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Regional Agricultural and Trade Policies: Indian Perspective

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Regional Agricultural and Trade Policies: Indian Perspective

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*Disclaimer: Views included in the presentation are
personal and are not related in any way to NITI Aayog*

Background

- **Profound changes in the economy and the environment in which agriculture operates**
 - Demography
 - Private enterprise
 - Globalisation
 - Technology
 - Natural resource base
 - Environment
- **Require policy response to adjust to new environment, face new challenges and harness opportunities**

Areas of Policy Intervention

- **Output Prices and Marketing**
- **Inputs Prices, provisioning**
- **Land Policy**
- **Labour Issues**
- **Farm Credit**
- **Risk and Insurance**
- **Investments and Subsidies**
- **Technology and Extension**
- **Viability of smallholders and agrarian distress – Non farm employment**
- **Trade Policy**

1. Regulations

1.1 Marketing is a state subject: action by states: APMC Act and Regulated Markets

- Purpose served by APMC act and regulated markets
 - Raised level of markets
 - Improved functioning of primary markets
 - Removed several malpractices and imperfections
- Now restrictive and monopolistic markets.
- Not evolved with time.
- No help in direct marketing, organized retailing, and raw material supplies to agro-processing, competitive trading, information exchange and adoption of innovative marketing systems and technologies.
- Model APMC Act to break monopoly of the state in providing market for farm produce and to allow direct sale of produce by farmers to agri-business firms.

Regulation: Essential Commodity Act

- **System of agri marketing not getting modernised – state subject**
- **Recent initiative National Common Agri Market**
- **Organised capital and private investments entering very slowly**
- **Power of unorganised traditional capital – stranglehold of traders and commission agents in mandis**
- **Agri markets characterised by poor competition, low efficiency, excessive intermediaries, fragmented market chain, absence of vertical integration (farm and wholesale prices)**
- **Main deterrents are APMC and ECA**

1.2. Private Investments in Marketing

- Large private investments required for post harvest and cold chain infrastructure and to establish effective linkage between the farm production and retail chain and food processing .
- Frequent changes in government policies discouraging private investments.
- Misplaced feeling that participation by big players in ag marketing would subject the market to manipulation and aggravate the inflation. This may not be true if entry of big players in agricultural marketing increases competition and efficiency.
- ***Essential Commodities Act and excessive regulations are proving counter-productive – stifle competition. Need to Promote and regulate competition.***

1.3. Quality Standard and Food Safety

- Awareness about AGMARK has remained quite low despite rising preference for quality attributes among consumers. Implementation weak.
- *Enforce AGMARK grading on all agricultural products and monitor its implementing.*

2. Direct Intervention in Prices

- MSP remained biased towards rice and wheat and agriculturally advanced region.
- New mechanism needed against risk of price falling below floor level
 - *One option is system of Deficiency Price Payment against market insured prices (MIP)*
 - *Maintain distinction between MSP and procurement price*
 - *Extend effective MSP and procurement of foodgrains to high potential low productivity regions like states of Bihar, East Uttar Pradesh, Orissa, Assam, Madhya Pradesh and Chattisgarh.*

3. Procurement and Buffer Stock

- **Price stability strong concern: Stock v/s trade**
 - **Buffer stock. Serves 3 purposes. Incentivise farmers, maintain price stability and supply of subsidized food for economically weaker sections.**
 - **Trade: global prices very sensitive to India's purchases**
- **Multitude of public and cooperative institutions working in a traditional mode**
- ***Need for professional up-gradation of most of these institutions to improve their efficiency, competitiveness and business like working.***

4. Price Spread, Producer-Consumer Linkage, Middleman's Margin

- **Low scale and fragmented supply chain**
- **Price spread does not justify value addition**
- **Inefficiencies, malpractice, poor infrastructure**
- *Need for innovative marketing mechanisms to improve competition at retail level and to benefit consumers and producers*
- *Expand direct marketing (apni mandi type)*
- *Provide level field to organised retail*
- *Promote supply chain that link smallholders to the channel*

5. Agro processing

- Despite low level of processing, the food processing industry is one of the largest industries in India.
- *Large investments needed to keep pace with growth in demand for processed foods.*
- *Contract farming can assure quantity and quality required to give a big boost to food processing*
- *Agro processing in rural areas will shift workforce from agriculture.*

6. Contract Farming

- **Spreading in the country and more and more farmers benefiting from it.**
- **As the CF expands there would be some conflict and disputes.**
- ***Need to regulate contracts through simple institutional arrangement.***

7. Input Supply

- Problem of poor quality seed and inputs getting widespread
- Supply shortages occurs sometime.
- *More investments needed in input industry particularly in fertilizer and seed*
- *Need for “Farm Input Competition and Regulatory Authority”.*

8. Land Issues

- High increase in land prices alluring many farmers, particularly under economic distress, to sell their farm land. Agril land in some states is being purchased by persons and firms not genuinely interested in farming. Buying land for speculative purposes and capital appreciation.
- Land ownership shifting from those who depend on land for livelihood and whose occupation is agriculture to those who use land for investment purpose.
- *Check transfer of land resources into the hands of those who are not undertaking agriculture.*
- *Strong case for legalizing and promoting land lease markets to give protection to the tenant as well as to the landlord.*
- Acquisition of agricultural land: Higher price but loss of occupation and sustainable source of income, social tensions

9. Labour Issue

- Despite abundance of labour and poverty in the countryside, difficulties in getting hired labour
- Production choices are strongly influenced by availability of labour.
- *Development of efficient farm machinery appropriate for different farm operations.*
- *Employment in MGNREG scheme should be avoided in the seasons with peak demand for labour in agriculture.*

10. Credit

- Considerable progress in flow of institutional credit to agriculture
- Still share of non institutional sources is 40 percent and it shows increase in the recent years.
- Very high financial exclusion:
- *Improve access to formal credit. Innovative products and services.*
- *Simplify complex documentation processes and reduce transaction cost*
- *Provide Kissan (farmer) Credit Card to all the farmers in the country and raise its limit from time to time.*

11. Agricultural Insurance

- Farming getting riskier with rise in commercialization and changed pattern of rainfall and temperature. Despite various schemes launched from time to time the coverage of crop insurance is very small:
 - Farmers = 24%
 - Area = 25%
 - Output = 5.5%
- *Renewed efforts required in terms of designing appropriate products and mechanisms and providing financial support for agricultural insurance to private sector insurers.*

12. Public Investments and Subsidies

- Public investments in agriculture have remained sluggish and agricultural subsidies have seen a sharp rise.
- This has caused adverse impact on long term growth of farm output while subsidies in some cases are leading to natural resource degradation.
- Public investments in agri only 2.6% of GDP agriculture and subsidies 6% (year 2013-14)
- *Need to rationalize input subsidies and increase resources for infrastructure. Level of public investment needs to be raised to at least 4 per cent of GDP agriculture as was the case in early 1980s.*

13. Viability of Smallholder Ref year 2011-12

Average size of holding hec	1.15
Farm Income per Household Rs.	77230
Rural poverty line Rs. 816 X 12	9792
Rural poverty line for family of five Rs.	48960
Minimum farm size to keep family out of poverty: hectare	0.63
Farm household forced to live under poverty if they depend only on agriculture %	53%
Ratio of farm income to cost of inputs and wage bill	1.70
Where is the problem ?	Scale
Solution	Raise farm size through land lease, offer regular or part time non-farm jobs

Source: Ramesh Chand and Raka Saxena, Farm income in India, EPW, May 30, 2015.

Future of Small holders: Scale v/s Labour Advantage

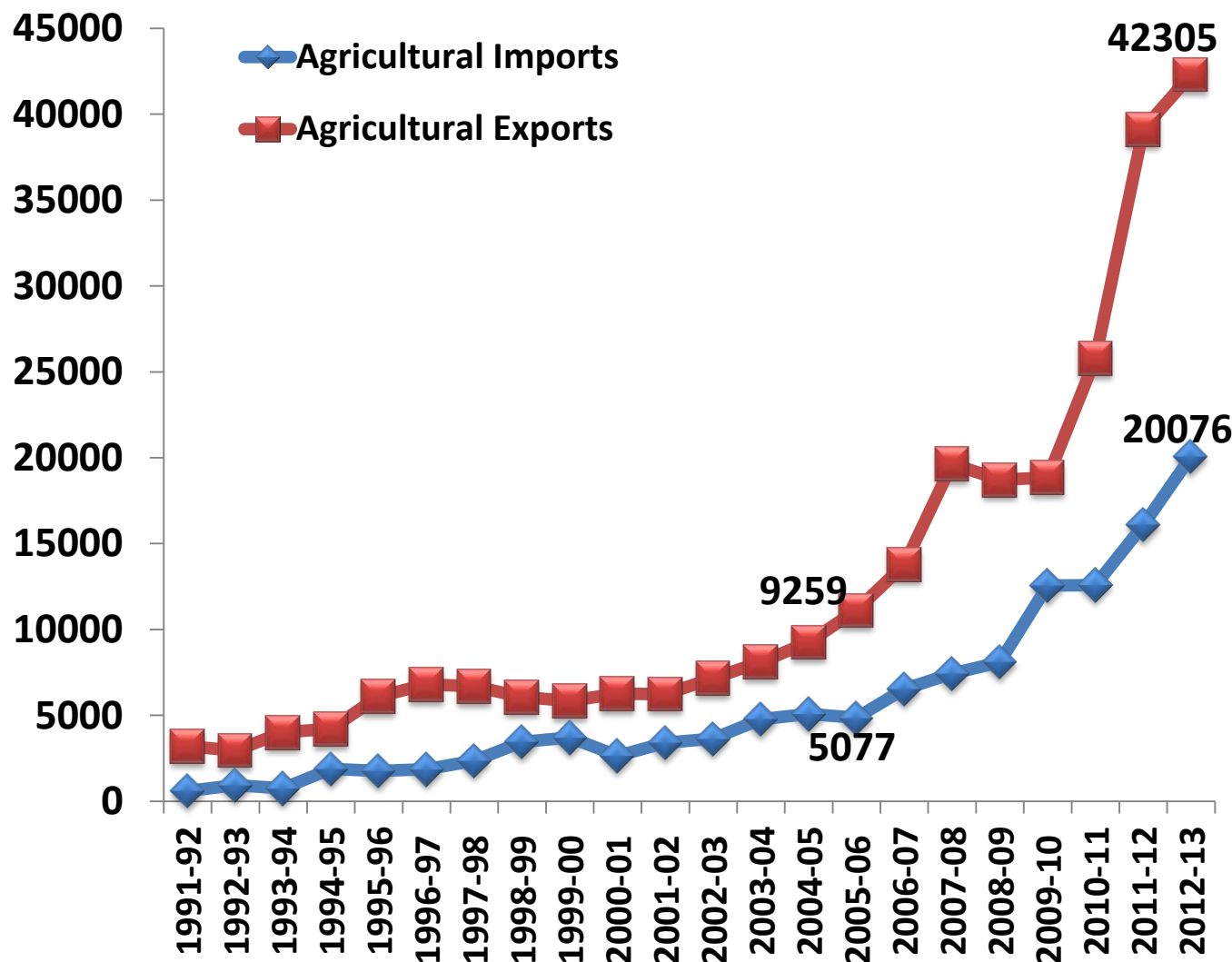
- **Inverse relation between farm size and productivity**
– for how long - evidence from states
- **International experience**
 - **Western model: small holders banished**
 - **Asian model: small holders continue. Japan, China, South Korea. How?**
 - For some time as part time, like Japan
 - Commune for pooling of resource to get scale
 - Subsequently through heavy subsidization. Japan experience getting repeated in China
- **Lessons for India – collectivities, producer companies or heavy subsidy like Japan and Korea now China**

14. TRADE POLICIES

- In most cases the interest of consumers kept above producers
- Attempt to improve self sufficiency but imports in certain categories totally liberalized and exceed 50%
- Post WTO, lot of liberalization, QRs generally phased out
- Trade data shows India net beneficiary of trade liberalization – multilateral trade lib seems in its favour
- Domestic prices now strongly integrated with global prices – increase in volatility
- Regional trade agreements: ASEAN and SAFTA.
- Lot of talk and engagement in RTA in Asia but actual progress is small.

Big Increase in Trade Surplus

India's agricultural exports and imports: \$ million



Year	Trade surplus \$billion
1991-92	2.60
1995-96	4.34
1999-00	2.13
2003-04	3.33
2007-08	12.21
2011-12	23.05
2012-13	22.20

Different views on Trade Liberalization

- **Two views emerged**
 - Tremendous opportunity from reallocation of resources- crop pattern shifts eg wheat in place of R/mustard
 - Emphasized closer integration of Indian agri with world
 - **Skeptical view**
 - Distortions in international prices – do not reflect true OC
 - Very high volatility
 - Regional specificities in crop pattern, lower price do not trigger change in crop pattern
- **View on role of trade in price stabilisation**
 - Role of trade in price stabilization v/s buffer stock

LINEAR CORRELATION BETWEEN TRADE RATIOS AND GLOBAL FOOD PRICE INDEX

Trade ratio	Correlation	Level of significance
Export to output	0.85	0.99
Import to output	0.35	Not significant upto 0.95
Net trade to output	0.84	0.99

Findings:

- **Liberalization more favourable to export than import**
- **Exports very sensitive to international price fluctuations. Import relatively stable**
- **Despite slowdown in growth of Indian agriculture after late 1990s, proportion of net trade in VAO increased.**

INTEGRATION BETWEEN DOMESTIC (INDIAN) AND INTERNATIONAL PRICES

Correlation between domestic and world prices of selected commodities

Period	Maize	Rice	Wheat	Sugar
1981-1995	0.122	0.165	0.198	0.286
1996-2009	0.753	0.808	0.835	0.877

Note: Domestic prices are for Delhi market for wheat and rice, Bengaluru for maize, and Muzzafarnagar in UP for sugar. International prices refer to maize US no.2 fob Gulf, rice Thai 5% broken, wheat US HRW 1, sugar world.

Findings :

- **Significant change in integration between domestic and global prices after WTO**
- **Increase in domestic price volatility**

FREE TRADE V/S STRATEGIC OPENING UP

- **Despite significant liberalization, agriculture trade is regulated**
- **India has preferred to go for strategic opening up rather than completely free trade in agri.**
- **The trade policy changed from time to time depending upon domestic production and price situation and global situation.**
- **The guiding principle for the opening up has been “to allow domestic prices to move in tandem with the trend in global prices but insulate against sharp spikes and troughs”.**

Strategic Liberalization

Guarding Against Volatility, Adjusting to Trend

Policy instrument	Year	Wheat	Rice	Groundnut oil	Sugar
<i>Global price</i>	<i>2001</i>	<i>127</i>	<i>173</i>	<i>680</i>	<i>190</i>
Import duty	2001	50	80	75-85	60
Export	2001	Free	Free	Free	Free
Raise in MSP	2001	5.2	4.1	5.6	6.1
<i>Global price</i>	<i>2009</i>	<i>224</i>	<i>555</i>	<i>1184</i>	<i>400</i>
Import duty	2009	0	70	0	0
Export	2009	Ban	Ban/MEP	Ban/Restrict	Ban
Raise in MSP	2009	17.6	11.1	35.5	59.9

When int prices are low: import duty raised, export free and small rise in MSP.

When int prices high: import duty lowered, export restricted and MSP given high increase. Source: Ramesh Chand and sumedha Bajar, UNCTAD Paper.

TRADE OPENNESS AND REGIONAL EQUITY

- Major changes in agriculture trade that have had an impact on large part of population:
 - (a) increase in net export of cereals, primarily rice and
 - (b) increase in import of vegetable oils
- Consequence: rise in domestic prices of cereals and fall in oilseed prices.
Price index in 2001-2 with base 1993-94:
Rice =167; Wheat = 175 Oilseeds = 137.6
- Study (Chand 1999 EPW Dec 25) revealed that Punjab was the top beneficiary of trade liberalization in rice and wheat, followed by Haryana. Loser states constituted 63% population. Among the 12 loser states, 10 were having per capita income lower than the national average. The overall relationship between per capita income of a state and net social gain was positive and significant.

TRADE V/S STOCK FOR PRICE STABILISATION

Frequency distribution of superiority of trade v/s buffer stock as stabilisation measures during production being higher or lower than trend during 1974 to 2000

Particular	Production scene: Wheat		Production scene: Rice	
	Above normal	Below normal	Above normal	Below normal
	Frequency Distribution			
Target of stabilization measure	Producers	Consumers	Producers	Consumers
Trade better option than buffer stock	1	5	2	5
Buffer stock better option than trade	10	11	10	9

Source: Chand Ramesh (2003). Policy paper NCAP.

- **Finding:**
Due to sharp fluctuations in international prices data for 3-4 years do not reveal correct picture. Need to consider long period.

CONCLUSIONS

- Significant increase in trade orientation of agriculture after mid 1990s.
- This has affected various segment of agriculture and various regions differently. The effect has been favourable for better off region and adverse for poor region
- Some increase in instability in domestic prices due to trade liberalization as global prices much more volatile than domestic prices.
- Faster growth of export over import coupled with slowdown in food production have caused adverse effect on nutrition security in the recent years.
- India has consciously followed policy of trade liberalization that *allows domestic prices to move in tandem with the trend in global prices but insulate against sharp annual or seasonal fluctuations*. To achieve this Tariff and some time NTBs have been used which have helped in many ways.
- Reliance on buffer stock rather than trade for price stabilization has been very beneficial
- In the wake of emerging global food shortages and rising price volatility, strategic liberalization seems to be better strategy over free trade