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*The removal of trade curbs can spur a sector to meet the demands of a rapidly growing economy. However, global cues, as against a system driven by fiscal support, can lead to output fluctuations. Hence, focusing on the output of some commodities may be a viable option.*

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While exports have acted as drivers of production for several products in the domestic market, the same has not happened in the case of foodgrains.

The Indian economy has been described as being driven more by 'internal demand' than by 'external demand'. This is one reason for its relatively good performance during periods of global economic crisis — not just in the present situation, but also when the regional economies of South-east Asia slumped in late 1990s. However, these internal drivers have not been enough to accelerate agricultural income growth in the recent years. Are there some missing elements, such as inadequate internal and/or external liberalisation of certain sectors?

### SUGAR DECONTROL

A deregulated, albeit protected, sugar sector is expected to grow faster. Deregulation is considered necessary to provide greater flexibility to the processing sector to develop markets. Higher income elasticity of sugar provides the basis for the expectation of rising demand, as the economy continues to grow. The business-as-usual approach seems to have led to cycles of shortages and stocks and lack of dynamism.

If deregulation implies higher prices — sugarcane prices are not likely to come down, deregulation or no deregulation — the import competition for sugar will increase at least in theory. Some import tariff

may be justified as it is omnipresent. But high level of protection from imports will mean the Indian consumer will end up paying more for sugar than necessary, unless the government wishes to subsidise sugar, something it now wishes to stop doing.

But what is the key reason for reforms in the sugar sector? It is not merely providing greater flexibility to the sugar producers, but the overall sustainability of the sector that has to be addressed. The rigid links running from input subsidies, administered output prices, levies for PDS and control on sugar prices leave scope for dynamism amidst fiscal support or trade protection.

A regulated trade regime in agriculture has been necessary to either protect the producers from the uncertainties of international markets, or protect the consumers from the uncertainties of supplies.

## **EDIBLE OIL IMPORTS**

One significant transition in the recent years, from a regulated and essentially internally-oriented sector to the one where imports play a significant role, has been in the case of edible oils. Import tariffs do remain at high levels, but imports meet a significant share of domestic demand.

In the case of pulses too, there has been growing recourse to imports. The shift has been possible as domestic supplies could not keep up with the rising demand.

But the internal demand orientation in most commodities, however, has meant that the overall growth of the sector is placid and determined by the fiscal resources of the government. The government is the biggest purchaser of key agricultural commodities, under minimum support price or procurement and levy operations.

The fiscal position cannot be too volatile, as the stability in fiscal operations also translates into stability in demand for agricultural output. But when the fisc is not in a position to sustain internal orientation of the sector, trade policies have opened up.

## **DEMAND FOR FOODGRAINS**

In the case of foodgrains, the internal orientation is strong. Exports have emerged essentially as a residual balancing item for the sector. For example, the estimated per capita net availability of food grains — after netting out international trade and government's operations in the sector — does not show a clear rising trend.

In the years from 2000 to 2009, the estimate has varied between 415 gm to 460 gm per day in seven out of nine years and exceeded the upper limit only once. Although net production increased, exports have offset the increase leading to near stagnation in net availability.

While the availability of other basic requirements such as edible oils, sugar, tea, coffee, cloth and electricity show clear improvement, the foodgrain availability has not.

It is expected that consumption of foodgrains would increase either for direct consumption or for indirect consumption. The indirect consumption through use of grains as feed also does not seem to

have affected trend in consumption. The rise in domestic demand is yet to translate into a stimulus for rapid growth.

## **BASIC SUPPLIES**

While exports have acted as drivers of production and hence improved availability of several other products in domestic markets, the same has not happened in the case of foodgrains. In the case of vegetables and fruits, production has accelerated where exports are significant. The dilemma of using international trade to drive production growth gets exacerbated by fluctuations in output.

The margin of permissible error in ensuring adequate supplies for minimal consumption appears to be quite small. But it is necessary to increase the safety margins by increasing production in a selective manner. Focusing on the production of select commodities can help provide that extra margin of safety.

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