

India's position in agricultural trade liberalization

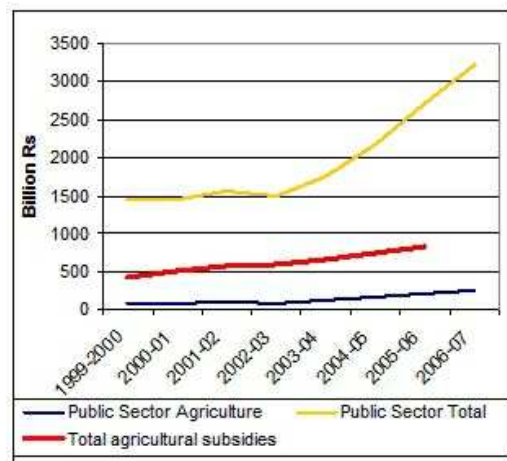
The puzzle of protection

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The European Commission (EC) and India are negotiating trade policy reform under the WTO Doha Development Agenda and aim to conclude a bilateral trade and investment pact. When it comes to the position of agriculture in India's trade reform, there is an almost categorical resistance within India against opening up agricultural trade. The opposition can be summed up in four main issues, which are discussed below. A contribution of the Ministry of Commerce to the agriculture talks in the Doha Round will be used as a guideline to review India's position (The "Indian Proposal on Food Security").

Liberalised agricultural trade will harm the vulnerable Indian agricultural sector?

The Indian government argues that while the agricultural sector is important in achieving food security and providing livelihoods for most of the poor, it is at the same time vulnerable, in terms of "low level of commercialisation of agriculture, low productivity, weak market orientation, preponderance of small and marginal uneconomical operational landholdings, lack of infrastructure, dependence on monsoon, susceptibility to natural calamities, and dependence of a very large percentage of population on agriculture for their livelihood etc." Furthermore, India argues that most developing countries cannot provide alternative sources of employment for the rural poor, and therefore it is critically important that agriculture remains a viable source of livelihood.



Although India uses the argument that agriculture must remain a "viable source of livelihood" to oppose trade liberalisation, the agricultural sector has been long neglected. For decades, agriculture was taxed rather than protected as a result of price, trade and exchange rate policies that favoured industrial growth over agricultural development. The bias has gradually disappeared, and has been replaced by a slight bias in favour of agriculture, primarily as a result of vast subsidy programs [2]. India spends an annual budget of billions on subsidies for inputs like fertilizer and electricity (a total of US\$ 17 billion in 2006). Further support via minimum prices for a share of farm output raises the level of assistance to 16% above going international prices for the years 2000-04. With all this cash flowing into agriculture, the sector is still neglected in terms of investment.

While the agricultural sector provides almost 17% of GDP, public investment in agriculture as a share of agricultural GDP was only 4% (15% including private investment). If we combine public investment with agricultural subsidies, the total becomes 19%.

Agricultural trade liberalisation will lead to an increase in cheap imports and make India more dependent on imports of staples?

Many in India see international trade as fickle and not to be trusted, because it makes one dependent on other countries' political goals. India has pursued a policy of self-sufficiency in grains since the 1960s, which was given a stimulus by the Green Revolution.

In the "Indian Proposal on Food Security", the Indian Government adds an additional argument by stating that *"the inability of developing countries to set apart required foreign exchange resources for making purchases from the volatile global markets (...) are also significant issues in safeguarding the food security and livelihood in these countries."* However, the lack of foreign currency reserves argument does not uphold for India. After the balance of payments crisis in the early 1990s, its foreign currency reserves have been secure. Further, India's consumption of major cereals such as wheat, rice and coarse grains have been met by domestic production in the past six years and the stocks held by India constituted 15% of the world stocks of rice and 6% percent of global wheat stocks.

Moreover, India's decision to restrict rice exports when prices peaked in 2008 had its repercussions on other food deficit countries that faced difficulties in procuring cereals (at increasingly higher prices). With India being the fourth largest rice exporter in the world, the remark made in the "Indian Proposal on Food Security" reflects an inward-looking stance: *"low-income developing countries would like to be able to produce their food requirements, in the light of constraints that a number of developing countries have faced in the past in procuring their foodgrain requirements from international markets."*

Agricultural trade liberalisation will lead to higher or lower prices and to more price volatility?

India's price policy aims to achieve two conflicting goals: on the one hand, India prefers low prices of basic food products for poor consumers; on the other, it prefers high prices to provide incentives to producers. The policy has mainly protected (rice) farmers and low productivity regions have been shielded from competition by policy restrictions on the internal movement of agricultural produce. However, the minimum price system and its accompanying subsidy mechanisms have been criticised as being ineffective and costly, it may prevent farmers from switching to more profitable crops or other activities. In addition, global price increases could represent offensive interests in terms of increased export opportunities. India's agricultural policy is also focused on price stability. Its opposition to trade liberalisation is understandable in this light: the essence of trade reforms is to reduce the government's role in price stabilisation.

Agricultural trade liberalisation will lead to higher FDI in retail and processing and the loss of livelihoods?

Many in India fear that more foreign direct investment in agriculture will lead to the loss of livelihoods of numerous small-scale informal retail traders, which currently make up 98.8% of India's agricultural and food retail sector. The Indian retail sector is one of the most promising sectors for foreign investment and

has become one of the fastest growing sectors in the Indian economy. The Indian government has been gradually opening up the sector for FDI, although several restrictions still apply.

The current (food) retailing sector is beset by logistical challenges, and most Indian retail players are under serious pressure to make their supply chains more efficient in order to deliver the levels of quality and service that consumers are demanding. Even without the stimulus of FDI, Indian investors are changing the sector by setting up large supermarkets. Therefore, maintaining the status-quo of a highly informal and unorganised (food) retailing sector will be difficult anyway. Although a more modernised retail sector will lead to a reduction in small scale informal retailers, it may also lead to more employment in the formal sector.

Conclusions

One could argue that India's protectionist stance has, in fact, preserved a situation in which a vulnerable agricultural sector can persist. India has lagged behind in investing in the agricultural and retail sector, which have low levels of diversification and high costs of marketing (mostly transportation). India's emphasis on (grain) self-sufficiency may have had the unintended consequence of keeping subsistence farmers in a sector that generates low incomes, instead of diversifying out of cereals into more profitable agricultural activities (e.g. in high-value agriculture which makes up 25% of India's agricultural economy and show remarkable export growth [3]).

At the moment, India's arguments can best be understood not in terms of economics, but rather in terms of the political economy. Indian politicians are more prone to respond to the pressure of the disenfranchised farming sector to protect the Indian agriculture against trade liberalisation than making the necessary and costly investments that the sector needs in anticipation of greater international competition.

A strengthened Indian agricultural and retail sector is also in the interest of the EU. The EU therefore, has an interest in finding opportunities to invest in the Indian agricultural and retailing sector.

[1] Ministry of Commerce. Indian Proposal on Food Security. See www.commerce.nic.in/wtomarket.htm, accessed 9-11-2009

[2] Pursell, Garry, Ashok Gulati and Kanupriya Gupta. *Distortions to Agricultural Incentives in India*. 2007. The WorldBank

[3] Joshi, P.K. and Ashok Gulati. "From Plate to Plow: Agricultural Diversification in India". In: Ashok Gulati and Shenggen Fan (eds) *The Dragon and The Elephant: agricultural and rural reforms in China and India*. IFPRI, 2007

This strategy and policy brief is based on a more substantial research paper that can be found online at: <http://www.boci.wur.nl/uk/publications>

The briefs are a result of the research programme *International Cooperation and International Agreements*, executed by Wageningen UR through a grant of the Netherlands Ministry of Agriculture, Nature and Food Quality.

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