Chapter – 3
India’s Agricultural Trade Policy since 1951:
An Overview

3.1 Introduction:

Over the last six decades of Indian planning the perception about the importance of external sector in economic development has gone through a number of changes. During the 1950s, the period of first two five-year plans, foreign trade was considered to be almost irrelevant for economic development in India. During the next two decades, i.e. until the mid-1970s, limited export capacity was seen as a constraint on growth and India followed a moderately-outward-looking economic policy. The external sector was given a more prominent role during the late 1970s and early 1980s. India started liberalisation of the external sector from the mid-1980s but only since 1991, external sector liberalisation gathered pace. The URA, which came into effect from January 1995, quickened the process of India’s integration with the global economy. Likewise the outlook towards agricultural trade in the Post-Independence era has also changed. The success achieved on the agricultural front in India over the decades and the expectation of a favourable international trade
regime following the WTO agreement on agriculture have made the government of India to focus increased attention on agricultural trade.

In this background our objective in this chapter is to present an analysis of India's agricultural trade policy as it has evolved in the post-independence era. The analysis is made for the export and import policies separately. Further the policy is analysed on a plan to plan basis. This is because for most of the period under review India was following a rigorously planned development strategy and agricultural trade policy was essentially a derivative of the development strategy.

The chapter is organized as follows. In section 3.2, export policy regimes enforced before 1991 has been summarized and the evolution of policy in the post-reform period has been reviewed in depth. In section 3.3, evolution of import policy is analysed in the similar fashion. The final section summarizes the main conclusions of this chapter.
3.2 **Evolution of Agricultural Export Policy:**

**First and Second Five year Plans: (1951-1961)**

As is well known India’s first two five years plan neglected the foreign trade sector in general and the agricultural trade in particular as it was widely believed that no significant increase in export earnings could be expected in the short run [Planning Commission 1956: 97-99]. There was what has been called, “export pessimism” with respect to exports. The writings of both Prebisch (1959:435-453) in the context of the deteriorating terms of trade of developing countries and Nurkse (1953) that the traditional (i.e. mainly agricultural) exports of the developing economies face inelastic demand in the international market influenced greatly the thinking of our policy-makers and planners. Whatever increase in exports was to be there was expected from the manufacturing sector. “Export promotion efforts were exclusively concentrated on non-traditional exports of manufacturers, while most traditional exports were neglected. Very little was done to prevent or slow down the decline in India’s relative share of the world market for its major traditional exports. In fact, the combination of trade policies actually employed added up to a positive discrimination against them.” [Nayyar 1976:344]. In this period, the idea was to export only those
agri-products which were surplus in the economy. Agri-exports were high, but they were not expected to have a bright future.\(^5\)

As a result during the 1950s, export performance of India was not satisfactory. In 1951, the value of India’s exports was more than Rs. 728 Crore. The average value of India’s exports for the period of 1952-60 was only Rs. 588 Crore.

A number of studies (Singh 1963; Bhagwati and Desai 1970; Nayyar 1976) had pointed out that even conceding that the world export growth was sluggish during the concerned period, due to its domestic policies India could not make best use of whatever trade possibilities were available. An analysis by Singh (1963) suggested that had India’s relative share of world exports of these commodities (major Indian exports) in 1958-60 been the same as during 1948-50, India’s export earnings would have been 15 to 20 percent higher than the actuals: i.e, India would have earned an additional foreign exchange worth Rs. 900-1200 million a year during the late 1950s. A similar exercise by Bhagwati and Desai (1970) revealed that for five major export commodities - jute manufacturers, tea, cotton textiles, groundnut, linseed oils, oilseed and tobacco - If India managed to maintain share of 1948-50, the overall improvement from these five
products would have been around Rs. 5740 million for the period 1951-60.6


The Third five-year-plan marked a radical shift in the export policy in India. It recognized that the previous plans did not consider 'exports as an integral part of the country's development effort' and tried to rectify the situation by giving higher priority to exports. Various export promotion measures were introduced in the form of fiscal incentives, import entitlement schemes, direct financial incentives and marketing assistance from the government.

In 1966, the rupee was devalued by 57.5 percent to boost the competitiveness of India's exports. But following the devaluation, many of the export promotion measures were abolished. Also export duties were introduced on a number of commodities to mop up a part of the windfall profits accruing to the exporters due to the devaluation. Export duties were levied on major agricultural export items like tea, coffee, unmanufactured tobacco continued to receive some export subsidies but the extent of these were insignificant. Due to the export promotion activities carried out during the first half of
1960s, India's exports, both in value and quantity terms, showed considerable increase.

The Fourth Plan continued to accord importance to the promotion of India's exports. To facilitate agricultural exports, the Fourth Plan extended the compulsory quality control and grading under Agmark, proposed an Agmark Research and Training Institute to help the adoption of new technological improvement in the marketing of perishable products and impart training on the commercial use of new technologies in various aspects of agro-marketing.

Apart from the measures mentioned in the Fourth Plan, the Government introduced some export initiatives during the late 1960s and early 1970s. This period was marked by the establishment of organizations aimed at providing services to the exporting communities like, Export Promotion Councils, Commodity Boards and the Trade Development Authority (TDA) and Indian Institute of Foreign Trade (IIFT). Most of the agricultural commodities were subject to export regulations, which were often imposed on an ad-hoc basis. Depending upon the domestic production and demand situations, exports of certain commodities...
were banned or were allowed subject to certain quantitative limit or minimum export prices. As a rationale for this the RBI Currency and Finance Report of 1976-77 observed: “Exports of specified items were regulated mainly to provide adequate domestic availability of important necessities or to encourage further domestic processing of certain raw materials.”

A task force on Agricultural Exports, headed by G.V.K. Rao, submitted its report to the Government of India in 1977. In this report the adhocism applied to agricultural trade was criticized. It pointed out that India did not have an independent export policy for agricultural commodities. There was a domestic policy for agricultural commodities and the export policy was a derivative of that domestic policy. The report commented that due to the supremacy given to the domestic availability, agricultural export policy during the 1970s remained “ad-hoc, short-term and mere reaction to situation.” Export promotion policies introduced in the 1960s were pursued during 1970s as well. But as in the 1960s, agricultural commodities did not receive much incentive during this period.
In 1977, the Government of India set up a committee under the chairmanship of Dr. P.C. Alexander, to review the export-import policies and procedures. This committee submitted its report in 1978. The Alexander Committee recognized that export control measures for commodities which are often subject to domestic production fluctuations, had resulted in supply uncertainties and loss of market share. The Alexander Committee recommended that export policy should be framed for a three-year period so that exporters can plan their production and marketing activities under an environment of stable policy system. The committee also recommended the replacement of the licensing system by the tariff system, rationalization of export incentives, elimination of multiplicity of incentives, more liberal access to imports by exporters, co-ordination of different policy instruments and strengthening of institutional infrastructure for export promotion. Most of the recommendations of Alexander Committee were accepted and implemented in the subsequent years.7


The Sixth Five year Plan observed: “A sustained increase in exports over a period of years cannot be achieved in the absence of a
stable policy environment governing exports as well as production for export and production generally. Frequent changes in policies create uncertainty which is detrimental to the establishment of a stable market abroad and to risk-taking inherent in investment decisions. The environment for production also has to be such as to enable enterprising individuals, agencies and corporations to exploit the available opportunities to the full. Except in very special cases, any conflict between objectives must, therefore, be resolved in favour of exports. On a broad review of the current policies, it would appear that maximum attention will need to be given in the coming years to:

(a) Removing the disadvantages which exports suffer because of the restrictions on imports;

(b) Removing obstacles to the expansion of capacity for export;

c) Streamlining the existing cash compensation and other schemes intended to remove the disadvantages suffered by exports on account of taxation and physical controls operating in the economy;

d) Ensuring that Government intervention in the foreign trade policies is such as not to discriminate against exports and
production for export, there is a case for making exporting marginally more profitable than import substitution, in view of the need to diversify export trade which involves capturing new markets abroad and retaining them; and

(e) Maintaining adequate links with technological developments abroad so that our export capability is not hurt by outdated technology.” (Para 7.68)

The Sixth Plan (1980-85) projected an optimistic scenario for the plan period. It pointed out that as India’s share in world exports of agricultural commodities was only about 1 percent, there was scope for increasing exports. It also projected that exports during the plan period were likely to grow at an annual average rate of 9 percent at 1979-80 prices. The plan document aimed at a substantial growth in exports of plantation crops, marine products and other processed food products. The Plan document observed that for commodities of mass consumption such as foodgrains, exports could be considered only after meeting fully the domestic needs. The export projections for the Sixth Plan remained under-fulfilled and during this plan period, India experienced balance of payment problems. Part of the reason for the slow growth was the ongoing
recession during 1980-83 in the developed economies, which restricted the rate of growth of world trade for the first three years of the Plan period. Diminishing competitiveness of some Indian products also contributed to this decline.

The Seventh Plan pointed out that in spite of the export promotion measures taken in the Sixth Plan, the ".....residual discrimination against exports...remains significant, as export incentives generally still do not compare favourably with those extended to production in the market."* In this backdrop in 1984, the Government of India appointed a committee on trade policies under the chairmanship of Abid Hussain with a view to review the trade policies and suggest rationalization and improvements in these policies. The Committee submitted its report in 1985. The Report expressed concern about India's declining share in world exports (from about 2 percent in the 1950s to 1.04 percent in 1960 and to 0.42 percent in 1980) as well as in non-oil world exports (from 0.71 percent in 1970 to 0.55 percent in 1980). The Report pointed out India's inadequate export performance in relation to world trade and also in terms of meeting India's foreign exchange needs. The Report also pointed out that the share of exports in India's GNP varies between 4 to 7 percent and with such a low

*(Paragraph 6.43, Seventh Plan, and Volume 1
ratio; there was no possibility of an export-led growth in India. The Committee suggested that growth-led exports were a more likely scenario for India. The Committee Report recognized that domestic demand has a major influence on India's export. It divided the Indian export basket into four categories according to share of exports in total output and suggested policy measures for each of them. The Table 3.1 summarizes the views of the committee for agricultural products.

**Table 3.1**

*Policy Recommendations for Various Categories of Exports*

<table>
<thead>
<tr>
<th>Category</th>
<th>Type and Agricultural Items belonging to the category</th>
<th>Export Performance between 1972-73 to 1983-84</th>
<th>Policy Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A</td>
<td>Entire or an overwhelming proportion of output is exported (Cashew kernel)</td>
<td>For export promotion, the policies need to focus on stimulating production</td>
<td></td>
</tr>
<tr>
<td>Category B</td>
<td>Large proportion of total Output is exported (20-60 percent) (Tea, coffee, tobacco, castor oil, pepper, cardamom)</td>
<td>Declined</td>
<td>For these commodities, pressure of domestic demand and higher profitability of domestic markets hinder export performance. Policies should ensure that domestic production grows faster than domestic demand and in the short and medium term attention should be given to increase foreign exchange earnings per unit of exportable by increasing the value added before exports.</td>
</tr>
<tr>
<td>Category C</td>
<td>Around 10 percent of total Output is exported (Sugar, oilcakes)</td>
<td>Declined</td>
<td>Sufficient excess capacity exists in this sector. Export oriented units can be thought of.</td>
</tr>
</tbody>
</table>
Improved Policies should be designed to increase relative profitability of exports as there is no threat to domestic consumption even if there is a quantum jump in exports.

The Report proposed rationalization of duty drawback schemes, tax concession on CCS and increased fiscal concessions to increase the relative profitability of exports. The Report also suggested that the real effective exchange rate of rupee should not be allowed to appreciate to ensure competitiveness of Indian exports.

The Seventh five-year-plan did not introduce any major change in the export policy of agricultural commodities. However, it proposed some changes in domestic policies to increase exportable surplus and pointed out:

"A shift from the present practice of setting grower prices of coffee partly with reference to the fluctuating international price could, by providing a more stable real return, lead to steadier average and output growth trends in the future. Investment in tea bushes has been woefully inadequate over the past several years which, together with the fast growing domestic demand, has begun to impinge seriously on the availability for exports. Existing obstacles to more rapid and
sustained expansion of cardamom production, a major export spice, could be removed through provision of better irrigation and a change from practice of leasing land to growers by concerned State Governments for a 25-year period, which discourages investment.”

**Trade Liberalisation of the 1990s:**

The decade of the 1990s saw two significant developments in the Indian economy. The first development related to initiation of economic liberalisation as a part of the economic reforms introduced in 1991. The second was the establishment of the WTO in 1995 and its Agreement on Agricultural (AOA) trade.

Though, trade restrictions on agricultural products were left mostly untouched in the 1991 reform, subsequent trade policy changes gradually lifted restrictions on agricultural products. Export of all agricultural items except a few such as onion, niger seeds, etc. was decanalised. Almost all the export incentive schemes were abolished following the devaluation of the rupee. India faced an unprecedented balance of payments crisis in 1991.
Balance of Payments crisis 1991:

India entered the decade of the 1990s with a bang:

i.) By the end of June 1991 foreign currency reserves had sunk to a mere $975 million-hardly enough to pay two weeks of imports.

ii.) Export growth had turned negative (-1.1%) and foreign commercial lenders had shut the door to India.

iii.) Indian exporters were holding their earnings abroad waiting to take advantage of inevitable devaluation of the rupee.

iv.) NRIs had pulled a billion dollars out of the country in previous nine months.

v.) India’s creditors were knocking at the door.

vi.) India’s first ever default on its international payments appeared imminent.

vii.) Industrial growth had collapsed to -0.6%.

viii.) Inflation was soaring above 16% in August 1991.
ix.) Overall economic growth had plunged to less than 1.3% in 1991-92.

**Crisis the Outcome of:**

The underlying causes of the crisis included both long term and short term factors.

i.) **Long term factors included:**

a) Successive doses of high fiscal deficit in the later half of the 1980s (8.9% of GDP on an average during 1985-90 for Centre and states taken together)

b) Excessive regulation of industry and trade.

c) Foreign trade policies which discouraged exports and fostered high cost import substitution.

d) Growth recourse to external commercial borrowing to finance a large trade deficit.

e) A negative approach to foreign investment.

f) A weakening financial sector.
ii) Immediate factor which triggered this crisis:

A: Gulf-War in August 1990:

This war had serious repercussion on the Indian economy.

(a) It led to the surge in India's oil import bill and cessation of exports to Iraq due to UN trade embargo on that country.

(b) Repatriation of workers from Kuwait and cessation of their remittances.

B: Collapse of the Eastern Block:

The collapse of Eastern block India's major trading partners at that time further aggravated the Balance of payments crisis.

The critical balance of payments situation and the fear of default in discharging international debt obligation led to the realization on the part of the Government of India and the policy makers that the restrictive trade policy is costly and inefficient. It limits growth.

The policy must be replaced by liberal one integrating the Indian economy with the global economy. This will improve the
efficiency, productivity and international compositeness of the Indian economy.

The government which came into power after general election in June 1991 undertook macro stabilization and structural adjustment programme to get over this crisis. Under structural reforms it introduced radical policy reforms in various economic sectors, including trade.

**Key Reforms Pertaining Directly to the External Sector:**

i.) Rationalization of the exchange rate system.

ii.) Liberalization of imports by virtually abolishing import licensing for capital goods, raw materials and intermediates.

iii.) Progressive reduction in the exceptionally high custom duties structure.

iv.) Amendment in the FERA to improve the operating environment for firms with foreign equity and Indian firms operating abroad.
v.) Introduction of new policy to promote participation of Foreign Institutional Investors (FIIs) in the secondary market for Indian stocks.

vi.) Encouragement to portfolio foreign investment through the medium of GDRs and ADRs.

During the first half of 1990s, however agricultural exports were subjected to less reform. Exports of coconut, copra, oilcakes, pulses, paddy, rice bran and vegetables continued to be under licensing. Natural rubber and cottonseed cakes were under quantitative ceilings, exports of a number of other agricultural items were subject to minimum export prices or other quantitative restrictions. Almost all the export incentive schemes were abolished following the devaluation of the rupee.

India signed the Uruguay round Agreement on 15th April, 1994 at Marakesh. This treaty introduced agricultural trade in the WTO for the first time. The overall objective was to provide a framework for the long term reform of agricultural trade. Its Agreement on Agriculture (AOA) contained provisions on three broad areas of trade and agricultural policies viz. (i) market access, (ii) export subsidies, and (iii) domestic support.
It dealt with provision of market access, regulation of domestic and containment of export subsidies.

(i) Providing Market Access:

To provide market access the agreement required that all prevailing non-tariff barriers in agriculture be abolished and converted into equivalent tariff barriers (to provide the same level of protection) and subsequently the tariffs were to be progressively reduced by a simple average of 36 percent by the developed countries and over 6 years (year ending 2000) and by 24 percent by the developing countries over 10 years (year ending 2004). Then least developed countries were exempted from these reduction commitments. In cases, where the bound tariffs were either too high, or tariffication was not done completely, there was a call to maintain current market access by providing a minimum access (quota) equal to 3 percent of domestic consumption of a particular product in the base period 1986-88. This minimum access was to be gradually increased to 5 percent of base period consumption.

(ii) Regulating Domestic Support:

The AOA attempted to put disciplines on domestic support programmes through computation of an aggregate measure of
support (AMS). The AMS consisted of two parts—product specific and non-product specific. The product specific support is computed piece-wise as the difference between domestic support prices (as procurement prices in India) and external reference prices (c.i.f. prices) multiplied by the quantity of production. This is aggregated over the products to get total product specific support. The non-product specific support is the subsidy on various agricultural inputs like fertilizers, electricity, irrigation and credit.

Reduction commitments followed on the base period AMS, if the computed AMS (both product specific and non-product specific) was found to be higher than 5 percent of the total of agricultural product in developed countries and 10 percent for developing countries. A country whose AMS did not exceed this limit was not subject to any reduction commitments. If, on the other hand, the AMS exceeded the de-minimis level, the country was committed to reduce domestic support by 13.3 percent in the case of a developing country over 10 years and 20 percent in the case of a developed country over 6 years.

Domestic support not distorting agricultural trade (or minimal distorting) is exempted from AMS calculation. Such measures of
domestic support have been put into: Green Box, Blue Box and Special and Differential (S&D) Box.

The Green Box measures include assistance given through environmental assistance programmes, services such as research training and extension, marketing information, certain types of rural infrastructure etc. The support under Green Box is excluded from any reduction commitments and is not subject to any upper limits.

Subsidies under Blue Box include direct payments given to farmers in the form of deficiency payment (i.e. the difference in the government's minimum support price and market price paid directly to the farmers in the USA) or payment under production limiting programmes (as in EU). The support is exempted from any reduction commitment but it has an upper limit.

The S & D Box measures include measures taken by developing countries, otherwise subject to reductions, such as investment subsidies and various agricultural inputs subsidies generally available to low income and resource poor producers in a developing country.
Domestic supports distorting international trade have been put under Amber Box. This has to be quantified in accordance with the AMS and removed.

(iii) **Containing Export Subsidies:**

The developed countries were required to reduce the volume of subsidised exports by 21 percent over six years and the budgetary outlay for export subsidies by 36 percent with respect to the base period 1986-90. Developing countries were required to reduce the volume by 10 percent and budgetary outlay by 24 percent over 10 years.

(iv) **Other Agreements Related to Agriculture:**

AOA is directly concerned with agriculture. But there are some other WTO agreements that have a close bearing on agriculture and influence free and fair trade in agriculture. These include:

(a) Agreement on Sanitary and Phyto-Sanitary (SPS) measures.

(b) Agreement on Technical Barriers to Trade (TBT)

(c) TRIPs
The basic purpose of agreement on SPS measures is to safeguard the health of plants, animals and humans against any infection or disease-causing agents, coming into any country with food products being imported from the rest of the world. It also allows countries to fix standard if there is a scientific justification.

Agreement on TBT aims to encourage the use of international standards and calls for national testing and certifying bodies to avoid discrimination against imports.

Agreement on TRIPs covers seven types of intellectual property for protection. As far as agriculture is concerned Article 27.3(b) of the agreement requires members to provide for protection of plant varieties either by patent or by an effective sui generis system or by any combination thereof.

WTO's agreement on agriculture was expected to open up markets for agricultural products and create conducive environment for the trading interests of developing countries including India.

**Eighth and Ninth Five-Year-Plan (1992-97, 1997-2002):**

The Eighth Five Year Plan (1992-97), called for the movement of India's trade policy regime "towards greater openness and to reap the full benefits of international trade." This was sought to be achieved through:
a) a reduction of the “negative” list of imports and exports,
b) a gradual reduction in the level of tariff rates, and
c) Other trade policy reforms.

Some of the important measures initiated to accelerate the growth of agricultural exports during the Eighth Plan included:

(i.) Removal of Minimum Export Price (MEP) on basmati rice, pepper, guargum, orchids and meat of sheep, goat and buffalo,

(ii.) Decanalisation of exports of milk products,

(iii.) Permission to freely export superfine non-basmati rice subject to MEP which was lowered to $200 per tonne,

(iv.) Exports of mustard seeds and rapeseeds against quota,

(v.) Removal of Control on exports of wheat products, and

(vi.) Waiving of Cess on sugar exports and suspension cess on pepper exports.

The Ninth Five Year plan (1997-2002) recognized that a viable external sector is an important component of a successful development strategy and paid considerable attention to the export policy. It observed that “...exports can no longer be viewed merely
as an exogenous variable determined outside the planning system and would have to be planned for in a careful and realistic manner during the Ninth Plan"-(Para 2.168, Ninth Plan). The Ninth Plan, however, pointed out that given the current economic situation, where a policy instrument available to country to regulate foreign trade is declining; the exchange rate has emerged as the major trade policy instrument. The exchange rate not only affects the degree of price competitiveness of domestic tradables in comparison to international markets, but also determines the relative profitability of tradables vis-à-vis non tradables in the domestic economy. According to the plan document, bulk of Indian exports relies principally on price competitiveness and depreciation of the currency is likely to benefit these commodities. To boost exports the Plan suggested the following measures:

1. The fiscal incentives provided to the exporters have remained limited to central taxes. Efforts should be made to involve State Governments to provide incentives through reimbursement of State and local taxes as well.

2. Special efforts and policy measures to reduce transactions costs of foreign trade.
3. Implementation of Electronic Data Interchange (EDI) in a time-bound manner covering export facilitation sectors like banking, transport, insurance, trade information etc.

4. Effective involvement of States in export effort including removal of inter-State barriers/levies for free movement of export goods.

5. Strategic support to the exporting community to upgrade marketing and information skills, standardization of quality and common facilities for research, development and training through budgetary resources.

6. Developing new instruments specifically for export finance and insurance schemes for various tradable commodities.

7. Enhancement and upgradation of export-related infrastructure, such as ports, shipping, airports, etc. and ensuring that the costs associated with these activities are brought at par with international rates.

8. Enhancement and upgradation of overall infrastructural facilities, particularly in respect of power, transport and communication facilities.
Tenth Five-Year-Plan (2002-2007):

The Tenth-Five-Year Plan emphasized the importance of the external sector but recognize that the period of very high growth in world trade was coming to an end. To meet the challenge of a recessionary global economy, the plan advocated that India should accelerate its domestic reforms to create conditions for competitive advantage by domestic and foreign-invested enterprises. The Plan suggested India should announce a policy renouncing the use of export restrictions on agricultural commodities. Domestic shortages should be met by imports but not by imposing export controls. This was the major shift from India's long standing objective of self-reliance in foodgrains. The Tenth five year plan proposed adequate steps to enhance the competitiveness of India's agricultural sector.9

EXIM Policy 2002-07 emphasized the importance of agricultural exports and announced the following policy measures to boost agri-exports:

(i.) Free exportability of all agricultural products except onion and niger seed, export of which were canalized through approved agencies.
(ii.) Removal of procedural restrictions like requirement for registration, packaging, etc.

(iii.) Setting-up of Agri-export zones to enhance international market access and improved infrastructure facilities, and ensure better flow of credit.

(iv.) Assistance for reducing the marketing costs such as transportation, handling and processing of export of selected agricultural commodities.

(v.) Financial assistance for improved packaging, strengthening of quality control mechanism and modernization of processing units.

(vi.) Arranging promotion campaign such as buyer-seller meets and participation in important international fairs and exhibition.10

A new scheme called the Vishesh Krishi Upaj Yojana (Special Agricultural Produce Scheme) for promoting the export of fruits and vegetables, flowers, minor forest produce, and their value added products was introduced in the Foreign Trade Policy 2004-09 which emphasized the importance of agricultural exports and also announced some other policy measures to boost agri-exports like,
funds shall be earmarked under ASIDE (Assistance to States for Infrastructural Development of Export) for development of Agri-Export Zones (AEZ) and Capital goods imported under EPCG shall be permitted to be installed anywhere in the AEZ.\textsuperscript{11}

3.3 **Evolution of Agricultural Import Policy:**

**First and Second Five-Year-Plans: (1951-56, 1956-61)**

The first two Five-Year-Plans were inward-looking in nature and were based on the philosophy of import substitution. Import substitution was not only the favoured development strategy for the planners of that period; it was also necessitated by the foreign exchange shortages. As a consequence, during the period 1951-61, several policies of import control were introduced. Both price based and non-price based import control policies were used. Among the price based policies were tariff and excise duties. Non-price based policies like import licensing, industrial licensing and exchange control policies were the most dominant. The objectives of the import licensing procedure were broadly the following:

a) To control the commodity composition of imports so as to conform to the priority pattern dictated by the economic development strategy.
b) To encourage domestic production of import-substitutes which are essential for economic development.

c) To control end-use of imports.

To reduce the dependence on agricultural imports, particularly food imports, along with import control measures the first two five-year-plans tried encouraging domestic production of agricultural commodities.

During the second five-year-plan, import substitution and import controls failed to have much effect on the pattern and magnitude of agricultural imports. India was still dependent on imports for food and high industrial growth achieved during the second five-year-plan necessitated higher import of industrial inputs like raw cotton. During this period, agricultural import was dominated by foodgrains and raw cotton. There was also the occasional surge of sugar imports.\textsuperscript{12}


The Third Plan, with its larger investment programme and continued priority for the development of industries, projected larger import requirements than the Second Plan. During the late sixties,
it was felt that the first three five-year-plans did not achieve the expected results. 'Urban bias' and neglect of foreign trade were the two major shortcomings of the development strategies followed in these plans. It was also recognized that these plans created a large and diversified industrial base for the country and also initiated a turnaround in agriculture significantly improving the irrigation system. Based on these achievements of the first three five-year-plans, the fourth five-year-plan initiated a new strategy of agricultural development. The main focus of this 'New Agricultural Policy' was towards:

a) A shift in emphasis from major to minor irrigation works.

b) Improved network of credit to the farmers

c) An attempt to significantly alter the input base of agriculture which meant an increase in the rate of fertilizer consumption and more use of commercial sources of energy like electricity and diesel, and

d) Development of more high yielding varieties of seeds.\(^\text{13}\)

This package ushered in an era of ‘Green Revolution’ in Indian agriculture, which increased the output and monetization of Indian
agriculture. During this period, the Government of India also
introduced price support policy for a number of crops which led to
price stabilization in the domestic market and induced more
production. The dominance of wheat in India's import basket, the
agricultural imports also declined significantly.

Fifth Five-Year-Plan: (1975-1980)

In Fifth Five-Year-Plan low international commodity prices
prompted the government to import foodgrains not only to meet
current domestic demand but also to replenish its dwindling buffer
stocks. Due to this reason, inspite of good agricultural production,
food import was very high during 1975-77. During the late 1970s
there was a change in India's import composition of agricultural
goods. The success of Green Revolution helped India to reduce its
dependence on food imports. The year 1977-78 was a turnaround
year for India as from this year importance of cereal imports
decreased considerably.

Sixth and Seventh Five-Year-Plan: (1980-85 and 1985-90)

Improved Balance of Payments (BOP) positions during the late
1970s enabled the policymakers to allow imports of some non-
essential agricultural goods. The Alexander Committee
recommended that some consumer goods, including a few agricultural items, should be made freely importable and hence should be put on the OGL list. The EXIM Policy announced in 1978 introduced some major changes in the import policy. The policy took a more liberal approach towards imports and in this EXIM policy free licensing was replaced by OGL.

Following the Alexander Committee, the Abid Hussain Committee (1984) and the Narsimham Committee (1985) stressed the need to move away from a discretionary system of quantitative import controls to a system based on tariffs. The Abid Hussain Committee Report states that the objective of trade policy should be to strike a balance between protection on the one hand and competition and access on the other. In the process of rationalization of the import policy, tariffs should be lower for goods on OGL because this list essentially consists of items not produced within the country.

The Narsimham Committee Report concentrated on the substitution of physical controls by price controls and stated that trade reforms should contain measures where products of all new industries, competitive industries and those not produced within the
country should be protected only by tariffs, meaning that all such products would be on OGL.

In 1985, following these recommendations the Government of India took a number of policy measures towards eventual removal of import licensing from all imports, except consumer goods and also proposed simplification of the complex tariff structure. QRs were gradually removed along with expansion in the open general license (OGL) list of imports.\textsuperscript{14} Another significant development of the eighties was declining importance of raw cotton imports in India. Traditionally raw cottons used to be one of India's most important agricultural imports.

During the 1980s there was a trend if moving away from five-year-plans for policy formulations. The recommendations of the high-powered committees like the Alexander Committee, the Abid Hussain Committee and the Narasimham Committee were implemented either through the EXIM policies or through the union budgets. This trend continued during the 1990s and the importance of five-year-plans in trade policy formulation gradually became marginal. This trend is consistent with the gradual relaxation in the
rigorous planning process and in general more liberalisation in the economic policy formation.

**Import Policy of Agriculture in the 1990s.**

The Second phase of reforms of the trade policy was initiated in 1991. The trade reform aimed at eliminating restrictive licensing arrangement of most imports, reducing QRs on imports and exports, reducing basic tariffs substantially and removing export subsidies. In 1991, import licensing for all products, except those on the banned, restricted, and the state monopoly lists was abolished so that any item not on the lists could be freely imported.  

**Import Liberalisation:**

There exists a strong body of opinion in India that the trajectory of agricultural growth since 1991 is largely determined by increased integration with the world economy, also termed 'globalization'. In particular it is held that import penetration following India's accession to WTO norms is the main route by which trade has affected domestic production adversely.

The trade liberalisation drive of 1991 left most agricultural imports outside its ambit. Even after signing the Uruguay Round
Agreement in 1994, India maintained Quantitative Restrictions on a large number of agricultural items. For example, between 1991 and 1997, the Indian Government removed import quotas from 15 percent of agricultural products in the negative import list and about 80 percent internationally traded agricultural and livestock products were still under some form of import restrictions. Between 1997 and 1999, India lifted quantitative restrictions from 620 consumer products. In December 1999, US and Indian negotiations reached agreement on India’s removal of all remaining quantitative restrictions on consumer goods and agricultural product imports by 2001. According to this agreement, QRs on almost all products were eliminated in two phases by April 1, 2001. India, however, increased tariffs in many cases in which QRs were removed. In 2001, India also introduced tariff quotas on several products including some edible oils, maize and milk powder.

The Indian import policy reveals that leaving aside some of the restrictive tariff lines, India has unilaterally gone ahead to reduce tariff barriers much below the bound rates of duty under URA. The biggest agricultural commodities like rice and milk are committed at quite low levels even after duties on these were raised from earlier zero percent. In the budget from 2001-02, the duty was raised to 70
percent from the current rate of 35 to 49 percent. Despite the duty hike in 2002, agricultural imports into the country have raised at fast rate after the dismantling of the QRs. It became increasingly evident in the lead-up to the long drawn Uruguay Round Negotiations that the causes of disarray in world agriculture went beyond import access problems, the traditional focus of GATT Negotiations. It was felt that the disciplines of GATT, which traditionally focussed only on import access problems, should be extended to measures affecting trade in agriculture, including domestic agricultural policies and the subsidisation of agricultural exports.  

3.4 Concluding Remarks:

To conclude India has followed a policy of taking small steps at a time. As a result, the changes that have occurred in agri-trade have been very gradual and steady. Till the mid-1970s, agri-trade has important implications for the Balance of Trade situations. At times, agri-imports accounted for around 25 percent of total imports and agri-exports were around 40 percent of total exports. Over the years, this situation has changed. The dual phenomenon of the foreign exchange constraint becoming much less stringent on the one
hand, and on the other hand a decreasing role of agri-trade form the foreign exchange availability perspective is witnessed. This has given more leeway to the policy makers in deciding the agri-trade policy.

Main objective in field of the agricultural policy and agri-trade policy has been to balance the demands of the consumers and the farmers on the one hand; and improve the food security situation on the other hand. Under the pre-1991 policy configuration the focus was on increasing the production by making institutional, technological and infrastructural changes. In the post-1991 period the focus shifted to comparative advantage.
REFERENCES:


7. Ibid. p. 78


