

TRADE LIBERALIZATION AND ITS IMPACT ON AGRICULTURE TRADE IN INDIA

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ABSTRACT

The purpose behind the study is to only highlight various trends that took place in the agricultural exports after liberalization. The paper analyses the changing trend in the traditional export item after liberalization. The paper also analyse the trends in exports of food grain and cotton. The study is entirely based on secondary data which is analysed with simple excel tools. The study has shown that after the agricultural sector was opened up fully in 1995 the exports of food grain has risen whereas the exports cotton has declined after mid 90's when the prices of cotton fell in the international market but with the Bt cotton the exports have started rising 2005 onwards.

KEYWORDS: Agriculture, Agreement on Agriculture, Liberalization, Export.

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INTRODUCTION

It should not come as a surprise if i start this paper by asserting that Agriculture in India is going through a crises and no crises in any world is greater than the crises in which lives are being lost. The nature of the crises is such that both internal as well as external forces play a role after we integrated with the world economy. Opportunity and decision making in an open economy is different from that of a closed one, for example imagine an outsider determining the family decisions we take at home. And opening up of agriculture is not same as opening up of trade in other sectors because of the simple reason that agriculture in India is not just a means to earn a livelihood but it is like a religion, which still accounts more than half of the total population being dependent on it. What is a matter of worry is more and more farmer are inclined towards moving out of the Agriculture the NSSO survey in 2003 revealed that if given a choice 42 per cent of our farmers would quit farming .

This paper deals with Trade liberalization in Agriculture where in initial part of the paper a brief overview of the theory regarding trade is given.

The paper is divided into following four sections dealing with specific questions as follow;

Section 1 Overview of the Trends in Agriculture trade after the trade was liberalized in 1991.

Section 2 Discuss the main provisions of Agreement and gives a flash view of the unfair trade practices used and its impact on Agriculture trade

Section 3 This section highlights the trends in Food grain exports after liberalization

Section 4 This section briefly discusses the export trend in cotton since liberalization.

METHODOLOGY AND DATA SOURCE

Simple excel tool is used to analyse the data and underlying trade theories are also used. Data is collected from Agriculture statistics at a glance, Economic survey various issues and OECD statistics.

Opening up our economy to the foreign economies was not a decision made by choice. It all started from the BOP crises that we faced, then asking for the loan and in turn asking for the conditionalities being imposed by IMF and World Bank. Then comes the era of 'neo liberal' policies in 1991, when trade was opened up, those in support of this liberalization were of the view that once we will open up to the world economy, trade will rise and the domestic farmers will get the benefit. But the only change in Agriculture came when the WTO came into being in 1995 with a specific Agreement dealing with agriculture known as AOA (Agreement on Agriculture). This agreement had a western bias inherent in it where even after meeting all the norm under AOA the 'Domestic Support' of developed economies was still rising they were only shifting from Amber box to Green and Blue box, high support given to the farmers of western economies makes our exports uncompetitive in the world market plus also increases the flow of cheap imports (Pal, 2002).

Integration with world economy also changed the cropping pattern from food crops towards the cash crop which by its very nature is not suitable to be grown under any given climatic conditions plus the cash crops also depends on more monetized input and irrigation and thus the demand for credit was rising but with no upcoming credit supply where the farmers are forced to turn towards the informal lenders and thus exploited and harassed (Gosh, 2004). Once trade is opened the Price fluctuation determine the pattern of cropping plus opening up also has implication for food security on which Patnaik (1996), has commented on this by showing a negative relationship between Exports and net Per capita food availability.

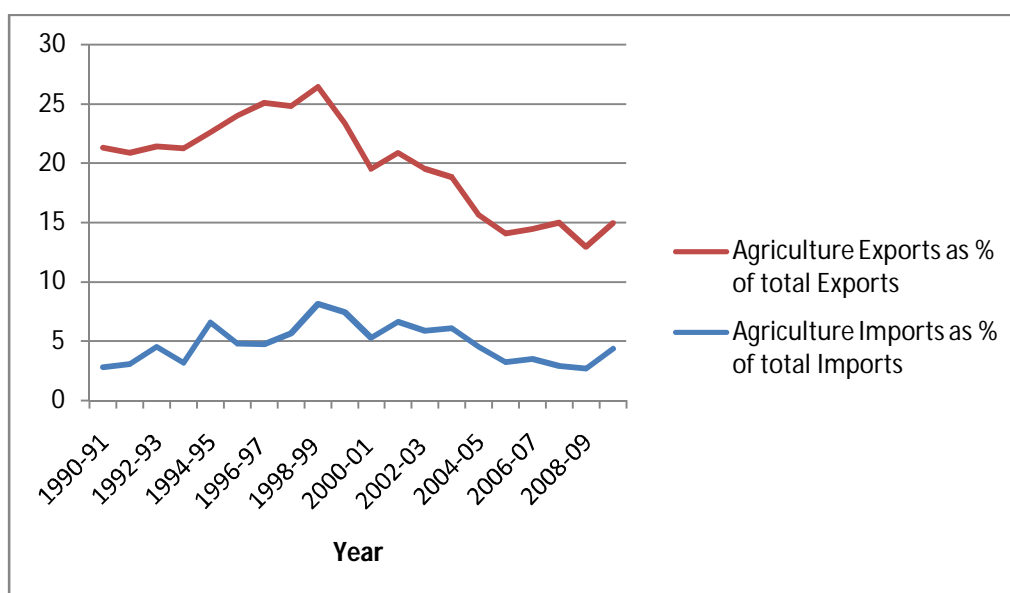
At present scenario the era of opening up is also complemented with rising food price inflation as discussed by many.

OVERVIEW OF THE TRENDS IN AGRICULTURE TRADE AFTER THE TRADE WAS LIBERALIZED IN 1991

The Figure 1 shows the per cent of the agriculture exports and imports as per cent of the total exports and imports. When the trade was liberalised the agrarian exports have shown a rise in the year 1996-97, agrarian exports stood at 20 per cent of the total exports and after reaching its peak it declined to 14 per cent in 2000-01 and further declined to 11 per cent in 2006-07 with only marginal rise in 2007-08 and then showing decline.

On the other hand the agriculture Imports as per cent of total imports after showing a decline in mid 90's have shown a steep rise from 5.6 per cent in 1997-98 to 8 per cent in 1998-99 and again declined to 5 per cent in 2000-01 and then grew at a constant rate between 2001 to 2004 with marginal fall thereafter.

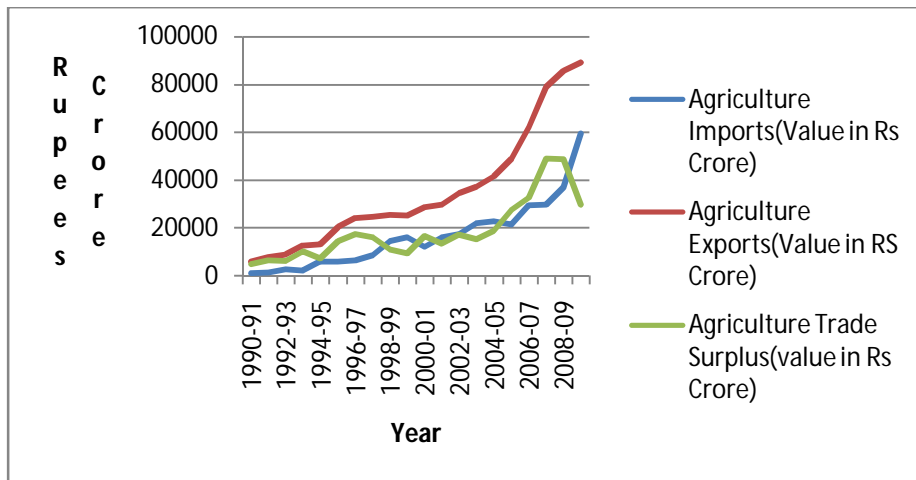
Figure 1: Agriculture Exports as % of Total Exports and Agriculture Imports as % of Total Imports



(Source: Agricultural Statistics at a Glance 2011)

The Figure 2 below shows the trends in agricultural exports imports and agricultural trade surplus since 1991 in value terms. Clearly the value of the agricultural exports have risen in value terms with the value rising steeply between 2005-06 to 2007-08 but during the year 1995-96 to 1999-00 the exports have remained more or less same in value term. The Agriculture imports in value terms has shown a rise from 1995-96 to 1999-00 then from 2007-08 onwards imports are showing a rising trend. The Trade Surplus is showing a steep fall from 2008 onwards.

Figure 2: Agricultural Exports imports and trade surplus in value terms



Source: Agricultural Statistics at a Glance 2011

Table 1: Agriculture Exports of Selected Commodities as per cent of Total Exports

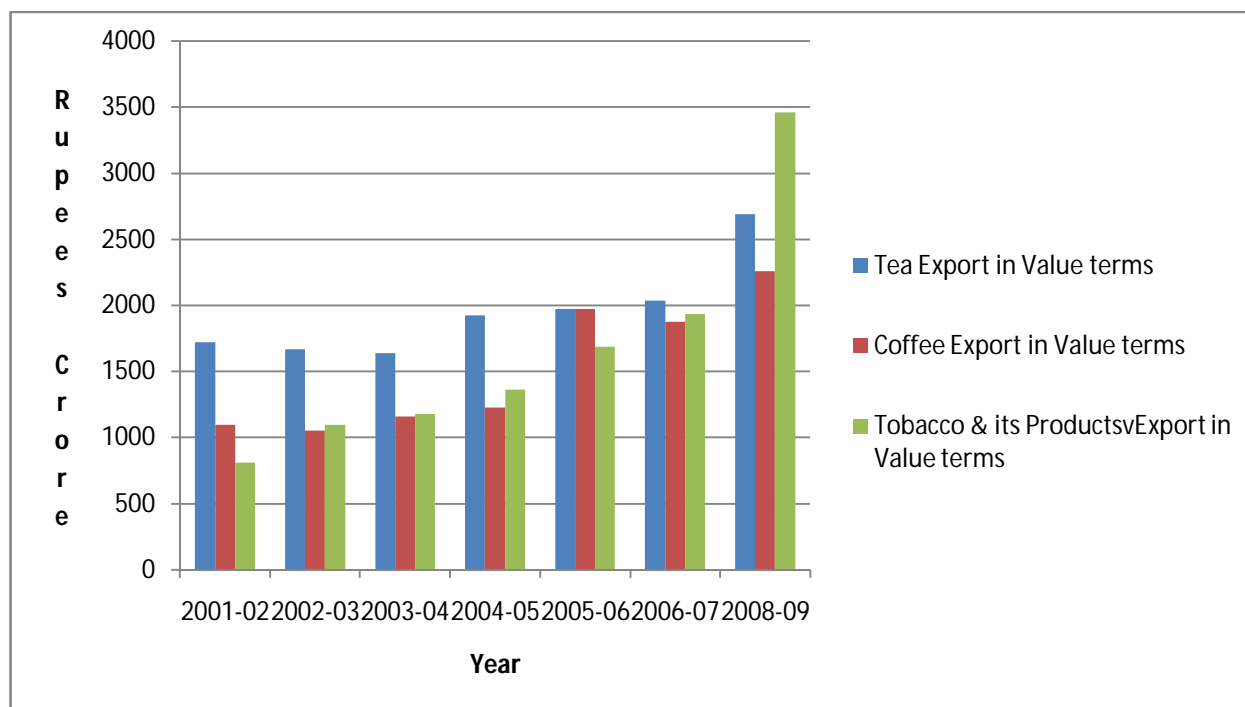
Year	Tea	Coffee	Cereals	Tobacco	Spices	Fruit & veg	Marine products	Cotton
1997-98	1.4	1.3	2.6	0.7	1.1	0.6	3.4	0.6
1998-99	1.6	1.2	4.4	0.4	1.1	0.5	3.1	0.2
1999-00	1.2	0.8	1.9	0.6	1.1	0.5	3.2	0.1
2000-01	1	0.6	1.7	0.3	0.8	0.6	3.1	0.1
2001-02	0.8	0.5	2.2	0.3	0.7	0.6	2.8	Negligible
2002-03	0.7	0.4	3.0	0.3	0.7	0.6	2.7	Negligible
2003-04	0.6	0.4	2.4	0.3	0.5	0.7	2.1	0.3
2004-05	0.5	0.3	0.2	0.3	0.5	0.6	1.7	0.1
2005-06	0.4	0.3	0.1	0.2	0.5	0.6	1.5	0.6
2006-07	0.4	0.4	0.1	0.2	0.5	0.7	1.3	0.5
2007-08	0.3	0.3	2.2	0.2	0.6	0.5	1.1	1.3
2008-9	0.3	0.3	1.8	0.3	0.7	0.5	0.7	0.4
2009-10	0.3	0.3	2.2	0.5	0.7	0.7	1.0	0.3
2010-11	0.3	0.3	1.3	0.3	0.7	0.6	1.0	1.2
2011-12	0.3	0.3	2.1	0.2	0.7	0.5	1.1	1.5

(Source: Economic Survey Various Issues Government of India)

Table 1 shows few selected agricultural exports commodities as per cent of the total Exports in India .The table depicts the scenario where there is decline in traditional exports like tea, coffee and tobacco from 1997-98 where the share of tea in total exports was 1.4 per cent has significantly declined to 0.4 in 2005-06 to 0.3 thereafter decline in tea exports could be responsible due to international price volatility. Same applies to coffee where its share 1.3 per cent in 1997-98 has also declined to 0.3 per cent from 2007 onwards. Spices as per cent of the exports have also shown a decline from 1.1 per cent in 1997-98 to a fall of 0.5 per cent in the 2003-04 with marginal rise thereafter. The share of tobacco is also showing a decline. In spite of the fact that we are among one of the largest producer of Fruits and vegetables the share of its exports has remained more or less same. The exports of cotton in end of 1990 has declined

and remained negligible from 1998-99 to 2004-05 where export share has shown some improvement 2005-06 onwards one of the major reason of such decline in cotton exports has been the crash of the cotton prices in international market (Chand, 2005).

Figure 3: exports of few commercial crops.



(Source: Agricultural Statistics at a Glance 2011)

Figure 3 shows the 3 major traditional exports which importance in exports has been declined but among these the total exports of tobacco and its products has shown a rising trend in value terms on the other hand coffee and tea exports (in value) has remained more or less same in value terms.

WTO'S AGREEMENT OF AGRICULTURE AND FLASH VIEW OF THE UNFAIR TRADE PRACTICES USED AND ITS IMPACT ON AGRICULTURE TRADE

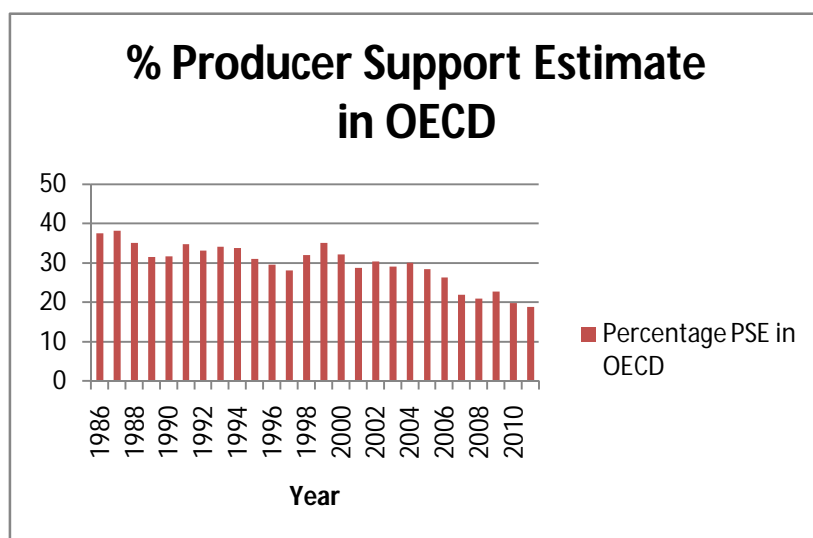
Agreement on Agriculture was the first attempt of the WTO to bring Agriculture directly into the ambit of the international economy before AOA there was no direct link between agriculture and trade only indirect links were there that adversely impacted the Indian agriculture like reduction in the public expenditure in the name of fiscal adjustment with 'New Economic Policies' in India (Gosh, 2004).

The main pillar on which AOA was structured is as follow;

- **Market Access**-According to this provision countries were asked to break down the trade barriers such that there can be gain from free flow of trade .We were asked to get rid of the imports quota or Quantitative restriction which are considered to be trade distorting and to replace import quota with tariff and within a time period the tariff rates also needs to be compressed.
- **Domestic support**-This was based on the notion that subsidies given to the farmers distorts trade hence they need to be reduced to a minimum level of AMS(Aggregate measure of support) which was allowed called 'di minimus' level it was 5% and 10% for developed and developing countries respectively .The subsidies given under Green Box and Blue Box were exempted from any reduction only Amber Box subsidies were considered to be highly trade distortionary and were asked to reduce. If any country exceed this di minimus level then they were obliged to reduce their AMS by 20% in 6 years for Developed countries & 13% for Developing countries in 10 years with 1986-88 as base.
- **Export credit**-Under this principle the budgetary allocation done on Export subsidies should be reduced.

Many authors have written about the underlying western bias inherent in the AOA. Figure 4 below shows the Producer Support Estimate which is part of the total support to the farmers given by the OECD countries as per cent of GDP.

Figure 4: PSE in OECD countries as % of GDP



(Source-OECD statistics)

The share of PSE as per cent of GDP has remained more or less the same this shows how rich advanced nations are supporting their agriculture sector and thus playing a sort of unfair game. On the one hand because developed nations are providing high domestic support to their farmers both product specific as well as direct income support implying entry of competitive cheap imports into our territories and making our exports uncompetitive in world market on the other side the Tariff rates for most of our crops remains way below the bound rates and even zero in case of few commodities (Gosh, 2006). Following Table 2 shows tariff rate in India for few selected commodities as on 2009.

Table 2: Tariff rate in India

Commodities	Basic custom duty(on 2009)	Bound duty (on 2007)
Pulses	Free	100
Wheat	Free	100
Rice in the husk	80	80
Palm oil	7.5	300
Soyabean oil	Free	45
Oilseeds, misc grains, seeds of fruits, industrial or medicinal plants	30	100

(Source-Agricultural Statistics at a glance)

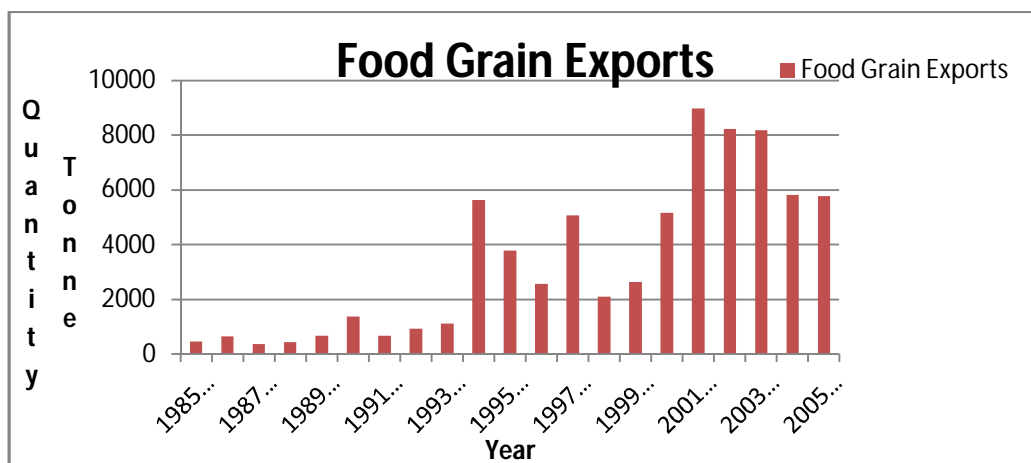
Looking at the table one would find that we as a nation are one of the largest importers of Palm oil but still the basic custom duty on palm oil is much lower than the bound rates same goes with oilseed where the basic custom duty remains only 30 per cent. Whereas for wheat, pulses and Soyabean there is no custom duties imposed.

FOOD GRAIN TRADE AND ITS IMPLICATIONS

In a country like India where we are home to one of the largest malnourished children (Human Development Report, 2011) and where 5% of the population goes to bed without a meal (NSSO, 2005) the fact that our exports of food grain are rising seems to be hard to digest. The Figure 5 shows the Exports of the food grain which is rising after 1994-95.

Out of the food grains the Exports of Cereals and Rice have also shown a rising trend after mid 90's where as the per capita food grain availability has been falling since 1991 as discussed by Patnaik (1999).

Figure 5: The Exports of the food grain



(Source: Agriculture statistics at a Glance)

EXPORTS OF COTTON AFTER LIBERALIZATION.

Cotton also known as white gold where now India stands as second largest producer the situation was not what it used to be two decade back when the yield of cotton were negative but with the introduction of Bt cotton the exports of the cotton are rising. With Respect to pre reform and post reform period, the area under cotton in India has declined. The yield remained negative in 1990-2001 its only with the introduction of the Bt cotton that the cotton production has shown a tremendous rise in CAGR production to 13.5 per cent in 2000-10

with a yield of 9.9. The rise in the production of cotton is attributed mainly to Bt cotton whose harmful effect on environment are still not fully know but from 2005 onwards exports of cotton has shown a tremendous rise. Many leading economists like Gosh (2004) have also linked the suicide of the farmers to a shift towards cotton crop where the high cotton prices in the international market during mid 1990 were linked to the shift in cropping towards cotton and then with decline in cotton prices in end of 1990's the created a debt nexus where the farmers have borrowed and were not able to pay back.

Table 3: The Exports of cotton from 1991 onwards

Year	Cotton Exports as % of total Agricultural Exports
1991-92	3.86
1992-93	2.0
1993-94	5.17
1994-95	1.05
1995-96	1.00
1996-97	6.46
1997-98	3.34
1998-99	0.84
1999-00	0.32
2000-01	0.81
2001-02	0.15
2002-03	0.15
2003-04	2.72
2004-05	1.0

(Source-Economic Survey, Goi)

As the table 3 shows that when the world price of cotton declined during mid 90's the export of cotton declined steeply from 6.46 per cent in 1996-97 to 0.84 per cent in 1998-99. But now from 2005 onwards the exports of cotton are showing a rise which is attributed to Bt cotton.

CONCLUSION

Trade in Agriculture should not be seen in isolation agrarian trade is related to many social aspect and welfare of the majority of population dependent on agriculture .The tariff rates should be raised whenever need plus a rise in exports should not be at the cost of the environment like the use of Bt cotton in India or at the cost of employment for example the SEZ or natural resources. There is a need to raise the domestic support to the farmers or product specific support which remains at a low or is even negative for certain commodities.

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