Indian Economic Reforms and their Impact on Agriculture Sector

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Abstract: This paper reviews the India's economic reforms since 1991 and its impact on the performance of the Indian economy and specially on Agriculture sector. It shows that the reforms definitely achieved a significant acceleration in growth and they also succeeded in reducing major economic Problems. However, they have been less successful in promoting agriculture sector. Reforms affected agriculture indirectly. Unlike industry, Indian agriculture had never been controlled and regulated. Here we will present the types of economic reforms that have been introduced and their impact on Indian agriculture. The paper concludes by identifying some of the critical policy challenges in the years ahead.
Key words: Economic Reforms, Liberalization, Structural Adjustments, Macroeconomic Stabilization, Balance of Payments, Green Revolution.

Introduction
The Policy of economic reforms was introduced in India in July 1991 which had presented a mixture of structural adjustment and macroeconomic stabilization. It represented both short-term and long-term objectives. As Stabilization was necessary to restore balance of payments equilibrium and to control inflation in the short run at the same time it was equally important from long term point of view that institutions should be changing their structure through reforms.
It was the need of hour for the government to move urgently and implement a programme of macroeconomic stabilization through fiscal correction. Besides this, structural reforms were initiated in the field of public sector, industry and the trade.

Research Methodology: In this research paper, secondary data has been used. Magazines, journals, annual reports, statements and periodicals were consulted to fetch the information. The information is also collected through various websites and e-links.

Objectives of Economic Reforms-
1. The main objective was to plunge Indian Economy in to the arena of 'Globalization and to give it a new thrust on market orientation.
2. The New Economic Policy intended to bring down the rate of inflation.
3. It intended to move towards higher economic growth rate and to build sufficient foreign exchange reserves.
4. It aimed to achieve economic stabilization and to convert the economy into a market economy by removing all kinds of un-necessary restrictions.
5. It wanted to permit the international flow of goods, services, capital, human resources and technology, without many restrictions.
6. It wanted to increase the participation of private players in the all sectors of the economy. That is why the reserved numbers of sectors for government were reduced. As of now this number is just 2.

Economic Reforms Process
Since July, 1991 India has taken a number of measures to improve the balance of payments position and to structure the economy .The New Economic Policy 1991 introduced reforms in many areas like- monetary & financial policies, fiscal & budgetary policies, trade policies and pricing & institutional changes.
The salient features of New Economic Policy 1991 are –

(i) Liberalization of economy (internal and external)
(ii) Extending privatization
(iii) Redirecting the Resources of Public Sector to Areas where the private sector is unlikely to enter.
(iv) Globalization of economy
(v) To create market friendly state.

Different Studies and Research reports reveal that the macro-economic adjustment programme is remarkable for its relatively painless transition compared with similar programmes elsewhere and a large part of the credit for absorption of these shocks is due to the steady increase in agricultural production. The GATT Agreement signed in 1995 will fundamentally change the global trade picture in agricultural sector.

Significance of Agriculture in India

- **Highest Employment Provider:** More Indians depend directly or indirectly on agriculture for employment than on any other sector.
- **Addresses Malnutrition and provides food security:** Agriculture holds a key to reducing India's malnutrition problem, directly affecting public health and worker productivity.
- **Augmenting Economic Growth:** Agriculture has the potential to spur India's overall gross domestic product (GDP) growth.
    - Agricultural growth of 4%, would add at least a percentage point to GDP, increase exports and improve India's trade deficit.
    - Economic transformation in developing nations is propelled by increases in agricultural incomes underpinning industrial growth. For example, China's economic growth.
- India's vital land and water resources, which farmers used for agricultural production, assumes more significance especially in the face of mounting scarcity, environmental degradation, and climate change.

Impact of Economic Reforms Process on Indian Agricultural Sector

Agricultural sector is the mainstay of the rural Indian economy around which socio-economic privileges and deprivations revolve, and any change in its structure is likely to have a corresponding impact on the existing pattern of social equality. No strategy of economic reform can succeed without sustained and broad based agricultural development, which is critical for raising living standards, alleviating poverty, assuring food security, generating buoyant market for expansion of industry and services, and making substantial contribution to the national economic growth.

After independence in the early years of planning, land reform policy was the Strategy of agricultural development and green revolution technology became the leading policy in the late 1960s. The planning for agriculture sector had been an outstanding example of indicative planning in India since output decisions as well as investment decisions are independently taken by millions of farmers who were aimed at achieving the goal of self-sufficiency in food grains. Despite remarkable achievement in this area, there is no room for complacency.

Meanwhile in July 1991, economic reforms and structural adjustment programmes were initiated for all the sectors, except agriculture. Economic Reforms affected Indian agriculture indirectly. One of the reasons is that unlike industry, Indian agriculture had never been controlled and regulated.

As agriculture is the privately dominated sector, the scope for reforms in this sector was limited. Still then, reforms in all sectors including agricultural sector are needed as government intervenes in agriculture in various forms.

Above all before 1991, export market of Indian agricultural commodities had not been explored much. At this present juncture, Indian agriculture cannot remain insulated from the international market in the midst of growing globalization and integration of the Indian economy with the global economy.

According to [Bhalla97], of the three sectors of economy in India, the tertiary sector has diversified the fastest, the secondary sector the second fastest, while the primary sector, taken as whole, has scarcely diversified at all. Since agriculture continues to be a tradable sector, this economic liberalization and reform policy has far reaching effects on (i) agricultural exports and imports, (ii) investment in new technologies and on rural infrastructure (iii) patterns of agricultural growth, (iv) agriculture income and employment, (v) agricultural prices and (vi) food security.

Reduction in Commercial Bank credit to agriculture, in lieu of this reforms process and recommendations of Khusrao Committee and Narasingham Committee, might lead to a fall in farm investment and impaired agricultural growth [Panda96]. Infrastructure development requires public expenditure which is getting affected due to the new policies of fiscal compression. Liberalization of agriculture and open market operations will enhance competition in "resource use" and "marketing of agricultural production", which will force the small and marginal farmers (who constitute 76.3% of total farmers) to resort to "distress sale" and seek for off-farm employment for supplementing income.

Here are the types of economic reforms that have been initiated in Indian agriculture. Agricultural reform policies may be related to foreign trade as industrial and trade policies hurt the agricultural sector.

There were some restrictions and controls in the form of:

(i) Protection of industry leading to unfavorable terms of trade against agriculture,

(ii) Export restrictions on agricultural products, and

(iii) Massive subsidies for food, fertilizer, irrigation, power, credit, etc.

In December 1992, after recognizing the crucial role of agriculture in the Indian economy, a Draft Agricultural Policy Resolution was placed. It seeks to unite agricultural development and research programmes to meet the challenges in Indian agriculture and seeks to arrest the declining trends in capital formation in agriculture and step-up public investment.

This policy addresses great importance to the problems of poverty and unemployment by promoting employment generating activities through diversification of agriculture and promotion of agro-based industries.

Further, growth of Indian agriculture is hindered due to restrictions in both domestic and export market. These restrictions are not only on the movement of commodities across states but also within the states.

Apart this, Indian agriculture is not integrated with the world markets externally. Some domestic restrictions and regulations in the reform era have been removed, while some of them still remain. However, there has been significant trade liberalization. Again, excessive protection earlier given to the manufacturing sector has been greatly reduced.

Adoption of market-oriented policies is another policy change. Subsidies on various agricultural inputs have been cut. An epoch-making agricultural reform process has been set in motion in February 2002 to remove licensing and stocking requirements and movement restrictions of agricultural crops, enabling free movement and unrestricted stocking and trading in wheat, rice, coarse grains, edible oils, oilseeds and sugar. It is hoped that this would enable farmers to view the entire country as one single market.

Over the years, globalisation process for agriculture has been strengthened through both domestic and foreign trade deregulation and market orientation. In this connection, we intend to consider some provisions relating to agriculture in the WTO agreements.These are reduction and removal of various trade barriers, increased market access and reduction in aggregate measure of support (AMS). These are the direct provisions relating to agriculture. Indirect provisions relate intellectual property rights and particularly patenting of seeds.

The impact of economic reform on agriculture is a mixed one. She has attained near self-sufficiency in food grains. Both green revolution and liberalisation of India's agriculture have favourable effects on overall as well as agricultural GDP. But the structural adjustment programme for agriculture has increased the vulnerability of agriculture. Despite being good monsoons for the entire decade of 1990s, the rate of growth of food grains is unsatisfactory in the both reform era and the green revolution era. Thereis a significant decline in the Growth rates of food grains and non-food grains production over the period 1991-92 to 1999-2000 and 2000-01 to 2006-07. Average growth rales of area of food grains and non-food grains between 1994-95 and 2006-07 stood at 0.14 p.c. and 0.86 p.c. respectively. This may be attributed to growing slackness in agricultural public investment.

Plan outlay on agriculture, rural development, special area programme and irrigation and flood control as a proportion of total plan outlay in 1990s has been less than in 1990-91. In the name of reducing fiscal deficit, plan outlay in agriculture as a proportion of total outlay declined from 20.4 p.c. in 1991-92 to 9.9 p.c. in 1997-98.This fall in investment in agriculture affects capital formation adversely. It may be pointed out here that trade liberalisation policies and the fast growing middle class families seem to be the two great causes of diversion of cultivated area from food grains to non-food grains and especially high-value horticulture. This in turn, raises the issue of food security.

The effort to globalize and marketise Indian agriculture has been a serious setback to the food security of the poor and vulnerable people. The rising costs of inputs (e.g., credit, power, etc.), reduction of subsidies, etc. has squeezed the size of these people

There is deterioration in Per capita availability of food grains in recent years. Food crisis has reappeared in the midst of plenty. A paradoxical situation has emerged—stocked food grains are rotting in godowns while starvation deaths take place. This shows a pointer of continued mismanagement that is now reaching criminal proportions'.

After joining the WTO, India is now an important player in external trade. Despite being high hopes are raised in the early years of 1990s, the evidence is not altogether happy. Here one finds declining growth rates in major agri-business exports from India. Despite level-playing field given to all players, few countries control most of the world markets.

WTO is indeed quiet in this respect. This has reduced the competitive edge in the prices of India's agri-exports. This has been seen that the external sector has posed further challenges to existence and growth of Indian agriculture instead of giving strong push in demand . However, it should be worth noted that external liberalisation is not a sufficient condition for the growth of India's agricultural sector; at best it can be a necessary condition. Thus, what is required is that reform has to be made in domestic Indian agriculture. 'The world cannot marginalize India but India can marginalize itself.

A minimum commitment to WTO provisions has to be maintained so that the opportunities of improved trade in agriculture can be exploited. India has to do much more than what the WTO requires. Mismanagement of domestic economy will ultimately spell disaster.

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