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LIBERALIZATION IN INDIA AND CONSEQUENCES ON AGRICULTURE

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INTRODUCTION

When India initiated IMF induced stabilization Policies and World Bank induced Structural Adjustment Programmes (SAP) in late 1980's and early 1990's, reforms were not explicitly directed to agriculture and the focus was on industry, finance and openness of the economy. However, the impact was more visible from the completion of the second phases of reforms covering financial sector, public organisations and protection of Intellectual Property and labour regulations.[1] Primarily the Indian Seed markets are allowed to import seeds with New Policy on Seed Development (NPSD) in 1988 with a view to provide best planting material available abroad to Indian farmers. This is followed by gradual and steady decontrolling of fertilizer prices from 1991 onwards. These are considered as adhoc measures in process of liberalization. One of the significant steps in this direction is signing of GATT (General Agreement in Trade and Tariffs), a multilateral agreement signed by India in 1994 and formally accepted to liberate agricultural trade under the Agreement on Agriculture (AOA). The drive towards agricultural liberalization continued in India under the aegis of WTO with the Agreement on Trade Related Intellectual Property Rights (TRIPS) coming into force from 1st January 1995. The new shift emphasizes on agricultural growth, export oriented farming, value addition in agriculture, consolidation of landholdings by changing the lease structures and investment of corporate capital in Agriculture. A summary of the important reforms in agricultural sector is as follows: (which can be understood under three main categories i.e., Trade Liberalisation, Input Market Liberalisation and Liberalising subsidies).

S.No.	Area of Liberalisation	Actual Measures Implemented
I	**Trade Liberalisation**	a. Quantitative Restrictions (QR's) have been dismantled for about 470 agricultural products (1998) b. A further 1400 agricultural products are to be put on Open General License (OGL) 1999 c. Tariff reduced to the extent of 15-35 per cent d. Trade for several crops liberalized i.e. imports and exports are much free. These include important crops such as rice, wheat, cotton, pulses and oil seeds which account for much of the Gross Cropping Area in India.
II Input Market Liberalization		
	i. Seeds	a. Partial Liberalisation of seeds industry, allowing for seed imports (1988) b. Further Liberalisation of seeds industry

	ii. Fertilizers	a. Gradual reduction of fertilizer subsidies from 1991 onwards
	iii. Power	a. Power subsidies have been reduced in most areas in the country (1997-99) b. Power generation sector opened for a lot more private participation including international players such as Enron.
	iv. Irrigation	a. Setting up of Water Users Associations (WUA's) in various states that would effectively bring about new user rights on irrigation sources such as tanks and canals.
	v. Institutional Credit	b. Attempts to reduce the provision of state supported Institutional Credit for agriculture in line with Khusrao Committee and Narsimhan Committee recommendations
III	**Food Subsidy**	a. A. Targeted Public Distribution System (1997) b. Dual Prices for Above Poverty Line and below Poverty line Populations (2000) c. Dismantling of food subsidy and replacing it with food coupons

Source: Economic Surveys, Budget Speeches and various Committees Reports gathered by Vamsicharan Vakulabharanam for a doctoral Dissertation submitted to University of Massachusetts, USA).[2]

The trends of Liberalisation appear to be modest after 2008 due to political expediency. The improved status of farmers in politics has ensured revisit of pre liberalisation position with regard to subsidies on electricity, higher procurement prices, water, fertilizers and a non taxable income from agriculture from 2008 onwards. This resulted in the Nutrient Based Subsidy Policy for fertilizers in 2010, Accelerated Irrigation Benefit Programme (AIBP) for extending assistance for the completion of incomplete irrigation schemes, Market Intervention Scheme (MIS) for remunerative prices, establishing National Food Security Mission in 2007, Rashtriya Krishi Vikas Yojana (RKVY) in 2007 for enhancing investments in agriculture and enacting National Food Security Act in 2013. This trend also has its adverse effects such as unsupported rigorous policy, excess use of fertilizers, unsustainable use of water resources encouraged by free or subsidised electricity for farm pumps lead to soil degradation and depletion of sub surface aquifers.[3]

WTO AND AGREEMENT ON AGRICULTURE

The Agreement on Agriculture (AOA) forms part of the Uruguay Round of Multilateral Trade Negotiations, which was signed by the member countries in April 1994 at Marrakesh, in Morocco and came into force from 1st January 1995 onwards. The AOA prescribes a set of rules that govern international agricultural development and policy. The purpose of this agreement is to liberalise agricultural trade on a global level by curbing policies that have created distortions in agricultural production and trade. The commitments under the AOA may be broadly categorised into i) Market Access Commitments ii) Domestic Support Commitments and iii) Export Subsidy Commitments.[4]

Market access commitments deal with policies that relate to the removal of trade restrictions that confront exports. However, all agricultural Products are to be governed by way of tariffs. It means, all non tariff barriers such as quantitative restrictions in the form of quotas, import restrictions through permits, import licensing etc., which were in existence before the agreement came into being are to be replaced only by tariffs. Further, Tariffs are to be reduced by an average of 6 percent each year for a total of 36 percent for developed countries and 24 percent over ten years in the case of developing countries. Again, the agreement also stipulates that member countries are to provide minimum market access to the extent of percent to 5 percent of their domestic consumption. In consonance with the provisions of the WTO agreement on Agriculture, India had removed quantitative Restrictions (which are considered as non-tariff barriers) on 1429 goods which include industrial and agricultural goods, during the year 2000.[5]

The AOA prescribes reduction in Domestic Support Commitments in matters of Aggregate measure of support (AMS) in the form of reduction of all subsidies that have a distortionary effect on trade or on Production. These subsidies can be classified into 3 separate boxes of subsidy namely a) Amber Box b) Green Box and Blue Box subsidies. The Amber Box subsidies include input subsidies, market cost reduction measures, and direct money transfer services. The Green Box subsidies include general services, food security measures, domestic food aid, relief from natural disasters, environmental Protection Programmes etc. The Blue Box subsidies are payments for production limiting Programmes which have relevance for a few developed countries. Among the amber box subsidies, expenditure on fertilizers, pesticides, seeds and electricity are important. The Aggregate Measure of Support (AMS) to Indian agriculture from the Government is mostly on declining terms from the advent of WTO agreement on agriculture.[6]

Further, the quantum of subsidies under green box experienced fluctuating sanctions. In fulfilling its obligations towards distributive justice, the government incurs food subsidy. In spite of having WTO obligations, the government continues to provide large amounts of food subsidy for distribution. The following table shows the quantum of food subsidies released by government.

Year	**Food Subsidy (in crores of Rupees)**	**Annual Growth than previous year (per cent)**
2001-02	17,494.00	45.66
2002-03	24,174.45	38.20
2003-04	25,160.00	04.07
2004-05	25,746.45	02.33
2005-06	23,071.00	-10.39
2006-07	23,827.59	03.28
2007-08	31,259.68	31.19
2008-09	43,668.08	39.69
2009-10	58,242.45	33.38
2010-11	62,929.56	08.05

Source: Economic Survey 2011-2012

The annual growth rates of subsidies are progressively declining from 2001 - 02 to 2006 - 07. An increase during the years 2007 - 08 and again a slow down during 2009 -10 and 2010 - II.[7]

Trade Liberalisation in Indian agriculture began in early 1990s. Currency devaluation of mid 1991 heralded the economic reform process and its has an impact on Indian agriculture. This is followed by the removal of export subsidies on plantation crops like tea and coffee. India had maintained a high tariff binding of 300 percent for edible oils and 100 percent for raw products. These tariff rates are subsequently reduced to 29 percent. Import tariffs were subsequently lowered over the decade. The WTO agreement on Agriculture has not only shifted the focus to export oriented cash crop agriculture but also opened the door to cheap imports. During the year from 1986 - 87 to 1994 - 95, India recorded a spectacular increase in edible oil production by doubling from 11 million tonnes to 22 million tonnes. By 1995, India started liberalising edible oil imports bill to nearly one billion US dollars. India was forced to lower its tariffs and remove all quantitative restrictions by April 2000. With the result imports of agricultural commodities have multiplied over the years. Between 1996-97 and 2003 - 04 imports have increased by 375 percent by volume and 300 percent in value terms. Some of the critics of government Import Policy argue that under the WTO, India is witnessing a gradual collapse of self-sufficiency in food grains production and Public distribution system which is the foundations of food security.[8]

Some other optimistic critics argue that India should make use of the provisions of WTO and gain further in International Trade in general and trade in agricultural commodities in particular. These critics quote the cases of Developed Countries who had very high support levels for agriculture when agreement was signed. Most of the Developed Countries retained high levels of support for agriculture by shifting most of their subsidies to the unlimited green box forms of support (not restricted by the agreement on agriculture). The WTO does not restrict green box types of support to agriculture. However, administrative limitations and other constrains restrict the possibility and feasibility of using green box subsidies developing countries. WTO provisions with regard to Policy benefits such as crop insurance can be counted under green box, but are extremely restrictive due to administrative reasons. The domestic governance in developing countries has problems with regard to on data well defined land tittles, prevalence of informal markets, frequent market failures and insufficient development of rural financial markets. As a result green box provisions allow the developing countries very limited scope for affordable interventions. Only countries like China, Brazil, Thailand and South Africa have substantial green box subsidies and India should follow suit. Secondly, the AOA considered Price support as trade distorting and was classified under Amber Box. In the context of steep rising of global prices on agricultural commodities, India, along with other developing countries negotiated WTO rules on revision of price support at Ninth Ministerial Conference of WTO held at Bali in 2013 (December).[9]

India has also initiated Non Tariff Measures (NTMs) as part of the contingency Trade Policy to regulate International Trade. Consequent to this, India undertook investigation on incidence Anti Dumping since 1995 onwards. During the period between 1995 and 2011, nearly 647 investigations were made and anti dumping duties were imposed. In spite of facing International Criticism, these anti dumping measures were initiated. [10]

The Government of India is moving towards a pragmatic and equitable resolution of problems at WTO and aiming to achieve significant gains on a more developmental basis.

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