

CHAPTER 1
INTRODUCTION

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1.1 BACKGROUND

During the 1990s, various issues were debated about Indian agriculture, which have implications for a region within India, especially, the impact of economic reforms and trade liberalization on the Indian agriculture. Economic reforms under the structural adjustment programme have affected the agricultural growth rate through the trend in capital formation and subsidies. With the signing of the World Trade Organisation (WTO), several issues like export competitiveness of agricultural crops, efficiency of existing cropping pattern, subsidies to agriculture, and the impact of trade liberalization on the income of Indian farmers have also come to fore. These issues are interrelated, for instance, the issue of agriculture growth is related to the trend in the capital formation and subsidies to agriculture sector. Similarly, the trade liberalization under WTO is also affecting the agriculture sector through the subsidy provisions and the competitiveness of agriculture crops. The issues of agricultural growth, input subsidies, and export competitiveness of Indian agriculture have direct impact on the income of Indian farmers.

Trade liberalisation under WTO has created both challenges and opportunities for the Indian farmers. The likely gain from the trade liberalisation depends on the export competitiveness of agriculture sector. Export competitiveness of a country in agriculture depends on the trend in the international prices, the domestic prices of agricultural commodities and the export subsidy given to the agriculture sector. The liberalisation of the Indian economy during the early nineties gave hope to the agricultural sector that the opening up of the economy would go a long way in removing discrimination against agriculture. It was expected that India would benefit by signing the General Agreement on Tariff and Trade (GATT) due to the comparative advantage in the production of agriculture commodities in early nineties. It was in this context that many scholars like Gulati (1994), and Debroy (1996) predicted a bright future for agricultural exports.

The outcome of Agreement of Agriculture (AoA) has not been as beneficial to the developing countries as was expected. Numerous distortions and market access barriers in the developed countries have adversely affected the agricultural exports of the developing countries. Bhalla (2004), Chand (2002), Gulati and Narayanan (2003) and Bhattacharya (2004) and observed that competitiveness is getting reduced overtime because of several factors. First, the international prices during recent years have touched rock bottom due to large subsidies provided to the agriculture sector by the developed nations. Second, increase in the Minimum Support Price (MSP) in the country every year, irrespective of demand and supply situation, has raised open market prices, making it more attractive to import agricultural commodity.

With the signing of the AoA, subsidy issue also came in the limelight due to subsidy commitments. The key aim of reducing domestic support is to correct the trade distortions with a view to promote efficient allocation and use of world resources. But, there was no significant reduction in both domestic support as well as export subsidies by the developed countries. Therefore, the gains that developing countries had anticipated before signing the agreement did not materialise. In fact the agreement itself provides enough loopholes to exploit and the developed countries are doing exactly the same. According to AoA, member countries are eligible for two kinds of exemptions for subsidy reduction commitments. One is termed as 'Green Box' measures and the other is 'Blue Box' measure. Gulati and Narayanan (2003), Sharma (2000), Chand (2002) and Rao (2001) found that there is a marked shift away from support prices and export subsidies, which are considered highly trade distorting, towards direct payments, which are considered minimally trade distorting. These direct payments are placed under the Blue and the Green Boxes, which are exempted from reduction commitments. However, it influences the allocation of resources, in the sense that in the absence of such payments, fewer resources would be committed to agriculture, leading to lower output, higher prices, and smaller export surpluses.

In the case of India, the need for a self reliant agriculture was given the top priority after the devastation caused by successive droughts in mid 1960s. The introduction of seed-

water-fertiliser technology in the 1960s demanded a high priority to supply irrigation water, electricity and fertilizers to the farmers. Owing to the strategic importance of these critical inputs, the onus fell on the government to ensure that water, power and fertilisers were accessible and affordable. Rao and Gulati, (1994) indicates that over a period of time, however, these subsidies began to mount, even as the farmers became fully conscious of the profitability of new technology. The general impression created has been that Indian agriculture is highly subsidised through cheap fertilisers, free power and irrigation water in various states. Many studies on input subsidies have suggested for their phased withdrawal over a period of time on the grounds of unsustainable burden on the finances of the centre and the state government, distortion in the cropping pattern in favor of water intensive crop, adverse environmental effects like water logging and salinity, interpersonal and interregional inequality and so on.

The strongest case for a progressive removal of subsidies continues to be based on the increasing fiscal burden on the exchequer at a time when fiscal deficits need to be contained. Given the magnitude of the subsidies, it is easy to imagine the impact it has on the finances of the input supplying agencies. In the case of canal irrigation and power, irrigation departments and State Electricity Boards (SEBs) are the channels through which the subsidies are administered. In the case of fertiliser, subsidy is borne by the Union government. However, the state and the union finances itself are in doldrums, this situation cannot be sustained for long.

Another problem associated with input subsidies is that it distorts the choice of cropping pattern. Thus, a serious effect of input subsidy is environmental degradation and promoting growth that is likely to be unsuitable and unsustainable in due course. Singh and Joshi (1989), Rao and Gulati (1994), Gulati and Sharma (1995) reveal that subsidy on irrigation through electricity and canal water causes distortion in cropping patterns such as in favour of water intensive crops like paddy in Punjab and sugarcane in Maharashtra. Input subsidies, by encouraging the intensive use of inputs in limited pockets, have led to lowering of the productivity of inputs, reducing employment elasticity of output through the substitution of capital for labour and environmental

degradation such as waterlogging and salinity, on the one hand, and lowering of water tables, on the other. Alagh, (2003) reported that the agriculture sector in Punjab is also facing serious problems like fast dwindling ground water resources, increasing strain on marketing infrastructure because of minimum support prices not keeping pace with rising cost of production. As a result, economic condition of a vast majority of farmers in these states has deteriorated and cannot be improved with the existing cropping system. On the equity issue, studies done by Gregory, Roy and Bumb (2000), Subbarao (1985) Singh (2004), Jain (2006), Tuteja (2004), Sinha and Prasad (1980), Gupta (2002) conclude that most of the benefits of these subsidies are appropriated by irrigated area and large farmers.

However, the farmer lobbies questioned the rationale of reducing input subsidies under the economic reforms. They argue that the fact India subsidised its agriculture far less than the developed countries is a valid reason to demand an increase in flow of support to Indian agriculture. This line of reasoning suggests that with trade liberalisation it is essential for India to subsidise its agriculture to compete with the heavily subsidised developed countries. Though, India is not required to cut the input subsidy under WTO provisions, but the input subsidy given to agriculture in India is financially unsustainable. Therefore, it is politically unwise to link reduction of input subsidies with trade liberalization. The two should be addressed independently and therefore, the importance of input subsidy reforms cannot be undermined (Rao, 2001) (Gulati and Narayan, 2003) (Gulati and Sharma, 1995).

In addition to this, there are some questions which must be carefully answered before deciding on the withdrawal of these subsidies. The question of whether the benefits of these subsidies have gone only to large farmers (equity), the issue of what would be the effect of the withdrawal of input subsidies on the profitability of different crops (crop wise subsidy) and agriculture sector as a whole.

1.2 RATIONALE BEHIND THE STUDY

Haryana is an agriculturally developed state of India, with considerable surplus of food-grains for other parts of the country. Agriculture sector occupies a special place in Haryana's economy. Wheat, rice, cotton and sugarcane are the main crops in Haryana. Adoption of green revolution technology during mid-1960s marked a significant breakthrough in domestic supply of basic food at a time when India was facing food shortage and hunger. Haryana was a forerunner to adopt green revolution technology and it recorded significant growth in food-grain production.

In a dynamic environment of multilateral liberalisation the likely share of gains to a region like Haryana within Indian union, would depend on the competitiveness of its crops. Therefore, the question arises regarding the commodities in which Haryana has comparative advantage and how the trend in the international and the domestic prices of agriculture commodities affected the competitiveness of Haryana in the production of its major crops during the last two decades.

Another issue concerning Haryana is the domestic support given to its agriculture. It is important to note that most of the provisions of WTO apply at the national level. For example, the estimation of domestic support to various commodities is carried out for the country as a whole. Nevertheless, these provisions would have implications at the regional level as well. But, these implications would differ for different regions since India is a conglomeration of diversified agro-climatic regions with varied socio-economic conditions. Thus, the implications of trade liberalisation under WTO deserve the region-wise or state level study.

Therefore, the implication of the trade liberalisation and the rationalisation of input subsidy has been analysed with special focus on Haryana agriculture. As mentioned earlier, the provisions related to domestic support is applied at the national level. But, India is a union of state and the total domestic support at the national level is the sum of support given at the state level. Hence, it is important to know, how much domestic support has been given to agriculture sector in Haryana and what changes have occurred

in this state during the last two decades. Therefore, the analysis of the impact of the WTO agreement on Haryana agriculture includes the estimation of both product and non-product specific measures of support. Here, it is also interesting to examine the issue of inter-personal and inter-crop disparities in the utilisation of input subsidy and the implication of the withdrawal of subsidy on the profitability of agriculture sector.

1.3 OBJECTIVES OF THE STUDY

The specific objectives of the study are:

1. To make a comparative analysis of the composition, magnitude and trend of the input subsidies (fertiliser, electricity and canal irrigation) at all India level and in Haryana during the period 1981-82 to 2004-05.
2. To quantify the magnitude of input subsidy across different farm-size groups to analyse the equity issue related to the utilisation of input subsidy.
3. To estimate the crop-wise subsidy and evaluate the impact of the withdrawal of input subsidy on the profitability of different crops and overall agriculture sector across the different farm size groups.
4. To estimate the Aggregate Measurement of Support (AMS) given to the agriculture sector in Haryana (importable and exportable hypothesis) and its compatibility as per WTO provisions.
5. To examine the resource use efficiency and the competitiveness of the existing cropping pattern in Haryana.

1.4 HYPOTHESES

The following hypotheses have been formulated for empirical verification:

1. The growth rate of fertiliser, electricity and canal subsidy was higher in the 1990s than in the 1980s.
2. The composition of agricultural input subsidy at all India level and in Haryana has significantly changed during the last two decades.
3. The agriculture sector in Haryana receives more than proportionate share of input subsidy (fertiliser, electricity and canal) at all India level in comparison to its proportionate share in gross crop area (GCA) of India.

4. The utilisation of input subsidy across the different farm size groups and crops is inequitable.
5. The product and the non-product specific support to agriculture sector in Haryana are within the permissible limits of the WTO provisions.
6. Agriculture sector in Haryana has both domestic resource use efficiency and competitiveness under export and import hypothesis.

1.5 SCHEME OF CHAPTERISATION

Chapter 1 Introduction

The first chapter deals with background, rationale of the study, objectives and hypothesis.

Chapter 2 Composition, Magnitude and Trend of Input Subsidies

In this chapter, composition, magnitude and trend of input subsidies are estimated at all India level and in Haryana.

Chapter 3 Farm Wise Input Subsidy

It is based on primary data and outlines sample design, methodology, socio-economic profile of sample households and estimated farm wise input subsidy.

Chapter 4 Crop Wise Input Subsidy

This chapter looks into crop wise input subsidy and examines the impact of withdrawal of input subsidy on the profitability of different crops and overall agriculture sector.

Chapter 5 WTO and Haryana Agriculture

This chapter reviews the issues of the Agreement on Agriculture (AoA) and estimated the aggregate measurement of support (AMS) to Haryana agriculture.

Chapter 6 Competitiveness of Agriculture Sector in Haryana

It deals with resource use efficiency and competitiveness of the existing cropping pattern in Haryana

Chapter 7 Summary and Conclusion

This chapter provides a summary of the major findings of the study.