Chapter 1
Introduction
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INTRODUCTION

This chapter is introductory in nature which deals with importance of agriculture and allied activities in the Indian economy. Role of government and its policies are also reviewed in this chapter. Details of the said parameters are covered under the following pages.

1.1 INTRODUCTION

Agriculture is the main get up of the Nanded District. It provides employment to about 85% of the total work force available in the district. Predominantly kharif crops are grown and thus Rabi crops are also cultivated. The total cropped area is about 7,81,000 hectares having an area of 7,52,000 hectares under kharif and 29,000 hectares under Rabi crop.

The principal kharif crops are jowar and cotton. Other kharif crops being paddy, tur, mung, urid, etc. The principal Rabi crops are Jowar & Wheat. Sugarcane and Bananas are grown throughout the year. Based on the available agricultural resource it is seen that there exists scope to set up Jowar based, Cotton based, Sugarcane based manufacturing industries in the Nanded district.

Maharashtra is one of the most industrialized and urbanized states In India. Paradoxically, however, it also enjoys the dubious distinction of a state having highest rural-urban disparity in standard of living of its population.

The share of agriculture in the Net Domestic Product of Maharashtra declined steeply from 36% in 1961-62 to 18.7% in 1992-93. The comparable shares for Indian agriculture were 47% and 27%. Yet, in terms of the proportion of labour force engaged in agriculture which was 60% in 1991, Maharashtra's economy continues to be predominantly agrarian. Indeed, the share of State's
rural labour force employed in agriculture (main workers only) was as high as 83 per cent even in 1991, nearly half of the agricultural workers being labourers. Thus, the crucial dependence of its rural labour force on agriculture is quite evident and is unlikely to diminish drastically in the near future. It is against this scenario, the importance of accelerated growth in Maharashtra's agriculture must be judged.

Apart from the direct impact of agricultural growth on generation of rural employment and incomes its significant secondary linkages with the development of rural non-farm sectors are more crucial. Trade in agriculture's outputs or inputs and services required by it and processing of its products open up additional and more significant avenues for labour absorption. Maharashtra being an important producer of cotton, sugarcane, groundnut, food grains and quite a few horticultural crops, such secondary linkages of agriculture assume added importance to its rural economy, more so now, in the context of new liberalised trading environment for farm products. That is why, careful assessment of agriculture's past performance and based on it, future prospects of growth is needed.

1.2 ROLE OF AGRICULTURE IN THE INDIAN ECONOMY:

Agriculture is one of the strongholds of the Indian economy and it accounts for 18.5 percent of the Gross Domestic Product (GDP). Agriculture draws its significance from the fact that it has vital supply and demand links with the manufacturing sector and is a source of livelihood for the rural population of India, and it represents the backbone of rural livelihood security system.

The agriculture sector of India has occupied almost 43 percent of India's geographical area. Agriculture is still the only largest contributor to India's GDP even after a decline in the same in the agriculture share of India. Besides Agriculture plays a significant role in the growth of socio-economic sector in India.
In the earlier times, India was largely dependent upon food imports but the successive stories of the agriculture sector of Indian economy have made it self-sufficing in production of food grains. The country also has substantial reserves for the same. India depends heavily on the agriculture sector, especially on the food production unit after the 1960' food crisis. Since then, India has put a lot of effort to be self-sufficient in the food production and this endeavor of India has led to the Green Revolution. The Green Revolution came into existence with the aim to improve the agriculture in India.

In 2007-08, India achieved a record food grain production of 227 million tonnes, recording a growth of 10 to 12 million tonnes in excess of the previous fiscal year. With an added two to three million tonnes during the Rabi season, it would touch 230 million tonnes - a landmark in food grain production.

According to a Rabobank report titled "Indian agri-biotech sector: Emerging scenario, issues and challenges", the agri-biotech sector in India has been growing at a huge 30 percent since the last five years, and it is likely to sustain the growth in the future as well. The report further states that agricultural biotech in India has immense potential and India can become a major grower of transgenic rice and several genetically engineered vegetables by 2010. Already research work is being carried in 19 crops like rice, wheat, cotton, potato, banana, tomato, rapeseed, mustard and coffee among others.

The food processing sector contributes 9 per cent to the GDP, is presently growing at 13.5 per cent against 6.5 per cent in 2003-04, and is going to be an important driver for the Indian economy.

1.2.1 Production

India has become the world's largest producer across a range of commodities due to its favourable agro-climatic conditions and rich natural resource base.
India is the largest producer of coconuts, mangoes, bananas, milk and dairy products, cashew nuts, pulses, ginger, turmeric and black pepper. It is also the second largest producer of rice, wheat, sugar, cotton, fruits and vegetables.

According to a monthly review by the Centre for Monitoring Indian Economy (CMIE), agricultural production is likely to increase significantly during fiscal year 2009. CMIE has projected a growth of 3.2 per cent during fiscal year 2009, for the GDP of agriculture and allied sectors. "This would be the fourth straight year of positive growth in agricultural production, with the first three years clocking an average growth of 5.5 per cent," CMIE stated. The allied sectors comprising livestock, forestry and logging, and fishing are likely to see a growth of 4.8 per cent during the fiscal year 2009.

Some of the highlights of advance estimates of the production of major crops are:

- India's Coffee production is likely to increase by 12 % next year to 293,000 metric tonnes in the year beginning October 2008 compared with the 262,000 tonnes forecasted.

- According to the Rubber Board, the production of natural rubber shot up by over 18 % to 72,000 tonnes in August 2008, against 60,850 tonnes in August 2007. The overall output in April-July 2008 reached 238,865 tonnes, against 183,220 tonnes in the same period last year at a growth rate of 30.4 %.

- The total tea export during the January-June period in 2008 touched 87.41 million kg compared with 76.97 million kg in the same time of the previous year.

- Soybean production is likely to touch an all-time high of 12 million tonnes in 2008, 20 % higher than the previous year.
1.2.2 Exports

According to the government's agri-trade promotion body, APEDA, India's exports of agricultural and processed food products recorded a 38% increase in the 2007-08 fiscal year bolstered by an increase in shipments of coarse cereals like maize, jowar and barley. Export figures for agricultural products touched US$ 6.59 billion in 2007-08, against US$ 4.79 billion in the previous fiscal year.

- According to a National Agricultural Cooperative Marketing Federation of India Limited (NAFED), in the period April-August 2008, exports of onion reached 710,000 tonnes against 380,000 tonnes in the corresponding period of the last year.

- According to the Coffee Board, India's Coffee exports saw a significant rise of 6 per cent during the first eight months of 2008.

- India's natural Rubber exports have increased by 38 per cent in the April-July 2008-09. Total exports increased to 23,998 tonnes during April-July as against 14,816 tonnes in the corresponding period of the previous financial year.

- Spices exports registered a 28 per cent increase in revenue in the first quarter of 2008-09. Overall export earnings went up to US$ 329.60 million against US$ 260.57 million last year. Spice exports are likely to rise by 18 per cent to US$ 1.3 billion in 2008-09.

- India exported 1.40 million tonnes of Edible Oil in the first three months during the financial year, up to 70% from the corresponding period last year.

- India's Sugar exports are expected to touch a record 4.2 million tonnes (MT) in the production year upto September, exceeding earlier estimates of 3.5 MT.
1.2.3 Horticulture

Acreage under horticulture—which includes fruits, vegetables, spices, floriculture, and plantations was around 20 million hectares in 2006—07. India is the second largest producer of both fruits and vegetables in the world and the National Horticulture Mission (NHM) aims at doubling horticulture production by 2012.

The state of Gujarat is striving to become a horticulture hub, with a two-fold increase in the land already allotted to horticulture, the state government now plans to bring in another 20 million hectare.

For the last nine years, Gujarat's horticultural industry has posted a growth rate of 10.5%, with new technology in the agricultural sector along with export facilities for the produce, there are great opportunities of growth for the state's horticultural industry.

In the North East states of Nagaland, Manipur and Meghalaya, cultivation of the jatropha shrub, (a cash crop yielding the promise of oil for production of bio-diesel, grown primarily in wastelands) is becoming increasingly popular. Around 4,000 cultivators in Nagaland and Manipur have taken up jatropha as an alternative crop. Jatropha is also widely cultivated across the western border of West Bengal, Jharkhand, Orissa, and across Chhattisgarh. A bio-diesel hub in these states has the potential to generate immense employment opportunities and benefit to the farmers.

Williamson Magor Bio Fuel Ltd plans to build sufficient feedstock for the production of 400 million liters of bio-diesel a year through contract farming on 0.2 million hectares in the east and north-eastern region by 2010. The company is also planning to set up a seed expelling unit in Dimapur by 2008.
1.2.4 Investments

- India is expected to spend around US$ 14.05 million for the development of organic spices by 2012, particularly on turmeric, chilli, and ginger.

- Andhra Pradesh Jute Development Centre Ltd (APJDC) will be setting up a jute park spread over 150-acre land in Visakhapatnam, with an investment of US$ 20.49 million. It plans to give up to a total of 5 per cent equity to jute farmers in the region.

- Hyderabad-based Heritage Foods India Private Limited (HFIPL) is planning to set up about 75 stores (named Fresh@ stores), for its grocery retail chain in Hyderabad, Chennai and Bangalore.

- The West Bengal Financial Corporation (WBFC) is working with entrepreneurs in the state to set up a bio-diesel hub in the western zone of West Bengal along with facilitating the setting up of small and medium enterprises in sectors such as agro-based businesses and floriculture. It has sanctioned about US$ 43.22 million for 2008-09.

- The Horticulture Department of Andhra Pradesh Government has announced an action plan for 2008-09 with an investment of US$ 152.30 million for the development of nurseries in the public and private sectors and increasing productivity of crops.

1.2.5 Agro-innovations

In Gujarat, farmers are turning away from soil and warming up to Hydroponics—an imported technology which entails a "soil-less system of growing plants". Though the technology is capital intensive, some farmers have adopted it for cultivating different varieties of exotic hybrid tea roses and other exotic crops like strawberry, green garlic and tomatoes.
The United Nations Industrial Development Organisation (UNIDO) Centre for South-South Industrial Cooperation (UCSSIC) has identified cashew apple as an alternative to food crops that are currently used for ethanol production, and India is one of the countries targeted initially by the UNIDO. As India is a major cashew producing country, this could be a highly profitable opportunity for India.

The Council of Scientific and Industrial Research (CSIR), along with Karnataka-based Godavari Sugar Mills Ltd, is planning to set up India's first bio-refinery to convert crushed sugar cane into industrial raw materials such as cellulose and lignin (Cellulose and lignin are extensively used in the pharmaceutical, textile and food preservatives industries). The bio-refinery will produce ethanol from bagasse - the fiber left over after the juice has been squeezed out of sugar cane. Ethanol production holds a great opportunity for the major sugar cane producing states of India.

1.2.6 Government Initiatives

Government has been taking various progressive measures to accelerate the growth of this sector. Some of the recent initiatives taken up by the government include:

- In the 2008-09 budget, the government has given a US$ 12.23 billion waiver of farm loans.

- Giving a nod to the National Policy on Biofuels under which India will aim to raise blending of biofuels with petrol and diesel to 20 per cent by 2017. This will provide a major boost to the bio-diesel sector. It has also approved the setting up of National Bio-fuel Coordination Committee and Bio-Fuel Steering Committee.

- Allowing private sector companies engaged in business of warehousing and transport of food grains in procurement operations on behalf of the Food Corporation of India (FCI).
- Construction of seven Modern Terminal Markets with modern infrastructure facilities that will help farmers realise maximum returns for their produce, remove middlemen and ensure lower prices for end-consumer.

- The government has already approved 60 Agricultural Export Zones (AEZs). Besides, four zones have been identified to provide US$ 12.1 million worth of funds under a scheme called Assistance to States for Infrastructure Development of Exports.

- The Government will provide an additional US$ 6.17 billion for new farm initiatives launched by states to double the growth rate in the agriculture to 4% over the 11th Plan period.

1.2.7 Road ahead

Agriculture is set to play a more dynamic role in the economy, with the government's increased focus on the sector. A progressively larger number of states have been amending their Agricultural Produce Marketing Committee (APMC) Act, along the lines of the Model APMC Act, to allow farmers to directly sell their produce to the buyers.

In the 2008-09 budget, the government has taken many steps to aid the growth of the sector and focus on the achievement of self-sufficiency in food grains. Agriculture credit is likely to touch US$ 49.05 billion in 2008, and agriculture share in total investment is up from 10.2 per cent in 2003-04 to 16 per cent for the 11th Plan.

Significantly, several agricultural sectors like horticulture, floriculture, development of seeds, animal husbandry, and aquaculture, cultivation of vegetables and mushrooms, and services related to agro and allied sectors have been thrown open to 100% Foreign Direct Investment (FDI) through the automatic route.
1.3 INDIAN ECONOMY CANNOT GROW WITHOUT AGRICULTURE?

What used to be the backbone of the Indian economy now stands as a mere contributor to it. A holistic approach and urgent reforms are needed to ensure the growth of this sector and to transform India into the leading agro economy of the world.

Agriculture has been remained as a most ignored sector. What used to form the backbone of the Indian Economy is not being given enough privileges from the government now. The Sensex and certain sectors of the economy have seen unprecedented growth, but yet the most important sector of the country has been lagging behind. And with more than half the population in the country still associated with it, urgent reforms need to be made so that this sector in itself can grow rapidly. Contributing to almost one fourth of the nation’s Gross Domestic Product (GDP), it provides employment to millions of people living in the rural areas.

P. Chidambaram's latest Rs 60,000 crore debt waive to the farmers having less than five acres of land comes as a relief to most of the farmers across the country. Yet this scheme is not applicable to all the farmers. Chidambaram could have played a masterstroke through this scheme, but from an economic point of view, it is disastrous. The same banks and financial institutions that used to give away loans to all farmers will have to think twice before doing that, after all as it may not be such a profitable decision.

The agriculture sector has seen a growth of about a percent in the past few years as against the anticipated growth of four per cent. The main problem affecting agriculture is that farmer themselves doesn't see it as a profitable option today. With the tremendous increase in population, the land holdings of farmers have shrunk to abysmal levels. The farmers themselves have become grossly
indebted and if the rains are not on their side and the crop does fail, and then they are often staring at unemployment and mere survival.

International trade could play a major role in the rejuvenation and the transformation of this sector. The forward contract Regulation Act, which was having adverse effects in the production of wheat, has now been amended to cater the problems of the farmers and help to achieve a single common market across the length and breadth of the country.

Public private partnership could augur well for the development of this sector and private investment could get rid of the problem of poor infrastructure. The market as well as the state should work hand in hand to ensure higher returns to farmers and better services to consumers. The private sector would both encourage cooperation and competition and would offer better value for money. The APMC act should be amended by all states and the Mandi taxes could be removed to allow sustainable results for the farmers.

The Essential Commodities act has already been modified to permit the storage, marketing and movement of agricultural commodities.

A unified or an integrated food law should be formulated to bring convergence in the food laws and to encourage the food processing industry. The tax on processed food could easily be lowered further. India is currently a medium sized agricultural exporter, but it could well become the main food supplier to the rest of the world if the agriculture sector could develop rapidly. Foreign buyers who prefer to Indian foods could be targeted to its western counterparts.

Though the budget may be targeted against vote banks, it offered some incentives to the farmers. If the right measures are being undertaken now, the Indian agricultural industry has the potential to make India the leading agro economy of the world. We need to be able to compete on a global platform with
respect to both cost as well as quality. A holistic and integrated approach is the need of the hour to attain sustainable development and growth in this sector.

1.4 IMPACT OF GLOBALISATION ON INDIAN AGRICULTURE:

The liberal economic policies were adopted by India in 1991. Facing a severe economic crisis, India approached the IMF for a loan, and the IMF granted what is called a 'structural adjustment' loan, which was with certain conditions attached which relate to a structural change in the economy. The government ushered in a new era of economic reforms based on these conditions. These reforms (broadly called Liberalisation by the Indian media) can be broadly classified into three areas: Liberalisation, privatization and globalization. Essentially, the reforms sought to gradually phase out government control of the market (liberalisation), privatize public sector organizations (privatization), and reduce export subsidies and import barriers to enable free/open trade (globalization). There was a considerable amount of debate in India at the time of the introduction of the new reforms, it being a dramatic departure from the protectionist, socialist nature of the Indian economy up until then. However, reforms in the agricultural sector in particular came under severe criticism in the late 1990s, when 221 farmers in the south Indian state of Andhra Pradesh attempted/committed suicide. The trend was noticed in several other states, and the figure today, according to a leading journalist and activist, P. Sainath1, stands at 100,000 across the country. Coupled with this was a sharp drop in agricultural growth from 4.69% in 1991 to 2.06% in 1997.(1) This paper seeks to look into these and other similar negative trends in Indian agriculture today, and in analyzing the causes, will look at the extent to which liberalisation reforms have contributed to its current condition. It will look at supporting data from three Indian states which have been badly affected by the crisis: Andhra Pradesh, Maharashtra and Kerala. Andhra Pradesh's (AP's) experience is particularly critical in this debate because it was headed by the then Chief Minister
Chandrababu Naidu, who pursued liberalization with enthusiasm. Hence liberalization in AP has been faster than other Indian states, and the extent of its impact has been wider and deeper.

The liberalisation of the domestic economy and the increasing integration of India with the global economy have helped to step up GDP growth rates, which picked up from 5.6% in 1990-91 to a peak level of 7.7% in 1996-97. Growth rates have slowed down since the country has still be able to achieve 5-6% growth rate in three of the last six years. Though growth rates has slumped to the lowest level 4.3% in 2002-03 mainly because of the worst droughts in two decades the growth rates are expected to go up close to 70% in 2003-04. A Global comparison shows that India is now the fastest growing economy just after China.

This is major improvement given that India’s growth rate in the 1970’s was very low at 3% and GDP growth in countries like Brazil, Indonesia, Korea, and Mexico was more than twice that of India. Though India’s average annual growth rate almost doubled in the eighties to 5.9% it was still lower than the growth rate of China, Korea and Indonesia. The pickup in GDP growth has helped improve India’s global position. Consequently India’s position in the global economy has improved to 4th place in 2001 from the 8th position in 1991, when GDP is calculated on a purchasing power parity basis.

1.4.1 GDP Growth rate:

The Indian economy is passing through a difficult phase caused by several unfavourable domestic and external developments; Domestic output and Demand conditions were adversely affected with poor performance in agriculture in the past two years. The global economy experienced an overall deceleration and recorded an output growth of 2.4%. During the past year growth in real GDP in 2001-02 was 5.4% as per the Economic Survey in 2000-01. The performance in the first quarter of the financial year was 5.8% and 6.1% in second.
1.4.2 Export and Import:

India's Export and Import in the year 2001-02 was to the extent of Rs. 32,572 and Rs. 38,362 million respectively. Many Indian companies started becoming respectable players in the International scenario. Agriculture exports accounts for about 13 to 18% of total annual of annual export of the country. In 2000-01 Agricultural products valued at more than US $ 6 million were exported from the country 23% of which was contributed by the marine products alone. Marine products in recent years have emerged as the single largest contributor to the total agricultural export from the country accounting for over one fifth of the total agricultural exports. Cereals (mostly basmati rice and non-basmati rice), oil seeds, tea and coffee are the other prominent products each of which accounts for nearly 5 to 10% of the country's total agricultural exports.

1.5 INDIAN AGRICULTURE TODAY: A SNAPSHOB

Agriculture employs 60% of the Indian population today, yet it contributes only 20.6% to the GDP. Agricultural production fallen by 12.6% in 2003, one of the sharpest drops since independence. Agricultural growth slowed from 4.69% in 1991 to 2.6% in 1997-1998 and to 1.1% in 2002-2003. This slowdown in agriculture is in contrast to the 6% growth rate of the Indian economy for almost the whole of the past decade. Suicides of farmers were 12% of the total suicides in the country during 2000, the highest ever in independent India's history. (Unofficial estimates put them as high as 100,000 across the country, while government estimates is much lower as to 25,000. This is largely because only those who hold the title of land in their names are considered farmers, and this ignores women farmers who rarely hold land titles, and other family members who cultivate the farms). Agricultural wages even today are $1.5 - $2.0 a day, some of the lowest in the world. Institutional credit (or regulated credit) accounts for only 20% of credit taken among small and marginal farmers in rural areas, with the remaining being provided by private moneylenders who charge 15% interest.
interest rates as high as 24% a month. An NSSO2 survey in 2005 found that 66% of all farm households owes less than one hectare of land. It also found that 48.6% of all farmer households are in debt. The same year, a report by the Commission of Farmer's welfare in Andhra Pradesh concluded that agriculture in the state was in 'an advanced stage of crises, the most extreme manifestation which caused the rise in suicides among farmers. Given the performance of agriculture and figures of farmer suicides across the country, this can be said to apply to Indian agriculture on a whole.

1.6 THE CRISIS FACING INDIAN AGRICULTURE:

The burning problem of debt has been facing by both Indian agriculture and its farmer suicides is debt. Forcing farmers into a debt trap are soaring input costs, the plummeting price of produce and a lack of proper credit facilities makes farmers turn to private moneylenders who charge exorbitant rates of interest. In order to repay these debts, farmers borrow again and get caught in a debt trap.

As mentioned earlier, AP's experience is particularly relevant to this analysis because of its leadership. Chandrababu Naidu, an IT savvy neo-liberal Chief Minister of Andhra Pradesh from 1995 to 2004, believed that the way to lead Andhra Pradesh into the future was through technology and an IT revolution. His zeal led to the first ever state level (as opposed to national level) agreement with the World Bank, which entailed a loan of USD 830 million (AUD 1 billion) in exchange to a series of reforms in AP's industry and government. Naidu envisaged corporate style agriculture in AP, and implemented World Bank liberalisation policies with great enthusiasm and gusto. He drew severe criticism from opponents, saying he was using AP as a laboratory for extreme neo-liberal experiments. Hence, AP's experience with liberalization is critical.
1.7 THE DEBT TRAP AND THE ROLE OF LIBERALISATION

1.7.1 Seeds:

The biggest input for farmers is seeds. Before liberalisation, farmers across the country had access to seeds from state government institutions. For example, AP's APSSDC3 produced its own seeds, was responsible for their quality and price, and had a statutory duty to ensure seeds were supplied to all regions in the state, no matter how remote. The seed market was well regulated, and this ensured quality in privately sold seeds too. With liberalization, India's seed market was opened up to global agribusinesses like Monsanto, Cargill and Syn Genta. Also, following the deregulation guidelines of the IMF, 14 of the 24 units of the APSSDC's seed processing units were closed down in 2003, with similar closures in other states. These hit farmers doubly hard: in an unregulated market, seed prices shot up, and fake seeds made an appearance in a big way. Seed cost per acre in 1991 was Rs. 70 (AUD 2) but in 2005, after the dismantling of APSSDC and other similar organizations, the price jumped to Rs. 1000 (AUD 28), a hike of 1428%, with the cost of genetically modified pest resistant seeds like Monsanto's BT Cotton costing Rs. 3200 or more per acre, (AUD 91) a hike of 3555%. BT Cotton is a cotton seed that is genetically modified to resist pests, the success of which is being disputed: farmers in Andhra Pradesh and Maharashtra now claim that yields are far lower than promised by Monsanto, and there are fears that pests are developing resistance to the seeds. Expecting high yields, farmers invest heavily in such seeds. Also BT Cotton and other new seeds guarantee a much lower germination rate of 65% as opposed to a 90% rate of state certified seeds. Hence 35% of the farmer's investment in seeds is a waste. Output is not commensurate with the heavy investment in the seeds, and farmers are pushed into debt. The abundant availability of spurious seeds is another problem which leads to crop failures. Either tempted by their lower price, or unable to discern the difference, farmers invest heavily in these seeds, and
again, low output pushes them into debt. Earlier, farmers could save a part of the harvest and use the seeds for the next cultivation, but some genetically modified seeds, known as Terminator, prevent harvested seeds from germinating, hence forcing the farmers to invest in them every season.

1.7.2 Fertilizer and Pesticide:

One measure of the liberalisation policy which had an immediate adverse effect on farmers was the devaluation of the Indian Rupee in 1991 by 25% (an explicit condition of the IMF loan). Indian crops became very cheap and attractive in the global market, and led to an export drive. Farmers were encouraged to shift from growing a mixture of traditional crops to export oriented 'cash crops' like chilli, cotton and tobacco.\(^{(10)}\) These need far more inputs of pesticide, fertilizer and water than traditional crops. Liberal policies reduced pesticide subsidy (another explicit condition of the IMF agreement) to two thirds by 2000. Farmers in Maharashtra who spent Rs. 90 an acre (AUD 2.5) now spend between Rs. 1000 and 3000 (AUD 28.5 – 85) representing a hike of 1000% to 3333%. Fertilizer prices have increased 300%.\(^{(11)}\) Electricity tariffs have also been increased: in Andhra Pradesh tariff was increased 5 times between 1998 and 2003.\(^{(12)}\) Pre-liberalisation, subsidised electricity was a success, allowing farmers to keep costs of production low. These costs increased dramatically when farmers turned to cultivation of cash crops, needing more water, hence more water pumps and higher consumption of electricity. Andhra Pradesh being traditionally drought prone worsened the situation. This caused huge, unsustainable losses for the Andhra Pradesh State Electricity Board, which increased tariffs. (This was initiated by Chandrababu Naidu in partnership with Britain’s DFID and the World Bank.) Also, the fact that only 39% of India’s cultivable land is irrigated makes cultivation of cash crops largely unviable, but export oriented liberalization policies and seed companies looking for profits continue to push farmers in that direction.\(^{(13)}\)
1.7.3 The Debt Trap: Low price of Output

With a view to open India's markets, the liberalization reforms also withdrew tariffs and duties on imports, which protect and encourage domestic industry. By 2001, India completely removed restrictions on imports of almost 1,500 items including food. As a result, cheap imports flooded the market, pushing prices of crops like cotton and pepper down. Import tariffs on cotton now stand between 0 – 10%, encouraging imports into the country. This excess supply of cotton in the market led cotton prices to crash more than 60% since 1995. As a result, most of the farmer suicides in Maharashtra were concentrated in the cotton belt till 2003 (after which paddy farmers followed the suicide trend). Similarly, Kerala, which is world renowned for pepper, has suffered as a result of 0% duty on imports of pepper from SAARC5 countries. Pepper, which sold at Rs. 27,000 quintal (AUD 771) in 1998, crashed to Rs. 5000 (AUD 142) in 2004, a decline of 81%. As a result, Indian exports of pepper fell 31% in 2003 from the previous year. Combined with this, drought and crop failure has hit the pepper farmers of Kerala hard, and forced them into a debt trap. Close to 50% of suicides amongst Kerala's farmers has been in pepper producing districts.

1.7.4 The Debt Trap: Lack of credit facilities and dependence on private money lenders.

In 1969, major Indian banks were nationalized, and priority was given to agrarian credit which was hitherto severely neglected. However, with liberalisation, efficiency became of utmost importance, such lending was deemed as being low-profit and inefficient, and credit extended to farmers was reduced dramatically, falling to 10.3% in 2001 against a recommended target of 18%. A lack of rural infrastructure deters private banks from setting up rural branches, with the responsibility falling on the government, which has reduced rural spending as a result of its liberalisation policies. Rural development expenditure, which averaged 14.5% of GDP during 1985 – 1990 was reduced to 8% by 1998,
and further to 6% since then. This at a time when agriculture was going through a crisis proved disastrous for farmers, who turned to private money lenders who charge exorbitant rates of interest, sometimes up to 24% a month.\(^{(19)}\) With input costs and output prices being what they are, coupled with crop failures and drought, they are pushed into debt which is impossible to repay. 12 out of India’s 28 states have 50% and higher indebtedness among farm households. Andhra Pradesh has the highest percentage of indebted farm households — 82%. 64.4% of Kerala’s farm households and 54.8% of Maharashtra’s farm households are indebted. Indebtedness has been identified as the single major cause of suicides in both Andhra Pradesh, Kerala and Maharashtra.\(^{(20)}\)

### 1.7.5 Liberalisation and Its Failures

Branco Milanovic, a World Bank economist describes how he believes liberalisation helps developing countries achieve growth: 'when a country lowers trade barriers, reduces government intervention in the market in order to allow market forces to operate freely, increases competition and attracts foreign investment, it will increase productivity and reduce inefficiency, which will lead to economic growth, and in a few generations, if not less, the poor will become rich, illiteracy will disappear, and poor countries will catch up with the rich.'\(^{(21)}\) This argument is an economic rationalist one, which views government intervention with profound suspicion, and has equally profound faith in unfettered market forces.\(^{(22)}\) What Mr. Milanovic neglects to mention, though, is that rich countries which now preach liberalization protected their ‘infant industries’ at the time they began to industrialize, till they were strong enough to compete globally. The US government, for example, had a defending trade policy in the late nineteenth century to help US companies become competitive in the world. Besides, apart from wool, the US, Germany, Britain and France were all almost self-sufficient in the raw materials that they needed for industries, and took off from that platform, a luxury that India and other developing countries do not have.\(^{(23)}\) As German
economist Friedrich List says, the adoption of these values (of liberalisation) assumes that all countries are at the same starting place, which is clearly not the case.\textsuperscript{24} In fact, it is this very reason that has brought about the crisis that Indian agriculture is facing today. Most farmers in India were already in a position of minimum security, with no education system, credit facilities, access to alternative employment, or efficient technology. Their only support was government subsidy and regulation. Liberalization policies came in and dismantled their only support structure. It halted the sharp reduction in rural poverty from 55\% in the 1970s to 34\% in the 1980s. Not only has the incidence of poverty in rural areas not gone lower than 34\% in the 1990s, it has gone to higher levels of 42\% in individual years.\textsuperscript{25}

The second most popular argument of the economic rationalists in favour of liberalization is that competition will weed out the inefficient, and in the growth that follows, employment will be provided in other areas of the economy, thus lifting the poor out of poverty. This argument however assumes that the poor will be able to take advantage of the opportunities presented to them. As Robert Issac says in 'The Globalization Gap', “Globalization encourages the well positioned to use tools of economics and politics to exploit market opportunities, boost technical productivity, and maximize short-term material interests.” This is compounded in India, where the gap between one who is 'well positioned' and one who is not can be extreme. With a lack of investment, chances of generation of rural employment are slim. Unemployment and underemployment are chronic problems in India, with the rate of unemployment being close to 10\% in 2004.\textsuperscript{26} Primary education in rural areas is mismanaged and in bad quality, further there is no system which helps agricultural workers to find alternate employment, or develop alternate skills.\textsuperscript{27} In the face of such obstacles, it is nearly impossible to expect agricultural workers to shift to alternate fields. Coming back to AP, the IT Revolution boosted by Chandrababu Naidu attracted companies like Google, Amazon, Microsoft and Dell and created thousands of jobs. However, given the
skills and education to most farmers, it is obvious that none of this translated into job opportunities for them.

The final argument that supporters of globalization have is the much touted 10% reduction in poverty (60 million decline in poor) in India in the year 2000. However, this figure was challenged by experts. Poverty is defined according to how many people consume less than the minimum prescribed nutritional diet. (2400 calories for rural areas, and 2100 for urban areas) Major changes in survey design in 1999-2000 not only made the resultant estimates incomparable to previous years' estimates, but an over-estimation of consumption (meaning people were getting enough food, hence were not considered poor) meant a sharp reduction in poverty figures. After experts challenged it, the Planning Commission of India accepted that the figure was inaccurate, and could not be compared to previous years' estimates; hence the 10% drop in poverty is incorrect. With adjusted figures, experts have determined that the decrease in poverty was a mere 2.3%, and that the number of poor increased by nine million in 2002 as compared to 1999.

1.7.6 Liberalization and 'Growth'

Many economists now concede that the relationship between liberalization and growth are 'uncertain at best'. According to the Center for Economic and Policy research, which studied impact of liberalization reforms on the developing world, key economic and social indicators such as increases in life expectancy, infant and child mortality, education and literacy levels slowed down in the 20 years between 1980 and 2000 when liberalization policies were implemented, compared to the 20 years leading to 1980.(28) This defeats the economic rationalist argument of free trade root out poverty, since the 20 years leading up to 1980 witnessed high protectionist policies and trade barriers. Following the suicides in 2000, the World Bank and Britain's DFID abandoned power reforms in Andhra Pradesh four years before schedule. It admitted that it had 'substantially
underestimated' the 'complexity of the process' and that there must be 'increased consultation with the farmers to get their acceptance' of any further reform.\(^{(29)}\)

The Andhra Pradesh government sponsored report by the Commission of Farmer's Welfare squarely laid the blame for its agrarian crisis on the state and central government's policies: "While the causes of this crisis are complex and manifold, they are dominantly related to public policy. The economic strategy of the past decade at both central and state government levels has systematically reduced the protection afforded to farmers and exposed them to market volatility and private profiteering without adequate regulation; has reduced critical forms of public expenditure; has destroyed important public institutions, and has not adequately generated other non-agricultural economic activities." A report on suicides in Kerala similarly held the liberalization policies of the government responsible.\(^{(30)}\)
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18. 'Seeds of ruin', The Indian Express, July 3, 2005.


