, maintaining quality, stable supply etc. need immediate attention.
- There should be continuous insistence for reduction in domestic and export subsidies in the developed countries. Developing countries should put up a unified approach to ensure substantive reduction in subside by the developed countries.
- All countries should notify their quality requirements of agricultural produce clearly on the WTO website.
- There is a need to assess the priorities of our national projects including the research and development programmes, and to develop and maintain the quality of infrastructure at the highest level. There should be strict monitoring of the national projects to ensure expected output as per the time schedule.
- India has to learn from the experience of other developing countries like Thailand and Malaysia regarding compliance to food safety standards.
- The Centre should consult states and receive their active support for trade policy formulation, WTO negotiation, etc.
- There is necessity to establish Export Processing Zones and Commodity Boards for targeted commodities.
- Agriculture needs to be brought under the Concurrent list of the Constitution.
- There should be a merger of several related departments like irrigation, fertilizer, food, agriculture, etc. for better coordination and synergy.
- Public investment in agriculture has to be raised, particularly in R&D including extension.

- The system related efforts towards re-orientation of R&D system will include establishment of new institutions, development of first rate human resource through quality agricultural education, need-based training in India and abroad, adequate funding of research programmes, project based funding / budgeting, promoting public-private sector partnership, building leadership skills and campaigning for better awareness and compliance in respect of produce quality by the farmers, traders, exporters, importers and the general public.

CONCLUSION

In the end we can say that India is a reasonably efficient producer of agricultural products. The liberalisation has opened a new horizon of opportunities for increased access for which domestic production system has to gear itself for deriving maximum benefits. Since our commitments of domestic support are well within the limits, there is ample scope for increasing the support for enhancing our comparative advantage. The AoA also provides opportunities for participation in the international trade to the advantage of Indian farmers. As far as poverty reduction is concerned, it may be suggested that agriculture, services and textiles liberalisation, if properly structured, could have a high potential for poverty alleviation. Even if India must reduce some of its own high tariffs, this could have favourable effects on poverty. However, poverty alleviation would be much higher if appropriate domestic measures accompanied the trade liberalisation. The importance of developed countries' providing appropriate market access to India to ensure higher welfare gains cannot be overstressed. Therefore due thrust needs to be given to revitalize these sectors to enable them to face the challenges of economic liberalization and globalization. The regional and sub-regional level programmes need to be charted out to attain this objective in a specific time frame. Therefore we can say that "Globalize or perish" is now the buzzword synonymous to "Do or Die" which conveys that there is no alternative to globalization and everybody should learn to live with it. This is not the time to curse the darkness but to work for making India emerge as a global market leader.

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