Chapter – 1
Chapter - I

Introduction

1.1 The Problem:

The economic reforms in India introduced since 1991 as a consequence of economic crisis and the need to comply with the commitments of the World Trade Organisation (WTO) have effected a significant change in India’s attitude towards agricultural trade. It has come to be regarded as something which should be given primary importance so that India could emerge as a significant player in the international trade in agri-products. Accordingly, the plan for the development of agricultural trade has come to occupy a pivotal importance in the overall development strategy of the Indian economy. Soon after independence and upto the mid-1990s, agriculture remained largely a protected sector in the Indian economy. During this period, the main policy objective was to ensure stability of domestic prices of agricultural items in India. The policy in the case of foodgrains mainly focussed on import substitution and attaining self-sufficiency. In the case of other agricultural products, the difference between actual domestic production and estimated domestic consumption determined the surplus available for exports.
Agricultural exports were regulated by the government through a variety of measures like export taxes, export ceilings, canalisation and export prohibition. Agricultural exports were also monitored on an ad hoc and short term basis to keep the domestic supply of agricultural goods stable. The export assistance provided to agriculture was meager and ineffective. All these led to a definite bias against agricultural exports in India in the pre-reform period.

On the import front most agricultural products during the period under review were under severe import restrictions. Import of essential agricultural products or wage goods like foodgrains and edible oil was allowed to meet the domestic demand without putting too much pressure on domestic prices. Imports of some industrial inputs like raw jute, raw cotton etc. was also allowed. The decisions regarding the value and volume of imports were taken by the government and imports were mostly done through the canalising agencies. Import of other agricultural products was restricted through both price-based and non-price based policies. The price-based policies included tariffs, excise and export taxes, while non-price based policies consisted of exchange control, licensing canalisation, quantitative restrictions and outright prohibition. The non-price based policies dominated the scene and among them
canalisation through state trading organizations was the most prominent means of import control in India. Tariff played a very limited role in controlling agricultural imports. Further it was imposed in a manner that it remained nil or low on wage goods, moderate on intermediate goods and high on consumer items. This can be seen from Table 1.1 given below:

### Table 1.1

*Average Tariff Rates for Selected Commodities*

<table>
<thead>
<tr>
<th>Commodities</th>
<th>1963</th>
<th>1968</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foodgrains</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Fruits and Vegetables</td>
<td>40.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Sugar</td>
<td>40.00</td>
<td>50.00</td>
</tr>
<tr>
<td>Milk products</td>
<td>20.40</td>
<td>25.00</td>
</tr>
<tr>
<td>Beverages and soft drinks</td>
<td>51.00</td>
<td>77.67</td>
</tr>
<tr>
<td>Biscuits and confectionary</td>
<td>75.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Cashewnut processed</td>
<td>45.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Cotton</td>
<td>26.32</td>
<td>1.62</td>
</tr>
<tr>
<td></td>
<td>plus 10 paisa per Kg</td>
<td></td>
</tr>
<tr>
<td>Jute</td>
<td>0.00</td>
<td>27.50</td>
</tr>
<tr>
<td>Raw Silk</td>
<td>47.01</td>
<td>40.00</td>
</tr>
<tr>
<td></td>
<td>plus Rs 8.80 per Kg</td>
<td></td>
</tr>
<tr>
<td>Vegetable oils</td>
<td>29.30</td>
<td>20.00</td>
</tr>
</tbody>
</table>


Thus from independence in 1947 until the mid-1990s India maintained a strong control over imports and exports of agricultural products in order to stabilise their domestic prices and protect employment of persons engaged in the agricultural sector.
Agricultural trade also remained neglected due to the perception that in view of the fairly protectionist policies being pursued in the developed countries it would not be possible for Indian agricultural products to enter their markets in any significant way. As is well known, until 1994, agriculture remained outside of the General Agreement on Tariffs and Trade (GATT) purview. The original GATT 1947 applied to trade in agriculture also, but it allowed various exceptions to the rules on non-tariff measures and subsidies. It allowed countries to use subsidies on domestic production and exports of primary agricultural products. Imports were restricted under certain conditions. This resulted in a proliferation of impediments to world agricultural trade, including by means of import bans, quotas, setting the maximum level of imports, minimum import prices etc. Most of the developed countries of the world took advantage of it. They gave high subsidies to their farmers to produce more and remain on farms. This in turn pushed up domestic prices of agricultural products far above the world price level. The high domestic price was maintained by denying market access to price-competitive imports of other efficient producers through quotas and other non-tariff barriers (NTBs). The over production generated by high domestic prices was sold in world
markets with export subsidies which brought the price down to the world level hurting the competitive exporters. All this distorted trade in agricultural goods and the developing countries including India suffered adversely.

In the decade of the 1990s two significant developments took place in India which changed the attitude of our planners towards agricultural trade. The first development was the initiation of economic liberalisation as part of the economic reforms initiated in 1991, while the second was the inclusion of agricultural trade as one of the areas in the WTO in 1995. India faced an unprecedented balance of payments crisis in 1991. By the end of June 1991, the country’s foreign exchange reserves had sunk to a level of mere $975 million. Export growth had turned negative and foreign commercial lenders had shut the door to India. Indian exporters were holding their earnings abroad waiting to take advantage of inevitable devaluation. Non-resident Indians (NRIs) had pulled a billion dollars out of the country in previous nine months. India’s creditors were knocking at the door and India’s first ever default on its international payments appeared imminent. In response to this crisis India initiated reforms in the trade policy along with other sectors. The key reforms pertaining directly to the external sector
related to the rationalization of exchange rate, liberalisation of imports, progressive reduction in the exceptionally high custom duties structure and promotion of exports.

The liberalisation process got further impetus in 1995 when India signed the WTO agreement. This agreement was unique in the sense that it brought agriculture fully for the first time under the WTO rules. The Agreement on Agriculture (AOA) set agriculture and agricultural trade on a more predictable basis. It mainly focussed on market access, domestic support commitments, export subsidy commitments, Sanitary and Phytosanitary measures (SPS).

On the market access side, the agreement on agriculture intended a switch from a situation of Non-tariff barriers (NTBs) into equivalent tariff barriers. Moreover, the tariff rates were to be bound, i.e., the member countries were expected to make a commitment not to increase the tariff levels on particular product beyond the negotiated rate. A reduction in the base tariff structure was envisaged as under: by 24 percent over ten years in the case of developing countries like India and by 36 percent over 6 years for the developed countries. The least developed countries were exempted from this reduction commitment. 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 year 1986-88. This minimum access was to be gradually increased to 5 percent of base period consumption by the end of the adjustment period. The main objective of tariffication was to bring transparency to the protection level granted in various countries as an advance preparation for progressive liberalization of world agricultural trade.

In the area of export subsidy, subsidies were subject to reduction commitments. The exports subsidy commitment was either in the form of budgetary outlay reduction commitments or in the form of export quantity reduction commitments, although several kinds of direct payments were exempted. Direct export subsidies were to be reduced by 36 percent below the 1986-88 level in the case of developed countries over the implementation period of six years. In the case of developing countries, commitments involved a reduction of direct export subsidies by 24 percent. The least developed countries were however not subjected to any reduction commitment. The quantity of subsidized export by the developed countries was to be reduced by 21 percent over the implementation period of six years and by 14 percent in the case of developing
countries. Article 8 of AOA expected each member to provide only those subsidies which were more in conformity with the Agreement and with the commitments as specified in that Member’s Schedule. Disciplines in the area of export subsidy required developing countries to reduce, over a period of 10 years, the volume of subsidized exports by 14 percent in volume terms and 24 percent in terms of budgetary outlays. Also, developing countries were free to provide certain subsidies such as subsiding of export marketing costs, internal and international transport and freight charges etc.

Next provision of WTO related to domestic support which aimed largely at the developed economies where the level of such support was extremely high. The domestic support to agriculture was quantified through a measure called the Aggregate Measure of Support (AMS). A country, whose product specific and non-product specific AMS did not exceed 5 percent of total value of agricultural products in the case of developed countries and 10 percent for developing countries, was not subject to any reduction commitments. If, on the other hand, the AMS exceed the de-minimise level, the country was committed to reduce domestic support by 20 percent in the case of developed countries over a period of six years and by 13.3 percent in the case of developing countries in ten years taking 1986-
88 average prices as the base. The governments of the signatory
countries, were however, allowed to provide safeguards in case of
falling prices or surge in imports hurt the interest of their farmers.

The AOA thus sought to establish a fair and market oriented
system through the process of negotiations of commitments on
support and protection with the help of operational rules and
disciplines in the areas of market access, domestic support and
export subsidies. It was envisaged that a progressive reduction in
agricultural support and protection over an agreed period of time
would result in correcting distortions in world agricultural markets
resulting in greater improvement in opportunities for realization of
market access for member countries particularly the less developed
countries.

The two developments were expected to make significant
impact on India’s agricultural trade. It was believed that India has
tremendous export potential in agricultural due to vast diversity of
products and varied agro climatic conditions. Globalisation and
liberalisation would expand the market for Indian farmers.
Similarly, with the establishment of the WTO in 1995 it was
anticipated that the AOA will give a big push to trade liberalisation
in agriculture and benefit all trading partners. With the agricultural
sector getting included into the mainstream of WTO, India expected a lot in terms of market access for these products in the developed countries of the world.

1.2 Objectives of the Study:

In the above background our objective in this study is primarily to examine the influence of opening up of the agricultural sector and its inclusion in the WTO on India's trade of agricultural goods over the period 1991-92 to 2005-06. Within the framework of this broad objective, the specific objectives set out for the study are as follows:

(i.) To study as to how have India's trade policies in agricultural sector shaped over the years 1991-92 to 2005-06.

(ii.) To examine the impact of India's liberalisation efforts since 1991 and joining the WTO in 1995 on her agricultural exports and imports.

(iii.) To identify factors that constrains India's agricultural trade and prevents them from settling down to a trend.

(iv.) To suggest an appropriate strategy which should be adopted to realize the full potential of agri-trade in the years to come.

The study is significant due to the initiation of the process of economic reforms in India since 1991 focussing primarily on
liberalisation of the external trade regime. Trade in agricultural products has been liberalised so that the comparative advantage which the country enjoys in the production of agricultural commodities can be translated into trade opportunities. India's signing of GATT agreement in 1994 and joining of WTO in 1995 had created great expectation that India would succeed in penetrating into the world market more effectively. This would contribute to the stability of export earnings and diversification of export basket. A study that seeks to assess as to how far these expectations have been realised may be considered significant from the point of view of developing countries in general and for India in particular. To the extent that India's experience in this respect is any guide, this study will also be helpful to the similarly placed countries.

1.3 Hypotheses of the Study:

The study tests the following hypotheses:

(i) Despite the liberalisation of agricultural trade in India since 1991 and the so-called improvement in the world agricultural trade environment under the WTO since 1995, there has been limited dynamism in India's agricultural trade over the period 1991-92 to 2005-06.
(ii) The liberalisation of agricultural imports both by lowering tariff and dismantling quantitative restrictions (QRs) on them has not resulted in any significant surge of agricultural imports.

(iii) India's trade efforts in the field of agriculture have been constrained both by external and internal factors.

1.4 Data and Methodology:

The study is mainly based on secondary data, which include publications of various authors as well as the publications of the government. Other sources of data include publications of Economic Intelligence Service, Mumbai, the RBI and other sundry publications. Due acknowledgement has been given to them at appropriate places.

The study has as its period of reference the years from 1991-92 to 2005-06. This period has witnessed marked changes in India's attitude and policy towards foreign trade.

The methodology used is simple, analytical and involves calculations of percentages, arithmetical averages year-to-year and compound annual growth rates. Yearly growth rates are computed as under:
\[ G_t = \frac{Y_t - Y_{t-1}}{Y_{t-1}} \times 100 \]

Where,

- \( G_t \) = Growth rate for period \( t \)
- \( Y_t \) = Value of the Variable in period \( t \)
- \( Y_{t-1} \) = Value of the Variable in period \( t-1 \)

The compound annual rate of growth has been worked out by estimating the function:

\[ Y = AB^t \]

Where,

- \( Y \) = Value of exports of commodity
- \( B \) = Growth rate or \( (B-1) \times 100 \)
- \( t \) = time variable

The significance of the growth rates has been tested by applying \( t \)-test and estimating \( R^2 \).

1.5 Plan of the Study:

The study is divided into 6 chapters, including the present one. **Chapter 2** is devoted to review of literature. **Chapter 3** gives a brief account of the Indian agriculture trade policy as it has evolved over the period since independence. **Chapter 4** gives an account of India's agricultural trade performance over the years 1991-92 to 2005-06 and evaluates the same on different criteria. **Chapter 5** analyses the
problems and prospects of agricultural trade and suggest a strategy to be adopted to realize the full potential of agricultural trade in future. Finally Chapter 6 summarizes the study and derives conclusions.