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Subject I

Liberalisation, Domestic Price Policy and Agricultural Growth

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The trend towards liberalisation in the Indian economy rightfully began during mid-eighties but formally some decisive steps were taken only in the early nineties. These steps could be identified with the two union budgets presented by Dr. Manmohan Singh as the then Finance Minister of India. Thus the formal process of liberalisation began earlier but actually consolidated during the decade of nineties through various steps. For any analytical purpose one must refer to this as a 'process' rather than a change at one point of time. Among the policy interventions undertaken during that period: relaxations in domestic trade, various changes under the EXIM policy, convertibility of rupee, the compliance to the WTO norms and finally the removal of quantitative restrictions, were the prominent landmarks. Reflections of some of these options could be found in the Agricultural Policy document issued by the Government of India during 2000. These interventions have impacted various economic parameters and the discussion on the probable changes due to these steps on the price policy, agricultural growth and other variables began among academics. The present issue for the Conference is one among such exercises. There were quite a few papers for discussion of various facets of the impact of liberalisation bringing forth new issues. But more than that, the discussion by the participants during the Conference was quite rewarding and enriched the insights.

After the initial reading of the papers three major issues were flagged for discussion. First, it was intended to bring clarity to the concept of liberalisation by debating the very process of changes during nineties specifically focusing on the agricultural sector. This also incorporated the methodological question confronted during analysis of the impact of liberalisation while employing "before and after approach" using 1990-91 as a cut-off point. The question involved two issues: (i) have most of the significant changes towards liberalisation taken place during the year 1990-91 and thus can one attribute the post 1990 impact parameters to liberalisation alone? and (ii) how to segregate changes reflecting direct impact on domestic price policy and agricultural growth? The second point flagged for discussion related to the commodities to be included in the analysis of the impact. It was felt essential to understand trade sensitivity of various commodities across

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The views included here involve the formal and informal discussions with the participants of the Conference. Usual disclaimer applies.

regions and therefore, identification of such crops and their growth behaviour was an important step. The growth in the crop economy across regions and the changes in the trade pattern and commercialisation due to State interventions was an important component of this discussion. The process of such impact and the information at sub-national level was flagged as a third issue for discussion. Given these three broad issues the session began with presentation of these issues for discussion and though broadly the discussion was around the issues raised, it had branched out into a few important additional areas. These included the behaviour of trade sensitive crops in the recent past, regional differences in the implementation of the price policy, effectiveness of the Minimum Support Prices (MSP) and the alternatives to MSP.

Liberalisation and Agriculture

The questions posed included: how liberalised is the agricultural sector? Which are the steps that could be identified with the liberalisation of the sector? if the farmer is the `price taker' in factor as well as product markets, can we term it as liberalised market? how significant is the reduction in interventionist policies of the State? The initial debate focused on to the 'liberalisation' of agricultural sector especially from the view of controls (legal and other institutional) on the land, labour, input, credit, water and product market. A few controls are relaxed but most of the other restrictions continued to exist. It was felt that unless these controls are relaxed and the sector is left free to perform it would be difficult to call it as a liberalised sector. It was argued that liberalisation in international trade alone is identified as representative of the process and there are hardly any changes in the domestic market. The existing market imperfections continue unabated. In this context, it will be difficult to term agricultural sector as one of the liberalised sectors and therefore the impact needs to be monitored carefully.

Analytical Methods

It was felt to analyse the impact across commodities keeping in view the trade behaviour of individual commodities as their relative prices influence their trade performance. While dealing with the competitiveness of individual commodities, it was suggested to keep in view the heterogeneity in terms of quality of the products and the trade prospects. A few participants pointed out the problems caused in any analyses by aggregating commodities across their differential quality. In the discussion on comparative trade it was suggested to keep note of the comparisons between the two countries in terms of climate and ecological conditions. A few participants pointed out that in most of the studies focus is on static measures of comparative advantages, therefore, the question of dynamic comparison in terms of comparative advantages remains a challenging methodological issue. It will be required to investigate into methodology of arriving at index of dynamic comparative advantage and determinants of such index. It was also felt necessary to identify trade sensitive crops and commodities across regions in the country so that the State governments are ready in the event of exigencies.

Endangering Food Security

A large number of researchers have highlighted the adverse impact of liberalisation of trade on food security. India being a densely populated country it was strongly argued that compromising with food security and neglect of food crops under the pressure of commercialisaton will be detrimental to aggregate welfare. Therefore, food sector should receive priority in terms of monitoring the impact and setting the safety nets. It was pointed out that deceleration is observed in the trends of food production in some of the States. Generally all agreed that this cannot be attributed to the policies but the sluggish growth in pulses is responsible for this and the increased imports of pulses is due to that. A few participants pointed out the safeguards on food trade under WTO.

In the discussion on trade in rice, it came out clearly that rice is a heterogeneous commodity and we have Indica, Japanica, Glutinous and Scented varieties of rice. Each of these varieties have differential demand across the world. India exports largely Indica rice, which has larger demand in the world. It was also argued that as far as the market access is concerned India could achieve market access to 62 new destinations and thus increased its base in trade. This has been achieved despite the producers' subsidies provided by the competing countries and the major world powers. Thus international trade in rice came out as a promising sector. Some of the participants however, warned to monitor the trends so as not to put domestic availability in jeopardy.

Emerging Commercialisation

Commercialisation of agriculture and its trade orientation was an expected outcome of the policies of the nineties. This was observed and noted by the paper writers as well as significantly highlighted in the discussion. It was pointed out that export of fruits and vegetables in the aggregate agricultural export has been increasing significantly. This trend is prominent in India as well as in a few other developing countries. This provides good opportunities to increase exports of this group of crops. A suggestion emerged that the quantum of exports can be increased substantially provided infrastructure development is taken on priority in horticulture producing region.

Contract farming came up for discussion in the context of commercialisation, market imperfections and distortions in prices arising due to various factors. With the pre-decided prices and availability of technical know-how it was felt that contract farming can help in sorting out a few tangles due to market imperfections. A suggestion was put forward that contract farming should be encouraged only in the commercial crop sector. The rider that one must tread this path carefully came up strongly in the ensuing discussion.

Among adverse impacts of liberalisation on commercial crop economy silk featured prominently as a commodity under discussion. The import of raw silk and silk yarn has created disincentives to the silk producers due to collapse of prices. This was further flogged by the nominal increase in the silk prices in domestic market. A few participants raised concern about this and it was felt that silk could be included as a trade sensitive commodity.

Liberalisation and Edible Oil Sector

The edible oil sector attracted the attention of the group both due to the spurt in its imports. There were two papers analysing this issue supported by in-depth discussion. It was pointed out that the edible oil import in the country during mid-1990s was at the centre of the controversy. A strong argument was put forward that this unabated imports discouraged oilseed producers as well as edible oil processing in Punjab, Haryana, Madhya Pradesh, Karnataka and Andhra Pradesh. As a result the area under oilseeds has gone down and the processing sector was put in peril. On the one hand, the import of edible oil stepped up the supply in the domestic market, keeping edible oil prices low and making the consumer happy, whereas, on the other the availability of imported oil and increased MSP squeezed the profit margins in the oil-processing sector. That pushed many of the oil-processing units out of work. It was reported that in Hissar district half of the edible oil processing units were closed and this was related to the import policy. But some of the participants contended that reduction in the area under oilseeds as well as stagnation in its production is a part of the general trends in deceleration across crops in the country. It was also argued that we have encouraged the rice and wheat economy to a large extent at the cost of other crops and especially oilseeds. The relative MSP of oilseeds (w.r.t. rice and wheat) has been consistently going down in such case how can one expect increase in the oilseed production. It was emphasised that this created a clear policy bias against the oilseeds as a crop group. The debate pointed towards a close monitoring of trade policy as well as trends in the case of trade sensitive commodities.

Heterogeneity of Products and Regions in the Impact Analysis

In the context of a federal country the trade decisions are quite complex and sensitive. A decision can be favourable to one State and at the same time detrimental to the interests of the other. A few states have taken steps to accommodate the problems with some institutional solutions. Karnataka is one such State. It has recently taken up quite a few steps to revamp the marketing process by constituting appropriate institutions (APC), farmers' market (*rayathar santhe*), providing information kiosks at the market places and creating revolving fund of Rs. 200 crore to undertake market interventions within short period thereby alleviating farmers' distress due to market failures. But such steps are location-specific and therefore it was felt necessary to have two-layer institutional structure at the country level as well as at the State level.

Prices: Domestic and International

The impact of trade liberalisation on domestic prices and operations of MSP in this context featured strongly in the discussions. Following earlier studies, which argued that fluctuations in the international prices are reflected in the domestic price level, was debated. It was contended that when we do not have price integration within the domestic market how could one expect such integration across countries and with the world markets. Contrary to this view, one of the studies on rice, presented in the session, pointed out that fluctuations in the world prices are reflected in the domestic price sector. Albeit, the transmission mechanism of such fluctuations always operates with a time lag. It was reported that domestic market in wheat and rice are well integrated with the world market and therefore price trends of these two commodities should be monitored.

The question of MSP operations and procurement was debated on various aspects of the policy and its impact on the agricultural economy. After debating about the operations and administration of MSP, it was felt that the present MSP scheme can be revamped by taking a full review of the present methodology of arriving at MSP. This was done twice earlier in 1979 and 1986, but as the context and focus of MSP has changed it is earnestly needed now. The State governments need to be encouraged to establish Agricultural Prices Commissions (APC) or such other institutions that will help the CACP as well as monitor the agricultural prices at the state level to alleviate the conditions following unexpected spurts or troughs in the price levels.

It was pointed out that MSP as a price intervention tool has been vitiating the intercrop price parity. That needs to be maintained in order to avoid disincentives for such crops or crop groups. A paradox in procurement under MSP was brought forth in discussion. It was pointed out that procurement takes place in a few States even when the MSP is higher than the wholesale prices and at the same time in the States where MSP is lower than wholesale prices, no procurement is undertaken. In the inter-state parity this phenomenon has quite serious implications. The reasons cited for such behaviour were FAQ (Fair Average Quality), presence of the middlemen and the efficiency (+/-) of the procurement agencies. It was strongly felt that now domestic price policy must take a clear note of the international trade potential of the crops, the world prices and the trade behaviour.

Revisiting the MSP scheme was viewed as one of the necessary steps in the present context. Alternatively, direct income support scheme to the farmers in the event of distress is one of the suggestions made by high-powered committee but probably this would involve larger expenditure and therefore, does not seem to be feasible. The third alternative considered was Guaranteed Income Insurance Scheme (GIIS), where an income threshold based on the three-year's average yield with average (or guaranteed) prices is insured. Another suggestion that came up was to activate forward/future market operations through commodity boards for various non-perishable commodities.

Impact on Credit Sectors

It was argued that under the pressure of commercialisation initiated during the nineties the credit market is responding only to the lucrative value added sectors. Therefore, advances to agricultural sector from commercial banks have come down to about 15 per cent and that is much below the required 18 per cent norm. The RRBs are also not performing the required supportive role and so also the commercial bank. This is quite an important lacuna in the credit sector. In this context, strengthening of the illegal informal credit markets is an expected outcome. This is not accessible to many. As a result, capital formation in agricultural sector has been slowing down significantly and the trend may continue unabated unless the appropriate policy steps are taken.

RESEARCH ISSUES

Out of the discussions a few research issues emerged. These are:

- Research studies are required in the changing trade policy in the context of WTO stipulations especially from the viewpoint of market access, domestic support and international trade policy comparisons. The advantage of collective work across clusters of countries in the WTO negotiations is also an important researchable issue. What kinds of clusters emerge in this context and how they will operate will be of interest to the researchers.

- Research in the area of Sanitary and Phyto-Sanitary (SPS) requirements in animal products and their competitiveness needs to be intensified.

- Market access of horticultural products and agro-processing should be high on the agenda of the researchers in the field. This needs to be viewed in the context of tariff and non-tariff SPS regulations. Not much work has been done on these lines. Moreover, larger attention is needed to map the competitive advantages (disadvantages) of trade sensitive commodities across regions.

- MSP should continue as a price support scheme but could be revamped on four counts namely (i) methodology of fixation of prices, (ii) effectiveness of the implementation process, (iii) responding to the international trade and prices and (iv) keeping a constant vigil on the price trends in the international market to track the advantages and problems that may be encountered. Further studies are required in all these four areas in the present context.

- Research in the effectiveness of GIIS and forward markets through commodity boards organised by the State vis-à-vis farmers on their own collective efforts needs to be undertaken.