Global Meltdown and Its Impact on Agriculture-
Critical Constructs and Remedial Measures

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The global economy witnessed two severe crises in quick succession during the past four years. These crises shattered the world economy. The years 2007 and 2008 witnessed an unprecedented surge in food prices (Chand, 2008). While the global community was engaged in devising strategies to mitigate the impact of global food crisis, another more severe crisis—the global financial crisis—trapped the world. This crisis originated from the continued enormous, excessive and unregulated lending by the several highly sophisticated centres of modern financial institutions in U.S.A., U.K. and some other European countries. The indications of global economic meltdown started its manifestations in mid-September 2007, but its enormity became prominent only a year later when major American investment banks collapsed in September 2008. This led to freezing of credit in developed market economies and transmitted liquidity squeeze in the global financial systems. In spite of massive bail-out and stimulus packages launched by the governments in U.S. and Europe, economic crisis did not stop here and quickly transmitted to the entire world. Around the world, apart from credit crunch, stock markets plummeted, trade virtually collapsed, remittances slashed, investments declined, employment opportunities reduced and several large financial institutions collapsed. By the end of 2008 it was felt that the global recession caused by the financial crisis was the worst since the great depression of 1929-32. This economic meltdown created political turmoil in many countries apart from the economic ramifications (Kumar et al., 2010). The crisis originated in the developed countries but its tentacles did not spare the developing countries. The crisis crept into the Indian economy too and the immediate effects were seen in plummeting stock prices, net outflow of foreign exchange capital, reduction in foreign exchange reserves, abrupt tightening of the domestic liquidity, deceleration in the employment opportunities even in the recognised sunrise sectors like IT, finance, BPO, etc. A rapid depreciation in the foreign exchange rate and a surge in short-term interest rate were also observed. The impact of economic meltdown percolated to all the major sectors of Indian economy, though its magnitude differed across the sectors. The magnitude and intensity of the impact

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depended on the extent of integration of a particular sector with the global economy. The agriculture sector also felt the heat of the meltdown, and there was a lot of concern about the impact of the global economic meltdown on Indian agriculture. Agriculture in India is closely inter-wined with the livelihoods of the most vulnerable sections of the society and any fragility in its performance is likely to have devastating impacts on the sections. The empirical evidences on the impact of global meltdown on Indian agriculture were badly needed to propose holistic remedial measures. Under this back ground, the Indian Society of Agricultural Economics decided to deliberate on this important theme during its 70th Annual Conference. A succinct, yet a lucid and unambiguous outline was provided to facilitate the focused discussions.

The issues pertaining to the global meltdown and its impact on Indian agriculture were highlighted during discussions. The discussions broadly covered the areas pertaining to the extent of openness of Indian agriculture and its sensitivities to global markets, opportunities for Indian agriculture as a consequence of global meltdown, risk bearing ability of Indian farmers to overcome the adverse impact of economic crisis, role of credit and insurance in mitigating the effect of such economic eventuality, role of government and international agencies in cooling down the impact, potential of safety net programmes to act as succours, etc. There appeared to be convergence on the causes of global economic meltdown and the extent of impact of global meltdown on Indian agriculture. Several important issues emerged and conclusions were drawn during the deliberations, significant among them are summarised below:

1. The impact of global meltdown on the Indian agriculture has been limited and it was by and large confined to the export-oriented products. A decline was observed in the exports of agricultural commodities during the recession period. Several adhoc measures were taken to ensure availability of food products to the domestic consumers.

2. The link between growth in AgGDP and economic recession was not visible. In the short run, use of physical and natural resources, application of technologies and agro-climatic variables like rainfall, temperature etc. are more crucial factors for influencing the performance of agriculture in the short run.

3. The government safety net programs like MNREGA and the agricultural development programs like RKVY, NFSM helped to mitigate the adverse impact of global melt down on agriculture.

4. A conscious decision taken in 2004-05 to increase investment and institutional credit in agriculture has been proved helpful. Since then not only the declining trends of investment in agriculture have been arrested, but the
investment has also been increasing consistently. The flow of institutional credit has almost trebled during the short period of six years. These initiatives along with debt waiver and debt relief scheme of the government for farmers have worked as a hedge against the adverse effect of economic meltdown on agriculture. The coincidences of launching of some initiatives though based on political motives have served as useful instruments to absorb the shocks of economic meltdown in the country.

5. The pro-active role of the government and appropriate regulatory management of the monetary, fiscal, and trade policies were the main instruments for containing the adverse impact of global meltdown.

6. The recession period witnessed a sharp rise in food prices in the domestic markets and as well as in export-oriented goods facing high price volatility in the international markets. Some paradoxes pertaining to exorbitant inflation in food commodities and stagnation or deflation in non-food commodities were co-existing; these were often inexplicable.

7. The management of global economic meltdown in India has been by and large appreciated. It was largely attributed to the prudent macro-economic management by the fiscal and monetary authorities in the country. However, it was stressed that there is no room for complacency as the agriculture sector is expected to be more integrated with the global economy in the coming years. The sector should be ready to capitalise on the global business opportunities and face the challenges of increasing global competition.

Several recommendations also emerged during the deliberations on wide ranging issues. These recommendations have been drawn from the knowledge and experience of the participants of the session. Important recommendations for policies to deal with the crisis in a way that will ensure sustainable growth in Indian agriculture in the long-run. These recommendations are indicative and certainly not exhaustive.

1. The analytical capabilities to assess the impact of global economic meltdown need to be strengthened. The national institutions in collaboration with the Indian Society of Agricultural Economics should take lead in organising methodological workshops.

2. India, being a member of the WTO, its agriculture sector is open and it would be further integrated with the world economy in the time to come. However, a close monitoring is required to deal with situations like economic crisis. A long term strategy and road map should be evolved and pursued to face such crises.
3. To enhance the risk bearing abilities of the farmers against such shocks, the provision of adequate credit support and farm income insurance should be made. A part of the development funds should even be earmarked for paying a premium for such insurance.

4. The institutional mechanism for a continuous monitoring and analysis of global trends and their linkages with agriculture should be evolved and supported. Such analysis would help in making informed and rational decisions at the time of crises.

5. The safety net programmes need to be strengthened further and these should be linked more with creation of agricultural infrastructures. Such programmes provide cushions to the vulnerable sections of the society against unexpected shocks.

REFERENCES
