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WTO AND INDIA: TIME FOR RENAISSANCE OF THE FARM SECTOR

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ABSTRACT

Indian farm sector and Indian economy complement each other in growth. To understand Indian economy, it is necessary to understand the farm sector. Indian farm sector was once the pride of the nation and is now in a languishing state. The farm sector reached its peak in the last century and the glorious era earned sobriquet of "Green Revolution". Last decade is known for introducing eminent changes in the economy which were the economic reforms of 1991 and joining of the WTO. The reforms were responsible for creating an era of liberalized economic policy regime which has played a decisive role in changing the performance of the industry and services sector but no eminent change has been created in the farm sector. The WTO agreements are promoting free and fair trade among the member nations by way of removal of obstacles in trade. Indian farm sector, after the last decade's policy changes, is in a crucial juncture. The criticality of this sector could be more illustrious with the fact that even after sixty years of independence the population dependence on farm sector has very marginally declined but its share in the GDP has significantly declined. The farm sector at this juncture is facing the issues of low production and low productivity which have not improved after the reforms and the external environmental change in post-WTO regime. This paper tries to analyze the issues of concerns and care required for making renaissance of the farm sector.

Introduction

Indian economy has travelled a long journey. The journey is full of ups and downs and twists and turns. Indian economy and Indian democracy have successfully completed sixty years. The two very significant years for the country are 1947 when the country got political freedom and 1991 when the economy got liberation from the controls and regulations of the government. The post – 1991 era or the post – reform era, as is commonly known, has created eminent changes in the economy. These changes have crated a new economic environment in the country. The new environment has been positively received by different sectors of the economy. This is being reflected in the growth figures. The GDP has grown by 9.4 % in 2006-07 and is again expected to grow approximately at the same pace in 2007-08. The main growth drivers of the 9 % plus GDP growth are industry and service sectors. The

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farm sector, on the other hand, has not reacted positively to the changes in the economic environment and actually its performance has declined.

Farming is the soul of Indian economy. Its status-quo has still not changed. Farming is a source of supply of raw material to some of the farm – based industries besides the supply of basic necessities of life *i.e.* food. Even after sixty years of independence, this sector has significantly larger proportion of population dependent on it. During the last decade, the economy has also shifted its approach from state domination to a liberal economy. The impact of this shift is eminently visible. Farming has not actually gained with the economic reform process. The reforms are about to complete two decades of its inception but no eminent impact is visible on the farm sector and the deceleration of its performance continues.

The farm sector is in a critical situation in the post-reform era. The post-reform era is also known for another significant policy decision and it was the country's decision to join World Trade Organization (WTO). The organization has been formed to promote free and fair trade among member nations by way of removal of obstacles to trade. The objective behind this formation was to encourage growth of world trade in goods and services. The post-reform era is witnessing a crucial situation for the farm sector and with the WTO's agreement on agriculture the farm sector would be exposed to added challenges. The internal problems of farming are less production and low productivity and at the same time, the farm sector will now have to operate in an environment of external challenge in terms of overseas competition in the post-WTO era. The ground reality is that Indian farm sector is now placed at a position to face challenges and in terms of competencies, this sector is not competent enough to face the competition.

Indian Farm Sector – A Macro Determinant

The economic growth of a country is associated with the industrialization of the economy. Due to this rationality more and more efforts and resources have been directed towards industrialization during the last few decades. The outcome is visible in terms of explosive growth of the industrial sector. In the last fiscal year (2006-07) it was the driving factor for a booming 9.4 % GDP growth. In the year 2006-07, the industrial sector has grown by 10.9 % and services have grown by 11.0 %, and farming by a mere 2.7 %. The farm sector is very vital for the economy as it is the biggest employer in the country but its growth is not encouraging. Farm sector's progress is a pre-requisite for the overall growth and development of the economy. Keeping this in view, we can understand that farm sector's growth is an essential part of the overall economic growth of the country. The dependency burden of approximately 60 % of population on it also highlights another significant fact that if the farm sector grows and prospers, it can provide an impetus to the growth and development of the overall economy and if this sector underperforms, other sectors may be adversely affected consequently.

Indian farm sector is playing a significant role as an employment provider and also (though less significant) as a source of contributor to the GDP. The sector is also vital for industrial growth. It provides raw materials for farm-based industries and simultaneously is also as a consumer of industrial products. The farm and industry have a well defined complementary relationship. This theoretical concept has not worked out well in Indian economy, where one sector's (industry) growth is on a continuous acceleration and the other sector's (farm) growth is on a continuous deceleration. Hence, the mutual dependence has not proved prolific in the last few years. Indian farm sector is also playing a significant role in the international trade. The export of farm products constitutes a significant portion of the total exports. In percentage terms, agricultural products constituted 10.95 % of total national export in 2005-06.

Indian farm sector has still not entered the phase of take-off. Besides the conventional challenges of inadequate production and less productivity, new challenges are also posing newer threats. The WTO agreement at this juncture is also enhancing the criticality of the farm sector by way of its Agreement on Agriculture *(AoA)* clause. The *AoA* clauses specifically ask for withdrawing domestic and export subsidies, and allow market accessibility to member nations. Both the internal and external challenges are issues of concern for the farm sector. Indian farm sector has not matured enough in the last few decades. The following table (Table-1) highlights the facts on probably all important characteristics *viz.*, area, production, yield and percentage coverage under irrigation. The contemporary scenario suggests that time has come for renaissance of farm sector to meet the challenges and grab the opportunities created in the post-reform and WTO era.

Table-1: All-India Area, Production and Yield of Food grains from 1991-92 to 2006-07 (along with percentage coverage under Irrigation)

Area – Million Hectares,
Production – Million Tonnes &
Yield – Kg. /Hectare

Year	Area	Production	Yield	% Coverage under irrigation
1991-92	121.87	168.38	1382	37.4
1992-93	123.15	179.48	1457	37.4
1993-94	122.75	184.26	1501	38.7
1994-95	123.86	191.50	1546	39.6
1995-96	121.01	180.42	1491	40.1
1996-97	123.58	199.44	1614	40.0
1997-98	123.85	192.26	1552	40.8
1998-99	125.17	203.61	1627	42.4
1999-00	123.10	209.80	1704	43.9
2000-01	121.05	196.81	1626	43.4
2001-02	122.78	212.85	1734	43.0
2002-03	113.86	174.77	1535	42.8
2003-04	123.45	213.19	1727	42.2
2004-05	120.00	198.36	1652	NA
2005-06	121.60	208.60	1715	NA
2006-07*	124.07	211.78	1707	NA

* Advance Estimates as on 04.04.2007

Note: The yield rates given above have been worked out on the basis of production & area figures taken in '000 units.

Source: Department of Agriculture and Cooperation, Ministry of Agriculture, Govt. of India.

WTO and Farming – Encouraging Liberalization

World Trade Organization is an internationally recognized trade organization, created by an international treaty, established in 1995. It has a legal status and has a right to enforce the rules of international trade. Its basic objective is to promote trade in the international market by the removal of barriers. India is one of the founder members of WTO and also hopes to garner the advantages associated with its association. WTO replaces GATT and promotes multilateral trade in goods, services, protection of intellectual property rights, foreign investments, etc. . It has fixed a set of rules and regulations which are mutually agreed upon by the member-nations. Agreements by member-countries are binding on all the member-nations of WTO and if any member dishonours them then complaint can be lodged with the *Dispute Settlement Body* of WTO.

India's joining of WTO was not a bandwagon effect, it was a rational discretion based on the advantages associated with it. Economic reforms came in 1991 and Liberalization, Privatization and Globalization (LPG) process was initiated. To make the LPG process realize its full potential it was imperative to join WTO. It promises to help in the process of enhancing the foreign trade, increasing the inflow of foreign investments, inflow of better technology and most importantly the end of quota system. The biggest advantage associated with an organization like WTO is reaping the benefits of multilateral trade *i.e.*, when a trade agreement is signed between member-countries, it promotes foreign trade of one country with all other member-countries which have signed this agreement. Before the formation of WTO, trade was bilateral whereas WTO new promotes multilateral trade. If the multilateral trading system would not have happened due to WTO then India would have to enter into separate trade agreements with each nation. The process of Indian economy's globalization also got further momentum with WTO's promotion of free trade through the trading agreements. India also benefitted with the inflow of foreign investments due to globalization process.

WTO's Agreement on Agriculture *(AoA)* talks of rules and regulations regarding trade in the farm sector products. The *AoA* relates to domestic subsidies, export subsidies and market access commitments. The agreement asks for withdrawing domestic and export subsidies and opening up of the national markets for international competition. To further enhance trade the agreement promotes the replacement of non-tariff barriers with tariff and the same to be progressively reduced in a stipulated time period. The basic objective regarding reducing government support (via subsidies) is to check overproduction of goods. The surplus products are generally disposed of through export subsidies and this discourages the main aim of WTO, which is free and fair trade. The subsidies issues are still under negotiations and it is hoped that a consensus would be arrived at soon. Once the level playing field is made, huge options will emerge for the growth of the farm sector. In essence, the *AoA* asks for liberating the farm sector from the government support to operate it optimally.

Concerns of the Farm Sector

Indian farm sector is now at the crossroads. It is now standing at a juncture where hurricane efforts are required for its revival. Continuous decline in its performance has attracted the attention of all policy makers. Farming is now at the centre of attention more than ever before. It is still the backbone of the economy due to the high dependency on it and also due to supply of basic necessity of life *i.e.,* food. Government gave priority for the growth of the farm sector and adopted several measures but nothing prominent came out of it. The biggest concerns of the farm sector are low production and low productivity. India is ranked second after China in terms of its population growth. Due to low production and high growth rate of population, the per capita availability of foodgrains is also on a decline.

Indian farm sector's concerns of low production and low productivity are the impacts of problems existing in the farm sector. The real concern ranges from the pressure of population to land reforms. The first and foremost reason of low productivity of farm sector is the excess pressure of population on farming. Insufficient irrigation facility and corresponding enhanced reliance on monsoon, which again is highly uncertain and uneven create challenge on production and productivity. The nature of the soil is also not uniform. Some farm lands are more fertile and some are less. Farmers with lack of financial and technical support are able to do less for the replenishment of lost fertility. The soil health and water management are the principal reasons for the low production and low productivity besides other causes. The other issues are inadequate finance with the Indian farmers to use improved inputs, small size of land holdings which are even less than the average size to use mechanized farming, and cropping pattern, which is need based and not on the suitability of their land. The following table (Table-2) highlights the fluctuating foodgrains production pattern from 1990-91 to 2005-06, and the subsequent table (Table-3) highlights the productivity of India vis-à-vis the world.

Table-2: Production of Major Crops

(In Million Tonnes)

Group/ Commodity	Unit	1990-1991	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006*
Cereals	Tonnes	162.1	196.4	185.7	199.5	163.6	198.3	185.2	195.2
Rice	Tonnes	74.3	89.7	85.0	93.3	71.8	88.5	83.1	91.0
Wheat	Tonnes	55.1	76.4	69.7	72.8	65.8	72.2	68.6	69.5
Pulses	Tonnes	14.3	13.4	11.0	13.3	11.1	14.9	13.1	13.1
Oil-Seeds**	Tonnes	18.6	20.7	18.4	20.6	14.8	25.2	24.4	27.7
Cotton	Bales@	9.8	11.5	9.5	10.0	8.6	13.7	16.4	19.6
Sugarcane	Tonnes	241.0	299.3	296.0	297.2	287.4	233.9	237.1	278.4

* - 4th Advance Estimates, ** - Include groundnut, rapeseed & mustard, sesamum, linseed, castorseed, nigerseed, safflower, sunflower and soybean, @ - Bale of 170 Kgs.

Sources: 1. Directorate of Economics & Statistics, Department of Agriculture & Cooperation, Govt. of India.

2. Ministry of Commerce & Industry, Govt. of India.
3. Economic Survey, 2006-07.

Table-3: International Comparisons of yield of Selected Commodities - 2004-05

(Metric tonnes/ hectare)

Rice/Paddy		Wheat		Cotton		Major Oilseeds	
Egypt	9.8	China	4.25	China	11.10	Argentina	2.51
Myanmar	2.43	France	7.58	USA	9.58	Brazil	2.48
Japan	6.42	Iran	2.06	Uzbekistan	7.98	China	2.05
India	**2.9**	**India**	**2.71**	**India**	**4.64**	**India**	**0.86**
Korea	6.73	Pakistan	2.37	Brazil	10.96	Germany	4.07
Thailand	2.63	UK	7.77	Pakistan	7.60	USA	2.61
USA	7.83	Australia	1.64			Nigeria	1.04
World	**3.96**	**World**	**2.87**	**World**	**7.33**	**World**	**1.86**

Source: Ministry of Agriculture and Cooperation & Economic Survey, 2006-07 .

The renaissance of farming is of utmost importance due to its significance. Its significance is significantly larger as it fulfils the basic necessity of life for a person *i.e.*, food. Out of the three basic necessities of life for a person, food is the most important necessity than clothing and shelter. Survival of life is not possible without sufficient amount of food. India is the second most populated country of the world after China. Due to populous country, food requirement of the country is also increasing day-by-day and the production of food grains remains short of the requirements. Though the production of food grain has increased by a considerable amount in the last few years, yet we are importing food grains by a reasonable amount. The per capita per year availability of food grains is on a decline. This is evident from the following table (Table-4). This adds up to the concerns of farm sector. The productivity of our farm sector is quite low in comparison with other countries and production is also quite fluctuating. In this background of farm sector and the contemporary open economy competitive environment due to globalization and WTO agreements, farm sector's renewal and revival have become the appropriate priority.

Table-4: Net Availability of Foodgrains (Per Annum) in India from 1991 to 2005

(Kgs. per capita per year)

Year	Rice	Wheat	Cereals	Pulses	Per capita Food grains
1991	80.9	60.0	171.0	15.2	186.2
1992	79.2	57.9	158.6	12.5	171.1
1993	73.2	51.2	156.2	13.2	169.4
1994	75.7	58.2	158.4	13.6	172.0

1995	80.3	63.0	167.0	13.8	180.8
1996	74.6	64.3	161.5	12.0	173.5
1997	78.1	65.4	170.1	13.5	183.6
1998	73.1	55.3	151.2	12.0	163.2
1999	74.2	59.2	156.7	13.3	170.0
2000	74.3	58.4	154.3	11.6	165.9
2001	69.5	49.6	141.0	10.9	151.9
2002	83.5	60.8	167.4	12.9	180.4
2003	66.2	65.8	149.1	10.6	159.7
2004	71.3	59.2	155.8	13.1	168.9
2005(P)	64.7	56.3	142.7	11.5	154.2

Source: Department of Agriculture and Cooperation, Ministry of Agriculture, Govt. of India.

Time for Renaissance of the Farm Sector

The farm sector occupies a very vital position in our economy. It is a contributor to the overall economic growth. On the one hand it supplies food, raw material and exportable goods and on the other hand, most important is, it provides a fairly large market for non-farm goods and services. Its significance can hardly be exaggerated. The significance of the farm sector is much wider than a mere supplier of food grains. Dependence of a very large proportion of population further adds to its significance. Its share in the GDP though is declining, but it still commands approximately 20 % share of the GDP. The farm sector is also known as a source of earner of foreign exchange by exporting its products. In essence, it can be said that, farming is detrimental for the inclusive economic growth of the country.

The farm sector's growth is a detrimental factor for the inclusive growth of the economy as it employs a significantly larger economically active population. This proportion of population can create a thrust for the economic growth by creating a substantial demand for goods and services which can put the economy on the path of a demand-led growth. WTO is changing the international trade environment and farm sector can also take the advantages of the same by way of exporting its products to WTO's member nations. Once the farm sector is revived for growth of farm exports, it can have a multiplier effect for the growth of economy.

The farm sector is the backbone of Indian economy. Indian economy has grown by 9.4 % during 2006-07 and it is also expected that the growth rate would be touching a 9 % mark in 2007-08. The service and industrial sectors are the main push factors for this growth. The economy is growing; growth is phenomenal and visible but not inclusive. The reason is the underperformance of the farm sector. The sector on which approximately 60 % of our population depends is at a crisis. The farm sector has not reacted positively to the reformative polices and has actually declined in its performance. The farm sector at this juncture is asking for a stimulant for the production and productivity. The following table (Table-5) highlights the growth of agriculture sector vis-à-vis other sectors during the ninth and the tenth plans. The table also highlights the targets for the different sectors for eleventh plan.

Table-5: Growth in Different Sectors

	Ninth Plan (1997-2002)	Tenth Plan (2002-2007)	Eleventh Plan* (2007-2012)
GDP growth (%) of which	5.5	7.0	9.0
Agriculture	**2.0**	**1.8**	**4.1**
Industry	4.6	8.0	10.5
Services	8.1	8.9	9.9

* Target

Source: Approach Paper to 11th Five year Plan, Planning Commission, GOI

The eleventh plan draft talks about the faster and more inclusive growth agenda. The inclusive growth cannot be experienced if the farm sector is not revived. The growth of agriculture sector was not encouraging during the ninth and the tenth plans. The above table (Table-5) highlights the fact in statistical terms. The eleventh plan has chosen a 4 % annual growth target for agriculture sector. If the 4 % growth target is realized, a 9 % GDP could become the reality. The eleventh plan is giving its prime priority to the growth of the farm sector. The growth target of the eleventh plan appears to be challenging, keeping in view the past performance of the sector. During the ninth and tenth plans, the growth of the sector was just around 2 % and the eleventh plan document is targeting a 4 % growth of the sector. The bigger question which arises at this juncture is: can it be possible? During the ninth and the tenth plans it was only the agriculture sector which has not grown but the other sectors have grown. This reminds us the fact that a major thrust is required to attain a 4 % target during the eleventh plan. If the sector fails to deliver then other sector needs to perform more than their targets to achieve a 9 % GDP growth. Declining agriculture growth will also increase the reliance on exports for the growth of the economy.

India's farm sector needs to be pushed like the industrial sector. The 4 % growth of the sector could become a reality with the hurricane reforms of the sector. The farm sector is desperately asking for reforms which could lead to a second green revolution in the country and make farming a vibrant sector. Irrigation is the backbone of farming and hence the need is to work for watershed development programme. Revival of co-operative farming is also necessary at this juncture. The other issue which needs attention is an enhanced interaction between farmers and agricultural universities to solve the grass-root level problems. The farmer's indebtedness is also an obstacle in the holistic development of farming. Easy and cheap credit can help them to grow. Besides these conventional problems, the other issues of early origin are of declining ground water level, improvement of soil health and usage of allowing low biological potential area for non-farm purposes. The farm land cannot increase due to huge urbanization and hence by increasing the productivity, the problem of adequate production can be solved. Modernization, marketing orientation and most importantly an encouragement to public-private partnership can boost the sector at this juncture. The rational discretion in the above issues can put the farm sector towards its renaissance and the same could lead to the renaissance of the fate of approximately 60 % of the population.

Conclusion

Indian farm sector has travelled a long journey of topsy-turvy situations. The peak of the sector came at the time of green revolution in 1960's and today the sector has come at a critical juncture. The sector is facing the issues of less production and low productivity. The net availability of food grains is on a decline in the post-reform era. Besides the internal problems of the farm sector which has placed it at a critical juncture, the WTO's *AOA* clauses at this juncture are sufficient to add up the criticality of the sector. The WTO's agreements of open market for farm product could make the things more difficult for the already critical farm sector.

Indian farm sector is a bread earner for our approximately 60 % of population which depends directly or indirectly on it. Growth and development of the farm sector could make a visible impact on the lives of the people which are dependent on it and hence on the overall economy. The inclusive growth will be visible with the growth of farm sector. The farm sector is significant for many reasons and the most detrimental at this juncture would be the potentiality of this sector in generating the domestic demand for non-farm products and hence the dependence on foreign demand for generating the growth momentum for the economy could be reduced. Farm sector is a huge demand base for the farm and non-farm sector's goods and hence renaissance of farm sector at this juncture could make a push in the economy by maintaining or even going beyond a 9 % GDP growth.

The *AOA* would be the trend-setter in the history of our economic system. It would definitely be playing a bigger role in the promotion of free trade whose benefits would be realized by the economy in the future. The share of developing countries like India would increase in the world trade once the level playing field is developed. This is not an euphoric conclusion but a rational assumption. To realize these benefits, the need is to seriously review the issues of concern. The farm sector at this point is not in a position to get the benefits of the *AOA* clause. Once the concerning issues are addressed to the farm sector, besides being a significant contributor to GDP, it will also become a significant source of foreign exchange earned from export. The opportunities will actually benefit the farm sector in the international trade once the preparations to grab it are completed. The probability of growth of farm sector is very near to the realization of this possibility.

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