CHAPTER- 1

INTRODUCTION

After decades of pervasive restrictions on both international and internal trade, India started to implement some limited policy reforms in the 1980s, and sharply accelerated the reform process in the early 1990s. Major trade policy liberalization and macroeconomic reforms have transformed the economic and political environment and the country has clearly embraced economic globalization. In 1991, the Central Govt. ushered in economic reforms in the country. One of the basic aims of the reforms process was to progressively integrate the Indian economy with the rest of the world. The process called for progressive liberalization of controls and elimination of discretionary licensing for imports and exports. Agriculture was not covered in the trade liberalisation measures taken during 1991 and 1992, apart from relaxation of some export controls. The pace of the reform of external policies in agriculture picked up in 1993-94. Since then significant measures have been taken to liberalise agricultural trade policy. On the positive side, the reforms have improved terms of trade for agriculture and opened up new opportunities such as benefits from trade and specialization, widening choices in new technology including biotechnology, increase in private investment in irrigation and marketing infrastructure like storage and transport.

Following macro economic reforms introduced in the Indian economy in the early 1990s, and the reforms in the multilateral trading order brought about in the wake of GATT negotiations and setting up of WTO, the Indian agriculture has entered in to the phase of globalization and diversification. It is expected that the combined effect of the reforms in the domestic policies and international trade reforms would result in a much larger integration of the Indian economy with the rest of the world, and such a scenario would bring about substantial benefits to the Indian farmers. The reforms undertaken so far have however failed to bring about the expected gains to Indian farmers. The process of reforms is still continuing and it is hoped that once the negotiations on reforms conclude and the envisaged reforms are implemented in letter and spirit, the gains to Indian agriculture would be positive and substantial.
To realize the expected gains from trade liberalization, apart from improvement in infrastructure, Indian agriculture would need to become more competitive. The recent deceleration of growth in Indian agriculture—both in production as well as in crop productivity—has however been a cause of worry.

It is viewed that protection to industry in the form of import substitution policies like tight import controls and high import duties have hurt the agriculture till 1991. Disprotection to industry since 1991 was supposed to correct this bias and increase terms of trade for agriculture. “This would create a potentially more profitable agriculture, which would be able to bear the economic costs of technological modernization and expansion” (Manmohan Singh, 1995, p.2).

Agriculture continues to be the mainstay of the Indian economy. At around 26.8%, agriculture and allied activities continue to be the single largest contributor to the gross domestic product (GDP). The dominance of the sector is even greater, in terms of employment as it employs two-third of the country's workforce. Several major Indian industries, such as sugar, textiles, jute, food processing, and milk and milk processing, depend on agriculture. On account of its backward and forward linkages with other economic sectors, changes in agricultural performance have a multiplier effect on the entire economy. Its performance is therefore crucial in the task of reduction and eventual elimination of poverty in India. Contribution of agricultural growth to overall progress has been widespread. Increased productivity has helped to feed the poor, enhanced farm income and provided opportunities for both direct and indirect employment. The success of India’s agriculture is attributed to a series of steps. Agriculture sector in India has responded positively to the launching of macro economic reforms in 1991. With liberalization of exchange rate, the terms of trade for agriculture have shown a significant improvement. Agricultural exports rose from $3.2 billion in 1991-92 to $6.86 billion in 1996-97 but thereafter it declined (Ministry of Agriculture). In contrast to 97 percent growth in India’s exports during 1996-97 to 2003-04, agri-exports registered declining trend from 1996-97 to 1999-2000. For the first time since independence India has become a net exporter of food grains (Eco Survey).
Trade reforms are expected to have positive impact on agriculture. There has been significant increase in agricultural exports after economic reforms were initiated. The economy wide reforms seem to have benefited agriculture because of increasing business transactions between agriculture and rest of the economy over time (Mishra and Rao, 2003). Trade liberalization in agriculture has been faster towards the end of 1990s in tune with WTO agreements.

For India, the period since 1991 has been characterised by substantial changes in economic environment both domestically and externally. Economic environment in India has undergone qualitative changes as the import substitution inward oriented development strategy has been replaced with export promotion outward oriented strategy with implementation of economic reforms in every sector of economy.

Despite being an agrarian economy, where the agricultural sector provides employment to approximately 60 per cent of the population and contributes 25 per cent to the GDP of the country, India has remained a marginal player in world agricultural trade. Currently, it has a share of less than 1 per cent of the world trade in agriculture. India has made impressive strides on the agricultural front during the last three decades. Agriculture is one of the most distorted sectors in international trade, often characterised by high levels of import tariffs, domestic subsidies and export subsidies in the developed countries and, by quantitative restrictions and import tariffs in the developing countries. The current impasse in the multilateral trade negotiations at the World Trade Organization (WTO) has once again underlined the need to understand the rationale underlying the protectionist interventions by national governments in the developed countries and their implications for developing countries, in order to find an informed solution that is agreeable to all the countries.

India is a founder member of the World Trade Organization (WTO) and is thus committed in moving in the direction of liberalization of trade in agricultural commodities. Quantitative restrictions on imports are being phased out and exports are also being liberalized. Both agricultural exports as well as imports are now permitted through private trade, except for a few commodities. India’s economic reform since 1991 has been catalyst in shaping the performance of the economy. No doubt the economy has been brought to a higher growth trajectory, emerged as one of the fastest growing economies in the world and minimized many of the apparent
inefficiencies that were persistent before the reform; however, it is overwhelmed by various socioeconomic problems and there are new challenges in the process and backlashes in various areas including agriculture.

India had undergone structural changes in policies from import substitution regime to free market regime in the early 1990s. It has been two decades since India liberalised its policies. Therefore, it is now reasonable to review the performance of India’s economy during this period, and look at the future challenges.

The initiation of economic reforms in India in 1991 brought about major changes in the macroeconomic policy framework of the planned economy that existed in India during 1950-51 to 1990-91. Although no direct reference was made to agriculture, it was argued that the new macroeconomic policy framework, in particular, changes in exchange and trade policy, devaluation of the currency, gradual dismantling of the industrial licensing system and reduction in industrial protection would benefit tradable agriculture by ending discrimination against it and by turning the terms of trade in its favour. This, in turn, was supposed to promote exports leading to rapid agricultural growth.

But despite these changes in the macroeconomic policy framework and trade liberalisation, the agricultural sector in India neither experienced any significant growth subsequent to the initiation of economic reforms in 1991 nor did it derive the expected benefits from trade liberalisation. As a matter of fact, when compared with the immediate pre-liberalisation period (1980-83 to 1990-93), agricultural growth in India recorded a visible deceleration during the post-liberalisation period (1990-93 to 2003-06).

Liberalisation in external trade was one of the main packages of the New Economic Reforms in 1991. Though agriculture was not vastly covered under these policies, the impact of other policy measures towards this sector cannot be neglected (Rao, 1995). It is seen earlier that agriculture has not remained unaffected by the reform measures in the country, as the indirect impacts of liberalisation of the economy in general, on agriculture is far more important than the impacts of liberalisation measures directly affecting this sector (Parikh, et.al, 1995). In addition, there were measures towards
liberalisation in external trade in agriculture from mid nineties, to meet the internal requirements, and in the late nineties, to meet the requirements under the WTO. These measures have direct impact on trade in agriculture. Thus, given the nature of liberalisation and that of agriculture in India, the impact of liberalization policies at different phases, on different agricultural commodities would be quite varied. The impact of such changes would also be felt at a macro level on related variables like the trade balance, the terms of trade, the level of prices and growth in agriculture and in the economy. Thus analysing the implications of liberalisation measures for agricultural sector and the economy in general, are relevant in this context.

The reasons for this deceleration need to be carefully analysed. The linkage between liberalization, exports and economic growth are important for policy making and thus there is a need to identify the causes of export instability in the agricultural & allied sectors. There is lot of anxiety, interest and apprehension about the impact that trade liberalization may have on producers, consumers and the economy. The present study is an attempt to analyze the impact of trade liberalization on selected commodities and it reviews production, marketing and trade-related policy concerning these commodities. It also discusses the strategy and prospects of trade liberalization to meet WTO obligations. The study focuses on four crops, namely rice, coffee, tea, cotton and oil meal.

Of these, rice is the most important for food security of the country as it constitutes 44% of total food grains consumption. Rice is also the most important crop for farmers. It occupies 23% of the gross sown area of India, which is the highest among all the crops grown in the country. Traditionally, India used to export only Basmati rice but since 1991/92 non- Basmati rice has emerged as a significant export crop.

Quite a few researchers have tried to study the impact of economic liberalisation on Indian agriculture but the allied sector is least focused. Besides, the studies are not done as a comparison of a post and pre reform period.

The present study analyses the impact of economic reforms on the levels and growth of exports of the agricultural & allied commodities in the pre & post reform period. The main components of agricultural output – area growth, yield growth and
production growth are also analysed with a view to identifying the chief sources of growth in each period. Attempts have also been made to measure the export instability and determine which of the selected commodity contributes excessively to the export instability. Regressions have been run with value of exports as dependent variable, to determine the factors for demand & supply of exports.

With the above objectives, the study is presented into 8 chapters which are organized as follows:

**Chapter 1** is the introductory chapter which provides the brief overview of the complete work besides the introduction to the topic. It gives the framework in which the work has been fitted. In other words, it summarizes the complete work and acts as an overview of the thesis.

**Chapter 2** is the conceptual framework which is concerned with the objectives scope and methodology of the study. It includes sources of data, detailed descriptions of the tools and techniques used to fulfill the predefined objectives. It also gives a comprehensive literature review of similar works in this area which have used same tools and the results obtained thereon. The formulas are clearly defined and the basis of their selection is also mentioned in the chapter. This chapter can be called a toolbox of the thesis.

**Chapter 3** is an exhaustive review of literature, which provides a basis and perspective to the study and rationalizes the adopted approaches. The literature is divided into various heads so as to identify similar works in a specific area.

**Chapter 4** provides a theoretical overview of the Indian agricultural sector in the pre and post reform period and also provides details of various government policies related to liberalisation with special reference to agricultural exports. The chapter also discusses India’s position in the world in terms of output and trade, which is supported by tables and figures for a complete analytical view. The specific policies undertaken for the selected commodities are also discussed.
**Chapter 5** provides a detailed analysis of the growth, concentration and instability of Coffee, Tea and Tobacco. These three commodities are the important items of India’s total exports as well as in the exports of agricultural and allied commodities. Coffee, Tea and Tobacco are also the important commercial crops of the country. The chapter provides an analysis of the growth trends in the exports of the commodity and also its area, production etc., in the pre and post reform period. It also studies the fluctuations in these factors (exports, area yield etc.) during the pre reform and the post reform period. The findings are presented in the tabular as well as graphical form for better analysis. The contribution of each commodity to the instability in the total exports of Agricultural & Allied commodities is also measured.

**Chapter 6** contains the analysis of growth, concentration and instability of Rice, Cotton and Oil meal. Rice and Cotton are the traditional items of India’s exports and had always been an important part in the export policy making. Oilmeal are included in the top ten items of export from India. Thus a separate chapter is designed for them. A detailed analysis of the exports of these commodities during the pre reform and the post reform period has been made in this chapter. A comparison of both the periods is made to arrive at certain conclusions. The chapter also talks of the fluctuations and instability in the exports of the three commodities. It also shows the contribution of the selected commodity to the instability in the total exports of Agricultural & Allied commodities during the period of study. Besides this, the chapter also provides the effect of change in the factors like area, production, yield etc., on the exports of Cotton, Rice and Oil meal. This chapter also makes use of tables and graphs for presentation and analysis.

**Chapter 7** is another important chapter which focuses on the factors determining the demand & supply of exports of selected agricultural commodities, traded by India. The chapter focuses on four of the selected commodities *viz.*, Coffee, Tobacco, Rice and Cotton. A model is developed using OLS regression to identify the significant determinants of export of these commodities. The chapter also provides an extensive literature review on similar kind of studies and using the similar approach. Model is developed for each commodity separately and then final conclusion is made on the price and income elasticities of these commodities. The chapter provides basis for
further forecasting purposes and policy making with respect to individual commodities.

Chapter 8 is the concluding chapter which presents the major conclusion of the study and also discusses the policy implications in this area, for the Indian economy. It gives a brief conclusion of all the chapters of the thesis and then a concluding remark on the complete study which can be termed as the substitute of the whole work.