

**The Shift in Economic Policy in India:  
The Case of India's Agricultural Industry**

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## Table of Contents:

1.0	Introduction	1
2.0	India Pre-1991	3
3.0	1991: The Reforms and Their Effects	10
	<i>Table 1: Poverty Ratio -- All India Rural and Urban</i>	19
4.0	Positions on Liberalisation: Review of the Literature	27
5.0	State of Indian Agriculture	34
6.0	Reforms in Indian Agriculture	37
7.0	Conditions of the Indian Economy	48
	<i>Table 2: Area Under Foodgrains and Oilseeds</i>	51
	<i>Figure 1: Net Returns Per Acre</i>	53
	<i>Table 3: India's Exports and Imports -- 1990-91 to 1995-96</i>	56
8.0	Projections	59
9.0	Conclusion	66
	<i>Appendix I -- United States Fortune-500 Investors in India</i>	

## References

## 1.0 Introduction

Prior to 1991, India was heavily reliant on the use of economic protectionism to provide its citizens with the commodities, agricultural products, and secondary and tertiary goods they required, both as consumers and as producers. Its inward-looking policies combined a number of different instruments including import substitution, tariffs, quotas, investment restrictions and subsidies to domestic industries. Given India's huge market (currently estimated at approximately 950 000 000 million people, a figure which exceeds the total population of the OECD countries by over 200 million people), demand was sufficient to justify this necessarily high level of domestic production. A huge labour force seemed to encourage support for labour, as opposed to capital, productivity, and by phasing in increasing domestic production, India, in its post independence period, gradually acquired the technical skills necessary to produce many of those items which, heretofore, it could only purchase abroad. On the agricultural products side, a number of state measures ensured India's self-sufficiency in foodgrains as part of India's Green Revolution, a program aimed at providing state intervention in areas crucial to growing adequate amounts of food (e.g. support for fertilizers, land development, availability of subsidized electricity etc.). Likewise, India also met a sizable portion of its own financing requirements for future investment.

Exhaustive economic reforms were introduced in 1991, precipitated by the demands of the International Monetary Fund (IMF), and in response to loan guarantees to India which themselves were necessitated by a combination of India's balance of payments crisis and various

political events (including those which led to the re-election of the Congress Party). As a result, India has been induced to expose its economy to rising levels of imports in areas in which it previously did not compete against foreign firms or did so with some limited degree of domestic protection. At the same time, Foreign Direct Investment (FDI) in India has contributed to a major shift of traditional competitive patterns, while the deregulation of a number of industries and the weakening of the power of a number of India's fiscal instruments is threatening India with an increased displacement of labour and increased challenges to a number of its growing and established economic sectors.

My paper begins with an examination of the traditional policies of protectionism in India, how the situation has changed in 1991 with the introduction of liberalisation reforms, and the socio-economic consequences of the use of this economic policy in India. Following these sections, the discussion focuses on the positions of a number of economists on the events of 1991 with some consideration of the rationale for maintaining, to varying degrees, protectionist (including import substitution) policies. I intend to demonstrate that the abrupt turn-around of India's traditional policies may have been an inappropriate choice based on conditions specific to the Indian economy and on certain advantages associated with the engagement of protectionist policies for developing countries (references addressing the traditional criticisms of import substitution will also be considered).

In the following sections, an examination of India's agricultural sector is presented. This section will first provide a snapshot of the industry, outlining some of its more significant characteristics.

The next part details those reforms, both actual and proposed, considered for the agricultural sector in post-1991 India. It will attempt to demonstrate the negative impacts of such reforms including the threats they pose to, not only India's agricultural sector, but India's food security as well. The last part of this section examines specific features of the agricultural sector in the Indian context, which demonstrate that it does not necessarily mesh particularly neatly into the liberal policy paradigm proposed and endorsed by the International Monetary Fund and the World Bank.

Finally, projections with regard to the feasibility of continuing reforms, based on various economic, political and social conditions in India will be examined, and with reference to specific economic sectors. While many indicators, as well as observers, appear to caution against continuing the pace reforms in India, recent events have suggested that India will, with the encouragement of the IMF and World Bank, continue to attempt to follow the economic path originally prescribed in 1991.

## **2.0 India Pre-1991**

Prior to 1991, India's economic structure was generally considered by most observers to be that of a mixed economy. Following its independence from the United Kingdom in 1947<sup>1</sup>, India

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<sup>1</sup> Prior to 1947 the role of the state in India was a comparatively minor one. While taking some action in terms of regulating tariffs, the Indian government's economic policy could best be described as *laissez-faire*. This approach extended to the actual share of the public sector in India's economic life, as the following quote indicates. "In no decade between 1872 and 1947 did the state's annual share of the GNP average more than ten per cent. Thus its direct impact on the allocation of resources was relatively small... the government did not take a generally activist stance. It was not concerned to redistribute income nor, with the exception of the tariff policy after 1923, was it trying to affect the allocation of resources." Rajat Kanta Ray, *Entrepreneurship and Industry in India, 1800-*

maintained a democratic parliamentary system, yet adopted a “socialist economic and political orientation”<sup>2</sup>. The three decades leading up to the 1990s saw consistent increases in economic growth “recording growth rates of 4.1 per cent per annum in the 1950s, 3.8 per cent per annum in the 1960s and 3.3 per cent per annum in the 1970s. In the 1980s India’s economic growth accelerated as the economy grew at a rate of 5.6 per cent per annum.”<sup>3</sup> Currently, in 1997 which marks the 50<sup>th</sup> anniversary of India’s independence, and despite some isolated bright spots in the Indian economy, “India is further behind today, relative to the rest of the world, than it was at independence... For 40 years, the economy grew so slowly that hundreds of millions remain to this day trapped in the direst poverty.”<sup>4</sup>

Economic growth in the 1950s, 60s and 70s corresponded to a rapid growth in agricultural production -- the largest single economic sector in India during these decades despite ever-increasing competition from the industrial and manufacturing sectors (agriculture accounted for 55.4 and 44.5 per cent of India’s GDP for 1950 and 1970 respectively versus 24.2 and 34.7 per cent for industry and manufacturing)<sup>5</sup>. This growth was largely fuelled by India’s “green

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1947. (Bombay: Oxford University Press, 1992), p. 198.

<sup>2</sup> Michael P. Todaro, *Economic Development (6<sup>th</sup> ed.)*. (Reading, Massachusetts: Addison-Wesley Publishing Company, 1996), p. 177.

<sup>3</sup> United Nations Industrial Development Organization, *India: Industrial Development Review*. (London: Economist Intelligence Unit, 1995), p. 1.

<sup>4</sup> “India’s Next 50 Years” in *The Economist*. Vol 344, No. 8030, 16 August 1997, p. 11.

<sup>5</sup> By 1991, however, the agricultural, manufacturing and industrial sectors were all overtaken by the service sector which then accounted for 39.9 per cent of India’s GDP -- United Nations Industrial Development Organization, *India: Industrial Development Review*, p. 4.

revolution” which, in turn, was stimulated by the subsidized use of seeds, fertilizers and irrigation, as well as an aggregate increase in the amount of land actually being cultivated. India’s agricultural sector benefitted from the “high level of protection” afforded to it and the results were largely successful, with India achieving self-sufficiency in supplying grain to its population (although it should be pointed out that this does not mean to imply that India has achieved total self-sufficiency in all food products, it should also be noted that *per capita* levels of food consumption remain relatively low *vis á vis* developed countries).

The 1950s saw the first benefits of the “grow-more-food” campaign with tremendous growth registered for agricultural products. This led to a rapid increase in purchasing power among Indian consumers as the agricultural sector represented the largest employer in India. The subsequent growth in both employment and wages, as well as profits for Indian farmers (i.e. agricultural land owners), led to high levels of inflation for food products as demand managed to keep a healthy pace relative to supply. While the program had the result of creating a separate class of land owners, seasonal labourers also benefitted through an increase in the real wages of such workers. As a result of the need to ensure food security, as well as contributing to the agrifood industry “the Congress government started from 1965 a system of public procurement and distribution of foodgrains... The Agricultural Prices Commission (APC) was set up to determine the prices at which the major foodgrains -- wheat, rice, the coarse cereals -- would be purchased from farmers with the understanding that the state would buy all that was offered at

the announced prices which would function as minimum support prices.”<sup>6</sup> A system whereby procured grain would be subsidized and distributed by the state was to be put in place and maintained until 1990, after which it would be modified and downsized.

Contrary to the evident fairness of this system, a more narrow group was to actually prosper from this arrangement. Larger capitalist interests, specifically those from the north, benefitted disproportionately from the APC’s scheme as the following quote demonstrates:

the very success of green revolution in north India raised rural incomes faster there, and the aborting of land reforms meant that the gains of growth everywhere accrued largely to an emerging class of capitalist farmers, leaving behind the mass of peasants unable to finance the transition to the new technology, whose relative income position worsened. The socially narrowly-based and capitalist nature of the investment also meant that the positive employment effects were much smaller than were initially expected as the capitalist farmers growing two or more crops found it paying to mechanise operations.<sup>7</sup>

Like the agricultural sector, India’s industrial sector in the post-independence period was characterized by rising levels of production, as well as by a high level of protectionism. Indian academics have adopted Gandhi’s term *swadeshi* or “self-reliance” (which originally was meant as a social, as well as an economic term) to refer to a system which, prior to 1991, “pursued a vigorous import substitution strategy. This was partly influenced by the idea of achieving self-reliance in many sectors of the economy. Protection helped many industries to flourish.”<sup>8</sup> To

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<sup>6</sup> Utsa Patnaik, “Political Economy of State Intervention in Food Economy” in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXII, Nos. 20 and 21, 17-24 May 1997, p. 1105.

<sup>7</sup> Utsa Patnaik, “Political Economy of State Intervention in Food Economy”, p. 1105.

<sup>8</sup> Dipendra Sinha and Tapen Sinha, “Openness and Economic Growth in India” in *The Indian Journal of Economics*. Vol. LXXVII, No. 304, July 1996, p. 117.

further accomplish this, India relied heavily on quantitative restrictions and tariffs, combined with the extensive use of subsidies, limits on, as well as a selective recruitment of, foreign direct investment and public ownership of commercial enterprises.

For all sectors, trade (i.e. both imports and exports) appeared to be a fairly low priority for development for India. This contrasts sharply to India's Asian, particularly Southeast Asian, neighbours as the following citation indicates:

[t]raditionally, India had been a low import and low export oriented country as compared with many other countries in Asia. For example, during the period under study (1950-1990), exports plus imports as a percentage of GDP in India never exceeded 18.74 per cent (in 1990)... Compare this with an Asian Tiger, Singapore where the figure was always higher than 210 per cent during 1960-90. In 1990, the figure stood at 373.83 per cent in Singapore.<sup>9</sup>

Pakistan, which, like India, was also very inward looking, had almost double the volume of imports and exports as did India at its peak. Such low volumes of trade does underscore the severity of India's import substitution policy, which translated into low export volumes as domestic production was focussed primarily on the domestic market, food production being an example. Such was the case in India's post independence period when "the share of India's exports in world trade has consistently fallen from 2 per cent in 1950s to around 0.6 per cent in 1970s. The share has remained more or less close to 0.5 per cent from 1973 onwards, which implies that our exports have increased at more or less the same rate as that of change in the

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<sup>9</sup> Dipendra Sinha and Tapen Sinha, "Openness and Economic Growth in India", p. 117.

world trade.”<sup>10</sup> This was despite the fact that India had attempted to improve its export situation in the late 1970s, and again in 1985 with the announcement of a long term trade strategy which introduced liberalisation reforms. Still, the government had achieved its objective as “the share of India’s trade in GDP has risen from the level of around 15 per cent during the 1980s to more than 24 per cent in 1995-96.”<sup>11</sup> This increase in trade is even more significant, given the significant reduction in India’s export markets which occurred with the dissolution of the COMECON trade block and the subsequent reduction in these countries’ demand for Indian products (the main export destination for India’s exports has since shifted to southeast Asian countries). Another interesting point is that, during the 1980s, manufactured goods accounted for virtually all of India’s increase in exports, while in the 1990s agricultural goods accounted for the majority of its growth.<sup>12</sup>

As was typically done in cases where an import substitution strategy is employed, India followed a two-tier path in its industrial and manufacturing sectors: the country’s first stage was aimed at directing domestic production towards “imported simple consumer goods”<sup>13</sup> for which there would be a ready market, the second stage of which “then substitutes through domestic

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<sup>10</sup> Rajesh Mehta, “Trade Policy Reforms, 1991-92 to 1995-96: Their Impact on External Trade” in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXII No. 15, 12 April 1997, p. 782.

<sup>11</sup> *Ibid.*, p. 779.

<sup>12</sup> Rajesh Mehta, “Trade Policy Reforms, 1991-92 to 1995-96: Their Impact on External Trade”, p. 779.

<sup>13</sup> Michael P. Todaro, *Economic Development (6<sup>th</sup> ed.)*, p. 459.

production for a wider range of more sophisticated manufactured items”<sup>14</sup> designed for a more sophisticated market. An illustration of the latter in the Indian case is the startling rise in the share of domestically produced “second stage” items within two decades of Indian independence. The following provides one such example: “[t]he period saw rapid structural change in the Indian economy. Imported machinery as a per cent of Gross Fixed Capital Formation of machinery and equipment declined from 43.4% in 1960-61 to 9.6% in 1973-74 and remained at the level for many years later. This is one of the most remarkable achievements of self-reliance on a global plane.”<sup>15</sup>

By the 1980s, India had begun the process which was to affect several of its established economic policies and to serve as a foreshadowing for some of the more radical policies which were to be enacted in 1991 and thereafter. Although support for domestic industries was to continue in the short run, India’s five year plan (1985-1990) contained provisions to stimulate private investment, lower taxes and relax rules governing trade and trade restrictions. Despite these measures, “[t]he very high degree of protection from foreign competition, however, continued throughout the 1980s. The resulting anti-export bias of the trade regime was sought to be offset by increasing the subsidies for exports.”<sup>16</sup>

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<sup>14</sup> Ibid.

<sup>15</sup> Yoginder K. Alagh, *Indian Development Planning and Policy: An Alternative View*. (New Delhi :Vikas Publishing House PVY Ltd., 1991), p. 168.

<sup>16</sup> United Nations Industrial Development Organization, *India: Industrial Development Review*, p. 5.

Rules which governed the investment side were also relaxed; a lack of domestic savings (or rather a lack, in the opinion of some observers, in terms of what was required to finance continued Indian investment) precipitated a desire to stimulate investment from foreign sources. This was suggested despite the fact that throughout the 1980s India had a fairly healthy investment rate of 22% of its GDP, 90% of which was financed by domestic savings.<sup>17</sup> The foreign investment policy, however, targeted Indians living abroad (which had political, as well as nationalistic appeal) rather than “more stable foreign investment”<sup>18</sup> (i.e. foreign, non-Indian owned, capital investments against which India had traditionally established barriers to entry and represented a psychological throwback to India’s British imperialist era). As the type of investment which India did attract tended to be more venture capital and speculative investment, it naturally fled at the onset of India’s balance of payments crisis, thereby compounding the severity of the crisis itself.

### 3.0 1991: The Reforms and Their Effects

If the events of the late 1980s were a foreshadowing of the circumstances which occurred in 1991, then one could be forgiven for thinking that India’s economic enterprises would continue to be protected and its policy of import substitution extended at the same levels, where warranted, that they previously enjoyed. This may have been seen as true particularly given that Indian exports had experienced a significant rise in the late 1980s (as, however, did imports) and

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<sup>17</sup> India, Government of, Ministry of External Affairs, *India Means Business: Perspectives*. (New Delhi: Macro Graphics, 1997), p. 5.

<sup>18</sup> I. Prakash Sharma, *Prospects of Further Reforms in India: Policy Staff Commentary No. 12*. (Ottawa: Economic and Trade Policy, Department of Foreign Affairs and International Trade, December 1995), p. 1.

that there remained broad public support for protection for India's industries and enterprises regardless of whether they were infant, developing or mature enterprises. Michael Todaro, of New York University, might have had India in mind when he asserted that many developing countries follow an import substitution strategy "for both economic and political reasons, although pressures from the IMF and the World Bank lay heavy opportunity costs on such endeavours."<sup>19</sup> Indeed, the IMF and World Bank were the main advocates and architects of India's pivotal economic policies which were introduced in 1991.

India's severe balance of payments crisis coincided with the election victory of Mr. Rao's Congress Party which, in response to this crisis, was compelled to seek outside assistance, as well as submit to certain terms and conditions in exchange for this assistance. The IMF, in exchange for a loan agreement to India, one which was precipitated by converging fiscal and political challenges, together with the World Bank, imposed a number of conditions on the Indian economy and India's economic policy. Some of these changes were to lay Indian enterprises open to a sudden and unexpected increase in competition, as the following quote demonstrates:

[t]he IMF's 'economic surgery' under the 1991 New Economic Policy required the Indian government to cut spending in social programmes and infrastructure, eliminate state subsidies and price support programmes (including food subsidies) and sell off the more profitable public enterprises at 'a good price' to the large business houses and foreign capital. Other reform measures included the closing down of a large number of so-called 'sick public enterprises', the liberalisation of trade, the free entry of foreign capital, as well as major reforms in banking,

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<sup>19</sup> Michael P. Todaro, *Economic Development (6<sup>th</sup> ed.)*, p. 465.

financial institutions and the tax structure.<sup>20</sup>

Since the introduction of reforms, various measures of India's economic health have also fallen short of the IMF and World Bank's expectations and, by some indications, are nearing the level which sparked India's 1991 crisis, despite ostensible post-liberalisation success in some sectors of the Indian economy and after recently posting a 6% growth rate.<sup>21</sup> India's fiscal deficit situation remains worrying; for example, after the deficit reached 6.7% of India's GDP in 1994, it increased by 0.8% in 1995 to 7.5% (a mere 0.8% lower than its 1990 total which sparked the balance of payments crisis). This figure appears to have declined to, and stabilized within the 6.0% to 7.0% range, which still remains dangerously high and highlights how the reform policies have, in fact, exacerbated the fiscal crisis of the state. In addition, the country's real GDP has declined, as has gross domestic saving (which had traditionally supplied India's domestic investment, with the decline in savings India increasingly had to rely on foreign sources of investment, this to primarily take the form of foreign direct investment as suggested in Appendix I).

The Indian government's fiscal situation with regard to its deficit on revenue accounts is likewise facing challenges. This circumstance is naturally, placing limitations on India's ability to act in those traditional spheres of protectionism, specifically subsidies which

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<sup>20</sup> Chossudovsky, Michel, *The Globalisation of Poverty*. (Penang: Third World Network, 1997), p. 126.

<sup>21</sup> In contrast to what *The Economist* disparagingly refers to as "the Hindu rate of growth of 4%" in "India's Next 50 Years", *The Economist*, p. 11.

were largely responsible for fuelling India's Green Revolution. As India's new policy has focussed on opening its borders to imports, this necessarily reduces the number of policy instruments at its disposal, particularly the use of "free" policies. For example, quotas and tariffs could be utilized without additional expenditures and, in fact, tariffs would actually increase revenue accounts.

With tariffs and quotas gone, or in the process of being phased out, India's opportunity to engage any interventionist policies is threatened because those policies (e.g. direct and indirect subsidies, loans and grants, infrastructure development, public mega-projects etc.) *cost the government money*. The following quote demonstrates the reduced, and the continued expected reduction, in the power of the state in areas where it had the capacity to spend: "[t]he deficit on revenue accounts which stood at Rs. 16 261 crores in 1991-92 has more than doubled at Rs. 35 541 crores in 1995-96 (Budget). The implementation of the recommendations of the Fifth Pay Commission are likely to worsen the situation further in this regard."<sup>22</sup>

With regard to trade, the Indian government's new Export and Import (EXIM) Policy was formally announced on 31 March 1992, and has been revised on a virtually annual basis, each update has brought an increase in the "streamlining of policy and procedures."<sup>23</sup>

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<sup>22</sup> P.K. Bhargava, "The Deepening Fiscal Crisis: Is There a Way Out?" in *The Indian Journal of Economics*. Vol. LXXVII, No. 304, July 1996, p. 85.

<sup>23</sup> India, Government of, Ministry of Commerce, *New Export/Import (EXIM) Policy*, p. 1.

Some of the specific highlights include the following:

- trade is free, subject only to the *Negative List of Imports* and the *Negative List of Exports*;
- the *Negative List of Imports* is considerably reduced;
- some components required for the manufacture of finished products in electronic industry have been taken out of the *Negative List of Imports* in the latest liberalisation move;
- the import of capital goods is not subject to any restrictions; and
- the actual user conditions for the import of capital goods, raw materials, intermediates, spares etc. are relaxed. This condition applies only if the imports require a licence.<sup>24</sup>

These actions have, to a large degree, demonstrated how, pursuant to that noted above, the policy options of Indian decision-makers are lessened through the reforms in trade but as policy instrument in themselves and as a means to raise revenues (through tariffs).

Other indicators also remain troubling, particularly given their capacity to impact negatively on disadvantaged social groups: since 1991, for example, the rupee has lost virtually half its value. This was further to a devaluation of the rupee which occurred in the late 1980s as part of India's independent reforms of that time. The rupee was subsequently devalued by an additional 18 per cent in 1991. Another devaluation took place in 1995. This action made imports more expensive and immediately decreased the purchasing power of the Indian population. The new regime determining the exchange rate of the rupee was ushered in on 20 August 1994, when "India accepted Article VIII

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<sup>24</sup> Ibid., pp. 1-2.

status in the IMF. The Indian rupee is fully convertible on the current account. For foreign investors, the rupee is also convertible on the capital account.”<sup>25</sup> While this move is expected to address some of the distorting effects of capital controls, capital account convertibility (CAC) has a number of negative implications for the Indian economy, as it has for other developing countries which have adopted CAC, including an erosion “of the effectiveness of domestic monetary policy. Furthermore, an open capital account imposes tremendous pressures on the financial system and brings the weaknesses in the financial system into sharper focus.”<sup>26</sup>

In addition to increasing the price of imports, the general shift to world market prices in India contributed to an approximate doubling of the country’s wholesale price index; unfortunately, those products which have traditionally been demand inelastic (both for consumers as well as producers) have tended to show the greatest price increases (thereby creating inescapable inflation for Indian consumers). These products include oil, machinery, medicines, raw materials etc. Naturally, a number of these goods are imported, and therefore, India’s currency devaluations have contributed to an even greater and excessive rate of inflation for these goods.

Not surprisingly, among India’s newly disadvantaged groups were rural agricultural workers themselves. This group has traditionally been, in fact, disadvantaged; however, under the 1991 reforms they were to experience sharp increases in poverty rates. As

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<sup>25</sup> India, Government of, Ministry of External Affairs, *India Means Business: Perspectives*, p. 30.

<sup>26</sup> Committee on Capital Account Convertibility, *Report of the Committee on Capital Account Convertibility*. (India -- <http://www.indiaserver.com/embusa/emdc/ieconews/1997/06/page2html>), June 1997, p. 1.

Praveen Jha points out: "in spite of the fact that agricultural labourers constitute one of the most substantial occupational categories in the Indian economy, they are easily among the most neglected in terms of the policies of the state. This neglect has become even more serious, and brazen, in the most recent phase of India's economic policy... according to the National Sample Survey, there were 30 million more poor people in rural India in 1993-94 than just before the reforms began."<sup>27</sup> Part of the reason for this was a decline in real wages between 1990-91 and 1995-96 in seven of India's 14 major states, these seven being home to approximately 60% of India's agricultural workers.<sup>28</sup>

Changes in India's intellectual property regimes have also sparked marked inflation for products which, although produced domestically, are still subject to a foreign-registered patent<sup>29</sup>. As part of the liberalisation, licensing requirements between 1991 and 1993 were abolished with the exception of 15 industries. Following 1993, licensing requirements continued to be dismantled to the point where they existed for only a few industries. The licensing situation in India can be summarized as follows:

items on Negative Lists would continue to require a licence for import/export. The lists are to be administered, as far as possible, by general schemes. Case-by-case licensing will be minimized and special import licences made more attractive. Items relating to health care, sports, communication and office equipment, some consumer durables not

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<sup>27</sup> Praveen Jha, "Devil Take the Hindmost: Economic Reforms and Agricultural Labourers" in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXII Nos. 20 and 21, 17-24 May 1997, p. 1105.

<sup>28</sup> Ibid.

<sup>29</sup> India, Government of, Ministry of Commerce, *New Export/Import (EXIM) Policy*. (New Delhi: Macro Graphics, 1997), p. 1.

reserved for SSI units, squares and components are now being permitted under Special Import Licence schemes.<sup>30</sup>

The absence of licensing, or other intellectual property barriers to entry, can lead to virtual monopoly positions for suppliers of certain protected products and processes. The natural consequences of this provides opportunities for market failures such as inflation, poor or unavailable goods and services and other inefficiencies (i.e. arguments which fall into the same traditional criticisms directed against import substitution and other protectionist policies). Farmers in India have recently indicated their objection to the insensitivity of decision makers with regard to how decisions related to intellectual property can affect them:

farmers belonging to the Karnataka Rajya Raitha Sangha (KRRS) have announced a plan to hold a rally in Bangalore on January 30 demanding recognition of farmers' rights and community rights and inclusion in all relevant policy making... The President of the KRRS, Prof. M.D. Nanjundaswamy, said the Indian Government was going ahead with major decisions on the Plant Varieties Act and the Indian Patents Act without consulting farmers' organizations or representatives.<sup>31</sup>

The social impacts of the 1991 reforms have been severe and are expected to be structural. Labour markets have seen displacements in the labour force affecting unskilled labour in particular, which is already the lowest paid segment of the Indian labour market, while entrenching the comparably small skilled labour market.

Furthermore, the liberalisation has contributed to the decline of small- and medium-sized indigenous enterprises. As Pande summarizes in his piece on the 1991 reforms, these

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<sup>30</sup> Ibid.

<sup>31</sup> "Karnataka Farmers to Demand Rights" in *Agri-News Briefs*. (Business Line & the India Information Inc., 8 January 1997), p.1.

policies “certainly affected the distribution pattern of income, and in fact, has led to the process of concentration of income. It has improved employment levels in chosen sectors of skilled labour but has certainly led to greater unemployment of unskilled labour. The domestic small scale and village sector industrial works have been hit hard.”<sup>32</sup> This is underscored by the fact that village sector industrial works are commonly used as supplementary income activities by agricultural workers or by households which are largely dependent on agriculture.

The agricultural sector is one which was not specifically or initially targeted for reform, although it was a victim of liberalization through the impact of India’s broader range of reforms, as well as the withdrawal of subsidies for those agricultural inputs which contributed to making India self-sufficient in grain production. This action contributed to “pushing a large number of small and medium-sized farmers into bankruptcy.”<sup>33</sup> An almost immediate response was an elevation in the poverty rate, which occurred following the introduction of the reforms. As Bhatt points out, “poverty ratio in rural (areas) has gone up sharply from 35.55 per cent in 1990-91 to 42.06 in 1991 and 48.07 in 1992. The estimates of poverty ratio by researchers have also shown the same trend. The relative inequality as measured by the Gini coefficient also increased in 1991 and 1992 compared to that in 1990-91”<sup>34</sup> (see *Table 1: Poverty Ratio -- All India Rural and Urban*

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<sup>32</sup> India, Government of, Ministry of Commerce, *New Export/Import (EXIM) Policy*, p. 1.

<sup>33</sup> Michel Chossudovsky, *The Globalisation of Poverty*. p. 128.

<sup>34</sup> Bhatt, P.R. “Structural Reforms in India” in *The Indian Journal of Economics*. Vol. LXXVII, No. 304, July 1996, p. 13., p. 13.

for a more detailed breakdown of the relevant statistics).

**Table 1: Poverty Ratio -- All India Rural and Urban**

NSS Survey Period	Gini Coefficient	Planning Commission Estimate	Researcher's Estimates
Rural			
1983	0.30055	49.02	37.54
1986-87	0.30191	45.21	34.04
1987-88	0.30152	44.88	32.44
1988-89	0.29522	42.23	29.97
1989-90	0.28239	37.94	25.90
1990-91	0.27723	35.55	25.20
1991	0.31096	42.06	29.88
1992	0.29780	48.07	35.88
Urban			
1983	0.33360	38.33	28.77
1986-87	0.35606	35.39	27.24
1987-88	0.35586	36.52	27.23
1988-89	0.35625	36.98	27.91
1989-90	0.35601	32.41	23.97
1990-91	0.34015	32.43	23.67
1991	0.35087	32.02	23.42
1992	0.35550	33.87	25.13

Note: Planning Commission's monthly per capita total expenditure is Rs. 49.09 for rural and Rs. 56.64 for urban at 1973-74 prices and that of researchers is Rs. 15 for rural and Rs. 18 for urban and 1960-61 prices. In addition, please note that no additional qualifiers (e.g. monthly or *per capita* expenditure qualifiers on *Planning Commission Estimates* were indicated by the author).

Source: Bhatt, P.R. "Structural Reforms in India" in *The Indian Journal of Economics*. July 1996, Vol. LXXVII, No. 304, p. 12.

While not directly linked to the agricultural sector (with the exception of farm tools, machinery, seeds, infrastructure projects etc.), the developments in other sectors of the Indian economy, particularly the manufacturing and industrial sectors, were supposed to provide a “boost” to agriculture. The expectation resulting from liberalisation was that, like the “urban informal sector”, both the rural sector in general and the agricultural sector in particular would benefit from the “trickle down” effect in the industrial and foreign sectors<sup>35</sup>, although there was no discussion as to how this was to happen. It appears the Indian government is willing, in the absence of economic impact assessments by investing companies, to encourage foreign companies to “set up shop” in India with the expectation of “trickle down” benefits. Such was recently hinted at by S.M. Datta, president of the Associated Chambers of Commerce and Industry, and Chairman of Hindustan Lever Ltd., when participants at the 1996 Global Indian Entrepreneurs Conference enquired if “investing in agricultural infrastructure would be worthwhile, considering that operating on a commercial basis was politically sensitive. Mr. Datta said such a potential pitfall existed in any infrastructural investment. However, he felt that the agri-sector was ‘not waiting for any major legal transformation’. There was enough room for private business in agriculture, he said.”<sup>36</sup> Likewise, Ramesh Vangal, president of PepsiCo Food International, in noting annual sales in India of \$400 million, remarked that “investing” (rather than, for example, food security) appears to be the minimum

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<sup>35</sup> Bhatt, P.R. “Structural Reforms in India”, p. 13.

<sup>36</sup> M. Ramesh “Good Scope for Agri Infrastructure: S.M. Datta” in *Agri-Business Briefs*. (Business Line & The India Information Inc., 21 June 1996), p. 1.

criteria for doing business in India. In describing PepsiCo's Indian experience he remarked "the company had invested \$300 million in India. Mr. Vangal said his company had always 'delivered national priorities' in terms of increasing agricultural productivity and exports."<sup>37</sup>

What is more likely than industry and manufacturing acting as a catalyst for agriculture, although this fact often goes unnoticed in discussions on this subject, is that agriculture continues to be a more plausible stimulus for the Indian manufacturing and industrial sectors. In this way, "agriculture contributes to growth by providing a demand base for other sectors."<sup>38</sup> Keeping in mind the fact that India's agricultural sector employs the majority of its labour force and thus, represents the nation's largest single block of consumers, the preservation of this sector appears to be one of the determining factors in the health of India's industrial and service sector:

[t]hough the data on agriculture's demand contribution are not available, it is quite easy to visualize this contribution from the income that farmers and landless spend on their consumption that stimulates growth of other sectors/occupations such as industry (including agro-processing), trade, commerce, and transportation of commodities (including farm inputs), and services like banking, insurance, education, and extension.<sup>39</sup>

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<sup>37</sup> M. Ramesh "Singapore Meet 'Positive' on India" in *Agri-Business Briefs*. (Business Line & The India Information Inc., 21 June 1996), p. 3.

<sup>38</sup> Bhupat M. Desai and N.V. Namboodiri "Developing Agriculture in Gujarat: A Strategic Perspective for Ninth Plan" in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXII No. 13, 29 March 1997, p. A-31.

<sup>39</sup> Ibid.

Rather than being a stimulus of the rural and agricultural sectors however, other individual sectors of the Indian economy have experienced their own displacements based on their own unique circumstances; regrettably, many of those industries which were affected were on the threshold of benefitting from India's protectionist import-substituting policies and, therefore, may have suffered accordingly (i.e. have reached a level where they might profitably compete against foreign firms in the global arena but were either prevented from, or delayed in, doing so due to the 1991 reforms). Therefore, far from benefitting from open markets, certain industries may have been prematurely interrupted in their competitive development.

In his examination of the Indian software industry, professor Richard Heeks of the University of Manchester comments that this industry had previously benefitted from such protectionist policies (this topic is further discussed in *Section 4.0 Positions on Liberalisation: Review of the Literature*); however, many of these benefits were threatened by the liberalisation reforms of 1991. As Heeks suggests, the fact that some protectionist policies were only softened, rather than eliminated, contributed to the domestic survival of this industry. As he explains:

[i]ntroducing import liberalisation into this import-substituting industry allowed the massive increase in demand to be met largely by direct imports, by import and assembly of computer kits, by foreign collaborations, and by a large outflow of foreign exchange. All of these had a role to play in the suppression of local research and development and of local technological capabilities, and the signs were that the same thing was going to be repeated in the latter half of the 1990s. What local production and capabilities there were during the earlier period remained

partly through continuing protection.<sup>40</sup>

Still other sectors of the Indian economy are expected to fare far worse as the pace of reforms accelerates. In the financial services sector, new entrants, particularly new banks, which are being allowed to establish themselves in India, have and will continue to provide intense competition to the established enterprises. "The pressure for liberalisation came from foreigners and now the pressure is for liberalisation in service sectors like banks, insurance etc. When one compares the quality of service of Indian banks and insurance companies with multinational companies, it is obvious that no Indian would choose service of Indian companies."<sup>41</sup>

In response, the open economy advocates would argue that the influx of new competitors in financial services would improve the competitiveness of this industry, particularly in the Indian market where the major banks are public institutions (hence there would be one less economic sphere in which the government would influence the economy, both as an active participant, and as overseer of monetary policy). Indeed, 1992 saw measures ushering in private banks and the requisite guidelines concerning loans and other financial activities. More recent moves have further liberalised the activities of the financial sector as the following two points indicate:

- existing private sector banks are being allowed to expand and new private

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<sup>40</sup> Richard Heeks, *India's Software Industry: State Policy, Liberalisation and Industrial Development*. (New Delhi: Sage Publications, 1996), p. 228.

<sup>41</sup> G.C. Pande, "Economic Liberalization in India" in *The Indian Journal of Economics*. Vol. LXXVII, No. 304, July 1996, p. 34.

sector banks are being allowed to be established; and

- Private sector mutual funds and foreign institutional investors, such as pension funds and mutual funds, have been allowed to operate subject to the rules and guidelines of the Securities and Exchange Board of India (SEBI).<sup>42</sup>

There are, however, transitional problems associated with shifts in capital from one financial institution to another in that they can occur so rapidly that a sudden decrease in cash reserves can immediately jeopardise the continued existence of a bank, trust or insurance company etc., thereby threatening many of India's financial establishments, as well as their clients.

The banking and financial services industry represents but one activity which has seen the hegemony of the public sector directly confronted. As previously indicated, part of the reforms of 1991 included the closing down of "sick public enterprises". State owned enterprises (SOE) represented a significant percentage of the Indian economy prior to 1991, and even today the public sector still accounts for 25% of India's GDP. As part of its import substitution and protectionist programme, SOEs constituted a large portion of Indian industry with clearly delineated roles between the private and public sectors. The rationale for this situation is much the same as that used for the provision of certain utilities and services by the public sector in developed countries (i.e. economy of scale considerations and the responsibility to provide an economic infrastructure, although

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<sup>42</sup> India, Government of, Ministry of Commerce, *Economic Reform Programme Highlights*. (New Delhi, 1996), p. 1.

India's public sector was also responsible for a fairly large share of manufactured goods, many of which, some economists would argue, would have been more appropriately produced by the private sector).

Since the 1991 liberalisation reforms, the public sector has, to varying degrees, abrogated its traditional role related to India's economic sectors: "the private sector can operate in all areas except those of strategic concern such as defence, railway transport and atomic energy. The list of industries reserved for the public sector has been reduced to six. Even in this reserved list, private participation is allowed selectively in some areas."<sup>43</sup> As the government's activities tended to be large scale enterprises, requiring large amount of capital, there was a lack of indigenous capital and expertise to take over these operations when public sector enterprises were sold, resulting in a sudden influx of foreign firms in the industries previously considered to be appropriate only for government involvement. The necessary start-up capital presented problems in terms of its being a barrier to entry for those many domestic Indian enterprises which have yet to achieve the critical mass necessary for such investment. The concurrent lifting of limits on FDI implies an ever expanding role for foreign capital interests in such large-scale projects and, consequently, ever expanding competition to established Indian enterprises, both public and private. While FDI has come from a number of different countries, the United States has been particularly active in this area, a listing of its largest firms which have invested in India

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<sup>43</sup> India, Government of, Ministry of External Affairs, *India Means Business: Perspectives*, p. 28.

can be found in *Appendix I -- United States Fortune-500 Investors in India*.

The Indian government engaged in steps to foster this increased competitive environment as part of its privatization reforms, seemingly inviting the private sector, including foreign interests, to step into to provide those services which it was no longer prepared to provide. The following points highlight the major conditions of, not only India's relaxed rules towards FDI, but its attempts at fostering this investment:

- allowing up to 51 per cent foreign participation in 35 high-priority industries on an automatic approval basis, with the possibility of approval of up to 100 per cent on a case-by-case basis;
- streamlining government approval procedures with a fast-track mechanism even where the automatic route cannot be used; and
- preferential tax rates and tax holidays, bilateral investment treaties, and accession to the Multilateral Investment Guarantee Agency.<sup>44</sup>

Since 1991, specific industries were targeted for liberalisation. For example, 1992 saw FDI permitted for the power sector, on which the Indian agricultural sector is highly dependent, and from which it received advantageous rates as state utilities, while telecom and other value-added services were approved for such investment in 1994. Despite this, FDI has not reached the levels originally anticipated, or even promised: “[b]etween 1991 and March 1995, a cumulative \$6 billion of foreign direct investment had been approved. However, just over \$2 billion has actually materialized.”<sup>45</sup>

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<sup>44</sup> Ajai Chopra et. al., *India: Economic Reform and Growth*. (Washington DC: International Monetary fund, Publications Services, December 1995), p. 61.

<sup>45</sup> Ibid.

#### 4.0 Positions on Liberalisation: Review of the Literature

While a number of economic organizations including the IMF, the World Bank and the OECD, along with most neo-classical economists, have a rather jaundiced view of most policies that could be described as protectionist (which paradoxically have gained favour in some circles in the developed world in response to a perceived threat regarding a flood of cheap imports from developing countries and the exporting of jobs in traditional high-wage, semi-skilled blue collar jobs<sup>46</sup>), there continue to exist proponents of activities aimed at protecting domestic industries (including infant industries). Some of these proponents have, understandably, attempted to apply these arguments to the Indian case.

Economists at the Delhi School of Economics, for example, have suggested that the use of import substitution as a policy mechanism was one which was aimed at providing a growth strategy by improving private profitability and assisting market forces. It also took advantage of specific conditions of the Indian economy, for example, the large economies of scale afforded by India's large and growing population. As one economist observed "the protected domestic markets under conditions of growing demand further reinforced the possibilities of profitable investment opportunities for the private sector."<sup>47</sup>

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<sup>46</sup> The restriction of sugar products and other agricultural imports from developing nations to many OECD countries are a commonly cited case in discussions concerning protectionism as is agricultural products in general, which often form the bulk of exports from developing countries and, therefore, is a market which could benefit those countries assuming developed countries were willing to open up *their* markets -- the "cost of protection to agriculture in OECD member economies is \$350,000 million dollars per year." G.C. Pande, "Economic Liberalization in India", p. 35.

<sup>47</sup> Kapila, Uma (ed.), *Indian Economy Since Independence -- Volume I: Planning, Institutional Framework and Development Performance*. (Delhi: Academic Foundation, 1990), p. 79.

Indian economists have also suggested that import substitution can be successfully employed where it is a part of a mixed-economy model (to which India has traditionally subscribed) where production is shared between the private and public sectors, albeit in defined and delineated areas, as highlighted by the following quote: "if one considers the import-substitution led industrialization strategy that involved public sector production in the core and universal intermediate goods and a rather loose control over the private sector, it is obvious that it could be done successfully through the apparatus of centralized planning."<sup>48</sup> Kapila goes on to note one of the constraints on this process as being the availability of technology, however as one of the common criticisms of import substitution strategies is that they tend to attract foreign companies which establish enterprises behind the tariff barrier (and often transfer technology in the process), but this drawback can be addressed somewhat.

Yoginder K. Alagh also provides an alternative view to that espoused by the IMF and the World Bank since 1987. Rather than abolishing tariffs, reducing licensing, removing pricing, fiscal and quantitative restrictions and eliminating regional development objectives, he proposes a closer alignment between India's industrial, and development, policies, or as he states: "the central objectives of industrial policy have to be related with the development objectives of the nation... Indian industrial policy cannot, therefore, be oriented to mechanical adjustment to world prices and the approximation of free markets.

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<sup>48</sup> Kapila, Uma (ed.), *Indian Economy Since Independence -- Volume I: Planning, Institutional Framework and Development Performance*, pp. 79-80.

Policy has to be integrated with the objectives of planning through processes of structured adjustment.”<sup>49</sup> Rather, however, than relying solely on those protectionist policies which are so opposed by the IMF and World Bank, Alagh suggests that the mixed economy should be adhered to and, consequently, does not eschew the use of liberal traditions to achieve economic objectives. As he goes on to state “to the extent market forces lead to higher levels of efficiency and provide economical methods of achieving objectives, these should most certainly be adopted.”<sup>50</sup>

Alagh does, of course, see specific conditions in the Indian economy which require addressing for development purposes, including the structural modernization of the Indian economy, particularly the establishment of a national infrastructure in order to establish the prerequisites necessarily for the building of future economic and social growth. Alagh also advocates the very pressing need of what he terms “agro-based industrialization”, which takes the agricultural industry’s traditional role as an employer into account.

Other sectors Alagh sees as important are those intermediate industries which feed into India’s downstream industries (which have traditionally been supplied by a relatively larger percentage of imports), regional development where fitting, appropriate

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<sup>49</sup> Yoginder K. Alagh, *Indian Development Planning and Policy: An Alternative View*, pp. 197-199.

<sup>50</sup> *Ibid.*, p. 197.

technological policies and the targeting of critical industries for government support.<sup>51</sup>

He effectively sums up his position by underscoring the strategic use of economic instruments rather than what he considers a blanket right-wing agenda espoused by the IMF and World Bank. As he observes with regard to the impact of market forces, "these concepts have to be related with development policy objectives and priorities, rather than being applied in an uncritical neo-classical framework."<sup>52</sup>

Other economists have argued for some degree of protectionism, if only to a limited extent, and then in the case of only clearly identified industries. Part of the reason behind advocating protectionist policies is that a number of developing countries simply lack the critical mass necessary for the formation of sufficiently strong domestic industries producing those goods which might successfully compete with other countries goods. For example, it is unlikely that Chad or Mali, regardless of the degree to which they develop open economies with no restrictions to trade and foreign investment, along with an absence of domestic developmental and regional policies, can evolve into economies whose exports are chiefly composed of secondary and tertiary, rather than primary, goods. Likewise, the lack, or even absence, of a suitable infrastructure, as suggested by Alagh, can eliminate a country's chances for progressing to such an economic state as well. In this case, there is some justification to the argument that the establishment of

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<sup>51</sup> A policy which was, in fact, carried out by Canada in the mid- to late-1980s as well, at which time the then Department of Industry, Science and Technology had targeted biotechnology, advanced materials and packaging as growth industries and developed policies aimed at the enhancement of these industries.

<sup>52</sup> Yoginder K. Alagh, *Indian Development Planning and Policy: An Alternative View*, p. 198.

this critical mass is a suitable justification for employing protectionist policies, particularly if it is not economy-wide and not intended to be employed at high levels on a permanent basis.

Richard Heeks concurs with the notion that a form of critical mass is necessary in order to reach a level where trade liberalisation is feasible. One of the significant aspects of his work is the fact that it deals with a high technology segment of what is increasingly referred to as the “knowledge based economy” (i.e. those emerging industries affording the greatest value added based on their technological sophistication and which have been increasingly touted in the west as the most desirable industries). In this respect, Heeks discusses the “technological infrastructure” associated with building a software industry and the necessity of doing so in order to make it a viable enterprise. As he notes:

[t]he protection from imports offered between 1972 and the early 1980s allowed Indian firms to re-invent a few ‘wheels’ by reverse engineering foreign products. As a result there was a build-up of indigenous production and indigenous technological capabilities, particularly design capability... Local firms therefore gathered strength during this sheltered period and it is this, more than anything else, which provided the base for the impressive growth and design innovation seen in a few large firms. Protection, and the consequent increase in technological capabilities, also helped reduce technological dependence on the multinationals and to compensate for Indian firms’ difficulties in achieving scale economies through exports.<sup>53</sup>

In contrast to the traditional criticism launched against protectionist oriented policies, that

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<sup>53</sup> Richard Heeks, *India's Software Industry: State Policy, Liberalisation and Industrial Development*, p. 227.

is the charge that they stifle competition and, as such, create inefficiencies, the above quote suggests that this is not always the case. Indeed, with the exception of large state owned enterprises, such policies can actually foster not only competition among firms, but the number of firms entering the market as well. On this point Heeks observes that “[i]n the 1980s and 1990s, it was only where protected from imports (and the foreign collaborations that bring them) that Indian companies were able to develop software packages and hardware development design skills. If, instead, India had continued to rely on foreign imports -- as it was increasingly doing in the 1990s -- it is hard to see how local production capabilities could have been built up.”<sup>54</sup>

Other arguments can be employed which, if not supporting varying degrees of import substitution, at least address some of the traditional criticisms launched against this policy. One such criticism, for example, is the charge that import substitution policies tend to lead to an overvaluation of the domestic currency, a tactic occasionally used to “encourage local manufacturing through the importation of cheap capital and intermediate goods... This has the effect of raising the price of exports and lowering the price of imports in terms of the local currency.”<sup>55</sup> In the case of India, this criticism does not necessarily apply. For example, the precursory reforms of the 1980s did address the problem of India’s overvalued currency by allowing for a significant real depreciation of

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<sup>54</sup> Richard Heeks, *India’s Software Industry: State Policy, Liberalisation and Industrial Development*, p. 228.

<sup>55</sup> Michael P. Todaro, *Economic Development (6<sup>th</sup> ed.)*, p. 468.

the rupee. While exports did increase, the depreciation of the rupee cannot be considered as the sole cause as a number of rules governing trade were relaxed. Furthermore, India already possessed a significant cost advantage for its exports compared with its competitors. Third, the 1980s still saw India adhere to its policy of import substitution, thereby showing how this policy does not necessarily result in an overvalued currency. Finally, with regard to "lowering the price of imports", as is the natural result of a real currency devaluation: the continued and strategic use of tariffs and quotas to protect certain identified industries can certainly play a role in preventing this from happening.

Lastly, some observers see the notion of "inward looking" policies to be a non-issue in the degree to which less developed countries, including India, progress economically and socially, suggesting that such countries can or perhaps should adopt a protectionist approach and not necessarily suffer the ill effects (with the exception of having policies imposed on them from international financial organizations should they urgently require financing) commonly associated with such policies. This posture suggests that as the variables which determine economic growth, and its distribution throughout a society, increase in number, traditional explanations for economic development, including the use of liberal tools, become increasingly irrelevant. The following quote reflects such an opinion and supports it with concrete and recent evidence:

[i]n the final analysis, it is not a developing country's inward- or outward-looking stance vis-à-vis the rest of the world that will determine whether or not it develops... Inward-looking, protectionist policies such as tariffs, quota, and exchange-rate adjustments do not necessarily guarantee more jobs, higher incomes that are more equitably distributed, adequate nutrition and health, clean

water, or relevant education any more than outward-looking, noninterventionist policies do. Even though policies of export promotion appear to have contributed more to GNP growth than import substitution did during the 1960s and 1970s, similar results were not forthcoming in the period from 1979 to 1991.<sup>56</sup>

## 5.0 State of Indian Agriculture

As earlier indicated, India's Green Revolution spawned India's self-sufficiency in food production. This phenomenon, which was fully implemented by the 1960s, utilized many of the interventionist policy measures which became trademarks of Indian economic policy in general, including a combination of "a mixture of market incentives, heavily regulated market provision and non-market distribution... production credit, subsidized input prices, stable output prices and state-funded infrastructure ranging from electricity and water to roads, market sites, research and development and extension were all developed."<sup>57</sup> Import substitution, as was the case with so many other sectors of the economy, impacted on the agricultural sector as well. This reflects the fact that self-sufficiency was not the only goal of promoting Indian agriculture at the time as this sector "contributes to the economy by providing even savings and foreign exchange (through import-substitution and/or exports)... Prominent examples of import substitution are edible oils and foodgrains."<sup>58</sup>

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<sup>56</sup> Michael P. Todaro, *Economic Development (6<sup>th</sup> ed.)*, p. 480-481.

<sup>57</sup> Barbara Harriss-White and S. Jankarajan "From Green Revolution to Rural Industrial Revolution in South India" in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXII No. 25, 21 June 1997, p. 1469.

<sup>58</sup> Bhupat M. Desai and N.V. Namboodiri "Developing Agriculture in Gujarat: A Strategic Perspective for Ninth Plan", p. A-31.

Despite what critics of such interventionist and protectionist policies might suggest, the results of India's Green Revolution policies met with some success: with growth rates of 3.2 per cent in the 1960s, 2.2 in the 1970s and 3.4 per cent from 1980 to 1994, the Indian agricultural sector remains one of the bright lights in India's economy, although there are significant regional variations among India's states in terms of how successful they have been (the north being the most successful) and, more recently, a retrenchment of India's growth in food production.

The increased productivity in the Indian agricultural sector has boded well as a part of India's overall economic reforms. In the 1992 - 1997 period the share of agricultural exports as a percentage of overall exports, increased from 12 per cent to 14 per cent<sup>59</sup> (this was taking place despite the fact that 40 per cent of Indian children under the age of 5 are malnourished<sup>60</sup>). This figure, in quantitative terms, becomes much larger when one considers the fact that India's share of trade, as a percentage of its overall GDP, has substantially increased since India first began to introduce reforms in the 1980s, since which time India's share of trade has increased from 15 per cent to over 24 per cent in

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<sup>59</sup> S.N. Mishra, "Agricultural Liberalisation and Development Strategy in Ninth-Plan" in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXII No. 13, March 1997, p.A-19.

<sup>60</sup> While India is commonly described as being self-sufficient in terms of food production this does not mean that food resources are adequately or equitably distributed, hence the surprisingly high figure for malnourished Indian children under the age of five. The technical definition used to support the position that India is self-sufficient states that as India has a "per capita availability of more than 500 grams of food grains per day" Ananth S. Panth "Social Networks and Food Security in Rural Karnataka" in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXII No. 15, 12 April 1997, p. 756. While this may be true on an aggregate level other factors, such as the excessive export of crops and other food products, the lack of necessary means experienced by a large portion of the populace, as well as transportation and availability constraints serve to prevent its adequate distribution across Indian society as a whole.

1995-96.<sup>61</sup> The following quote demonstrates the precariousness of the situation in terms of, not only India's food security, but its role in improving India's economic health:

[i]t is not difficult to see that had a fall of even 10 per cent at the base of 180 to 190 million tonnes of food production occurred (not unlikely in a drought year) in this period, balance of payments deficit, in an already critical situation, would have become unmanageable. It would have been impossible to bring down inflation and contain it below two digit level. Thanks to successive good performance of agriculture and the accumulated food stocks with the government of about 30 to 35 million tonnes, the country is in a position to withstand such a shock.<sup>62</sup>

Thus agriculture remains strong, and this is despite a drop in food grains production (the largest supplier of calories to the Indian population) by over 3 per cent so far in 1996-97 (which contributed to an overall decline to a 1.5 per cent growth rate in this crop between 1990-96) with an overall drop in total agricultural production by approximately 0.2 per cent -- forecasts for the next fiscal year predict a rebound of approximately 4 per cent.<sup>63</sup> However, the fact remains that longer term forecasts appear to be less optimistic, particularly given current demographic projections. For example, the current growth in foodgrains production is losing ground to population increases. When combined with the fact that *per capita* food consumption has already declined significantly since 1991 (while exports have increased concurrently) due to the inability of the population to afford basic food items, the problem of malnutrition is likely to increase. Assuming these

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<sup>61</sup> Rajesh Mehta "Trade Policy Reforms, 1991-92 to 1995-96: Their Impact on External Trade", p. 779.

<sup>62</sup> S.N. Mishra, "Agricultural Liberalisation and Development Strategy in Ninth-Plan", p.A-19.

<sup>63</sup> Kirit Parikh, "India's Economy: Poised for Take-Off" in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXII No.s 20 and 21, 17-24 May 1997, p. 1141.

trends continue, India will be required to sharply pull back on its increased food exports and use these products to feed its own population.

Indian farming is characterized by a fairly large number of small- and medium-sized establishments sharing the land resource. This situation is attributable to a series of regulations which limit the amount of land which can be owned by one individual or enterprise for a specific purpose. A substantial amount of Indian agricultural land remains in public hands, this land is typically used Common Property Resources (CPR), i.e., occupants, or those living close to the land, use the resource for agricultural purposes (e.g. grazing land). Following a 1991 government ordinance, thousands of acres of common land were privatised, but it is uncertain however that this was directly connected to the broader liberalization reforms of the time (i.e. take land which was being worked and occupied by "squatters" and sell it to private interests) or whether it was done for environmental purposes (i.e. due to the relatively negative environmental impact that squatters typically had on the land they occupied).

## **6.0 Reforms in Indian Agriculture**

In light of the continued importance of agriculture to the Indian economy (this sector employs two-thirds of the Indian workforce despite the fact that it has a share of slightly less than one-third of the real GDP<sup>64</sup>), it is not surprising that it is repeatedly pointed to as

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<sup>64</sup> S.N. Mishra, "Agricultural Liberalisation and Development Strategy in Ninth-Plan", p.A-19.

a sector that is ripe for reform, particularly by outside interests. Specific proposals for actions for reform have included the government undertaking the following tasks:

- the removal of regulations and restrictions operative on agricultural sector on the general plea of parity with the industrial sector, and on the grounds of market freedom;
- the removal of existing restrictions on agricultural exports (and possibly imports);
- the withdrawal of its monopoly food procurement operations in the domestic market;
- the removal of ceilings on land ownership to create conditions for corporate-agriculture; and
- the withdrawal of input subsidies including subsidized credit and priority sector treatment given to agriculture.<sup>65</sup>

To date, the level of India's economic reforms on the agricultural sector have been, ostensibly at least, lower than that on other economic sectors (despite the impact on input and output prices). Part of the reason for this may be the aforementioned fact that as agriculture has seen consistent production increases over the last three and a half decades there has been less of an impetus to address this sector specifically (most of the reforms carried out appear to have focused on the manufacturing and industrial sectors or have been more broad-based affecting the economy as a whole and, consequently, the agricultural sector). This may also be derived from the fact that the single largest block of voters, in occupational terms, is drawn from agricultural workers. No doubt the government of India did not want to be seen as directly including agricultural reform in

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<sup>65</sup> S.N. Mishra, "Agricultural Liberalisation and Development Strategy in Ninth-Plan", p.A-19.

its post-1991 economic package for these reasons. However, recent retrenchments in India's agricultural output have still been attributed to various elements of India's economic reform, as will be discussed.

The World Bank has influenced Indian agricultural policy through the adoption of a lending regime which mirrors the policy platform which it outlined for India in the early 1990s. In doing so the Bank set the tone for what was expected from viable agricultural programs as the following quote, which summarizes the post-1991 approach to agricultural development in India suggests: "wherever there is a private sector alternative to public provision, encouragement should be accorded to the private sector alternative."<sup>66</sup>

While the majority of Indian agricultural is produced by private interests, there are public interests in this sector as well, particularly through its Public Distribution System and through initiatives to provide financing for rural agricultural interests (e.g. the National Agricultural Bank for Rural Development and the District Credit Plans). Furthermore, given that a large portion of the Indian economy rested with the public sector and did so with, what the World Bank would consider, clear private sector alternatives, it is not surprising that the World Bank's approach to assisting agriculture in India was to take a different path, specifically one aimed at facilitating changes in India's agricultural policy rather than directly assisting the sector itself:

[t]he World Bank, thus, over the years is gradually shifting from

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<sup>66</sup> K. Kaladhar "Designing Financial Services for Rural Poor: Retooling Rural Financial Institutions?" in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXI No. 39, 28 September 1996, p.A-117.

activity specific project appraisal to that of sectoral and public expenditure analysis or what is called structural adjustment lending. For example, the agricultural expenditure review of India carried out by the World Bank in 1993 [Pradhan and Pillai-Essex 1993] examined several agricultural programmes as projects and calculated their minimum rate of return. It concluded that two programmes -- a fertiliser subsidy and a crop production scheme -- had a zero rate of return because there was no justification for public provision of these goods. Yet the bulk of the Indian government's expenditure was going to these two schemes.<sup>67</sup>

As was the case with reforms in other sectors, reforms in agriculture are now seen as being ripe for the introduction of additional market mechanisms by which this sector can increase its record of foreign investment, eliminating economic "disincentives" (subsidized prices for food, for example, although the state will still regulate input-output prices albeit in the interests of private producers) and inefficiencies with the longer term goal of increasing production and improving its position as a source of exports. Certainly the IMF has made specific references to India's need to increase the pace of reforms *vis a vis* the aforementioned methods.

A number of economists have made arguments contrary to the IMF and World Bank's position, citing issues facing the Indian economy in general and the agricultural sector in particular, as were mentioned at the recently held conference of the Indian Society of Agricultural Economics. In developing their arguments against free market mechanisms in the agricultural sector a number of these economists have taken the position that while

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<sup>67</sup> K. Kaladhar "Designing Financial Services for Rural Poor: Retooling Rural Financial Institutions?", p. A-118.

unnecessary market interventions should be removed<sup>68</sup> there are a number of social (e.g. food security, poverty alleviation, etc.) and related economic objectives (including regional development, employment growth and equity considerations) which should be taken into account in setting agricultural policy. Underlining their arguments also is a reference to the fact that developed countries seldom apply free market mechanisms to their own agricultural sectors as the following quote demonstrates in “the most liberal of economies such as the US and the western Europe, governments subsidise their country’s agriculture and keep in place all sorts of non-tariff barriers to agricultural imports from the developing countries. The reason is that governments pursue not one but a set of multiple goals, and the policies are conditioned by those goals.”<sup>69</sup>

Authors Barbara Harriss-White and S. Janakarajan pointedly blame these reforms for India’s decreasing rate of agricultural growth commenting “[t]he policy environment is a more likely candidate to account for this recent mediocre performance than is the physical environment.”<sup>70</sup> They suggest, however, that the agricultural sector did not have to be targeted specifically in order for it to be impacted by the broader series of reforms which took place in post-1991 India (e.g. the relaxation of rules governing trade together with a renewed push for exports, expanded foreign direct investment and an overall reduction in

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<sup>68</sup> S.N. Mishra, “Agricultural Liberalisation and Development Strategy in Ninth-Plan”, p.A-19.

<sup>69</sup> Ibid., p.A-20.

<sup>70</sup> Barbara Harriss-White and S. Jankarajan “From Green Revolution to Rural Industrial Revolution in South India”, p. 1469.

government subsidies), a proposition for which one could easily make a case based on the evidence in modern-day India. Some agriculture-specific measures have been introduced in recent years however, for example, “subsidies on fertilizers have been partially removed and its price structure reorganized... The price bias against agricultural products is being rectified, with increases in the prices at which food is purchased by state agencies, though there is little sign of any more radical change in the role of the state.”<sup>71</sup>

Again, this last quote is not to suggest that this sector has been unaffected by reforms in other areas. For example, as part of the Indian state’s efforts to lessen or withdraw its involvement in public projects, including infrastructure and public services, state electricity facilities have recently been privatised, the result of this action was to “remove the considerable subsidies to agricultural electrification”<sup>72</sup> (a move which contributed to the destabilization of agricultural production in the Punjab). A declining, albeit still surviving, role of the state in the provision of irrigation facilities also serves to underscore the reduced state activities in this area (despite the fact that irrigation projects represents one of the national infrastructure projects still often favoured by the IMF). Another example can be garnered from India’s 1992 decision to liberalize its financial institutions industry, including allowing private banking institutions to operate in a previously public and highly regulated industry, thereby creating uncertainty in financing options for

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<sup>71</sup> Barbara Harriss-White and S. Jankarajan “From Green Revolution to Rural Industrial Revolution in South India”, p. 1469.

<sup>72</sup> Ibid.

farming operations (which can be crucial in times of drought or otherwise low production yields).

The following quote demonstrates that, as a rural industry, agriculture might be particularly hard hit: "rural banking is to be deregulated with concessional credit more tightly targeted"<sup>73</sup> -- it is uncertain at this point what the implications of such an action might have on the status of India's National Agricultural Bank for Rural Development (NABARD). An expected consequence of these two actions is the inevitable driving up of the price of non-labour inputs, suggesting that this will have the effect of driving down wages in the agricultural labour market given the traditional non-substitutability in factor inputs in the agricultural industry. Another consequence, one important in the Indian democracy, is that these actions contribute to India's ability to affect change in the agricultural sector without ostensibly doing so or directly appearing to have done so.

Another interesting corollary of the increase in factor prices is that it sets the stage for longer term proposals which are no doubt at least being considered by the Indian government and which fits into the list of suggestions currently being offered by the IMF in agricultural reform, namely land reform, particularly reform which meets the interest of the agri-food industry and/or wealthy Indian landowners. Because of the inelastic nature of food demand, the huge size of the domestic market in India and the

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<sup>73</sup> Barbara Harriss-White and S. Jankarajan "From Green Revolution to Rural Industrial Revolution in South India", p. 1469.

demonstrated ability of the Indian sub-continent to produce, the renewed focus of the Indian government on exports, the agri-food industry remains one where, assuming a sufficiently large enterprise, substantial profits can be made. This contrasts sharply, however, to suggestions that the dispersal of smaller plots of privatised land represents India's best opportunity to meet its food security needs.

A number of organizations, including the Food and Agricultural Organization (FAO) and the International Labour Organization (ILO), have recently released studies indicating that land reform in developing countries, which is designed to allow a more equitable distribution of land in favour of the poor and homeless, will serve to reduce hunger and malnutrition. As the FAO has noted:

[i]t is important to stress here that yields per hectare are as high on small as on large farms or, under traditional agriculture, even higher. With a few notable exceptions, total output per hectare is higher on small farms... A more equal distribution of production inputs, including services, can only help to strengthen the role of the small farm in expanding production... Redistribution of only 5 per cent of farmland in India, coupled with improved access to water, could reduce rural poverty levels by 30 per cent under what they would otherwise be, so that in Indian conditions, land and water reform would be a key approach.”<sup>74</sup>

The implementation of such recommendations would, of course, be greatly impaired in the event that the aforementioned proposal suggesting “the removal of ceilings on land ownership to create conditions for corporate-agriculture” were to be implemented (which

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<sup>74</sup> Food and Agricultural Organization, *Agriculture Toward 2000* in Bharat Dogra “Land Reforms to Fight Hunger” in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXII No. 25, 5 October 1996, p. 2725.

has not happened to date). As Harriss-White and Janakarajan note, “a ‘reverse land reform’ advocacy also illustrates this elitist agrarian reaction. An influential body of opinion is now on record arguing for the lifting of land ceilings in the corporate agro-commercial interest.”<sup>75</sup> The conditions stated earlier, namely the increase in factor prices, the reduced involvement of the public sector from large scale projects in all but the most basic and traditionally “public sector” of provisions (e.g. irrigation) and the reduction of favourable forms of financing (including subsidies) will all serve to crowd out small- and medium-sized farming enterprises in favour of large agro-businesses, even in the absence of the necessary regulations (which will, given these changes in the agricultural sector, be given increased support and apparent justification). Again, there is the threat that these actions, combined with the continued easing of restrictions on foreign direct investment, might increase the threat of foreign capital moving in *en masse* into the agri-food industry, particularly with the existence of limited large scale indigenous capital and the expertise necessary to operate large farming enterprises.

The availability of land is another factor in establishing the groundwork for corporate-agriculture (taken to imply large scale and/or highly specialized agricultural enterprises).

Traditionally in India, this availability of farm land has been influenced by social considerations, namely the security and prestige associated with being a landowner:

“[e]ven with full property rights in land, transactions of cultivable land tend to be rare.

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<sup>75</sup> Barbara Harriss-White and S. Janakarajan “From Green Revolution to Rural Industrial Revolution in South India”, p. 1469.

Unless forced by extreme circumstances a resident villager does not sell his land.”<sup>76</sup>

However, as noted earlier, the withdrawal of government support for factor inputs has pushed large numbers of small- and medium-sized farmers into bankruptcy, which constitutes one of those “extreme circumstances” by which farmers must sell their land, thus the reforms have served to make available the land resources required by corporate-agriculture.

The entry of private banking and financial institutions may have also served to accelerate the disadvantages of small- and medium-sized enterprises by crowding out the lending market in favour of large capital investors: “the credit market loan is usually advanced on the basis of collateral that the borrower possesses. In such a situation it would be difficult for a collateral poor household to acquire land by borrowing funds.”<sup>77</sup>. Once they do sell, poorer farmers are not likely to pose a competitive threat to corporate-agriculture, foreign or domestic, in terms of bidding on land. Indeed, they tend to be shut out of the system after making the transition from owner to worker, “the poor are not in a position to purchase land or to buy it again once they have lost it because of market credit imperfections.”<sup>78</sup>

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<sup>76</sup> Kailas Sarap “Land Market Transactions in Rural Haryana” in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXI No. 39, 28 September 1996, p. A-106.

<sup>77</sup> Ibid.

<sup>78</sup> Ibid., pp. A-106 - A-107.

It is interesting to note other effects of the move away from India's national banking system which, through its supply of institutional credit to farming operations by, for example, expanding into rural areas and establishing specialized branches for farm lending,<sup>79</sup> A recent study has suggested that the uneven application of such services was designed, not only to alleviate rural poverty and improve financing to the agricultural sector, but rather that it was dependent on "political intervention, particularly for schematic loans. In fact the banking system has become a tool in the hands of the ruling party to canvass for votes."<sup>80</sup>

The concentration of the agricultural land resources in fewer and fewer hands poses two threats: first, in the event that capital machinery is employed, India's main supply of employment is threatened if one considers that large scale enterprises might be more inclined to substitute capital equipment (e.g. harvesting and tilling tractors as was the case in the Punjab in the 1960s when a number of farmers expanded their operations as a result of the favourable terms of the Public Distribution Scheme) for labour which, due to scale considerations, would probably be more common in smaller farm enterprises. Even where the number of workers remains the same, the competitive wage rates might be threatened; second, as mentioned earlier, small, more equitably divided farm plots tend to be more productive and help address the problems of poverty and malnutrition. The fact

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<sup>79</sup> Veerashankarappa, "Rural Credit in VIP Districts" in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXI No. 39, 28 September 1996, p. A-123.

<sup>80</sup> Ibid.

however, that the IMF consistently posits the lifting or elimination of ceilings on land ownership as a potential reform for the agricultural sector does not bode well for the future of India's food security and employment prospects.

### **7.0 Conditions of the Indian Economy**

The food supply threat facing India will no doubt be accelerated by the changing tastes of that segment of the Indian population in the position to pay for special food items, and the desire to shift to new, higher value-added and specialized agricultural products for export: when combined with the withdrawal of import substitution and other protectionist policies, the result will have negative ramifications for India's overall food security, which, according to the UN's Food and Agriculture Organization, is defined as the "availability of sufficient quantity of food and sufficient means to purchase it. This definition is applicable at the national as well as household level."<sup>81</sup> India's food tastes have, since the 1970s, been shifting away from cereals (the crops which first made possible India self-sufficiency in food and the food source which represents the cheapest source of calories) and towards more expensive milk, poultry and meat products. These products all require greater land resources, as well as a greater intensity of land use, to produce the same number of calories as that found in cereal and grain-based food sources. These shifts in food preferences have not been restricted to higher income groups (middle income groups have also been increasing their consumption of these products according

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<sup>81</sup> Ananth S. Panth "Social Networks and Food Security in Rural Karnataka", p. 756.

to J.V. Meenakshi in his article entitled *How Important are Changes in Taste*) but rather simply reflect “preferences changing over time”<sup>82</sup>, although the evidence suggests that the intensity of these shifts vary from region to region in India as well as type of region.<sup>83</sup> The evidence also notes, however, that despite this shift in tastes, India’s *per capita* consumption of milk of 70 litres annually, falls far below the 130 litres *per capita* consumption recommended by the World Health Organization.<sup>84</sup> This indicates that the shift in tastes have not been shared universally among all Indians but rather for that relatively small segment of the population that has a choice in the type of food products that they consume; it also represents the changing composition of its agricultural exports (i.e. towards higher value added products) abroad.

The negative impacts associated with the shift away from protectionist policies and towards liberalisation in the agricultural sector, and in the economy as a whole, will contribute a number of drawbacks which will be intensified by India’s changing tastes. In the absence of state controls or guiding subsidies (e.g. for foodgrain seeds), it is inevitable that there will be a shift in the activities from traditional grain-based farming to more land-intensive livestock activities as increased profits can increasingly be made

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<sup>82</sup> J.V. Meenakshi, “How Important are Changes in Taste? A State-Level Analysis of Food Demand” in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXI No. 50, 14 December 1996, p. 3265.

<sup>83</sup> Meenakshi notes that statistics indicate a 17 per cent decrease in cereal intake in rural areas between 1972 and 1988 as compared to a corresponding decrease of 8 per cent in urban areas. *Ibid*.

<sup>84</sup> “NDDB Flays NZ Dairy Board Chief’s Remarks” in *Indiaserver*. (India Information Inc. -- <http://www.indiaserver.com/bline/1997/01/26/BLFP09.html>). 26 January 1997.

there. It is likely that this will eventually drive up the cost of cereals as well, given a probable increased demand for these crops (given India's continued growing population combined with the fact that cereals represent the primary feed for meat and dairy producing animals -- i.e. "indirect" demand) together with the fact that the displacement of land towards meat and dairy farming will restrict the amount of cereals that India can provide domestically. Under this scenario, prices would likely have to increase to accommodate the pressure for crop farmland to be converted into meat and dairy producing farmland. Furthermore, the inevitable increase in the price of dairy and meat products attributable to a freer flow of imports in this sector would serve to further accelerate the situation described.

An experience similar to that occurring in India is currently taking place in Canada in the form of intensified agricultural production to increase profits, although in Canada's case the need to raise profits is precipitated, in part, by the need to raise money to meet ever increasing hikes in property taxes on land, which is increasingly facing the threat of urban development and thus is facing ever increasing rates of valuation. In both Canada and India's case, the outcome will possibly be the same, namely long term land incapacity as a result of overuse due to short term economic gain. Since the reforms were introduced in India, there is already some evidence that this scenario is taking place, as evidenced in *Table 2: Area Under Foodgrains and Oilseeds* which indicates the declining number of hectares available for cultivation for, above all, traditional staples including cereals, wheat grains and coarse pulses, while the higher value added oilseeds crop has been

assigned an increasing number of hectares for production.

**Table 2: Area Under Foodgrains and Oilseeds**

	(million hectares)				
	Cereals	All and Rice	Wheat Grains	Coarse Pulses	Oilseeds
1989-90	103.3	65.7	38.6	23.4	22.8
1990-91	103.2	66.9	36.3	24.7	24.1
1991-92	99.3	66.0	33.3	22.5	25.9
1992-93	100.8	66.4	34.4	22.4	25.3
1993-94	100.5	67.6	32.9	22.2	26.9
1994-95	100.7	68.5	32.2	23.0	25.3
1995-96	99.5	68.0	31.5	23.9	26.3
Per cent change 1995-96/ 1990-91	-3.5	1.64	-13.20	-3.24	9.12

Source: Utsa Patnaik, "Political Economy of State Intervention in Food Economy" in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXII, Nos. 20 and 21, 17-24 May 1997, p. 1108.

Arable land can withstand intensified agricultural production for only a finite amount of time, after which its productive capacities are severely diminished, often to the point where it becomes economically more useful to use the land for other purposes. In India's case, the push for both increase food stocks available for export, combined with an ever-increasing domestic market, coupled with the fact that India is shifting towards more intensive, albeit lower calorie producing (per unit of input -- it takes over three kilograms of foodgrain to produce half a kilogram of animal protein for example) agricultural outputs (i.e. meat and dairy products) indicates the potential for impaired food production in all agricultural sectors in the medium term.

Figure 1, *Net Returns Per Acre*, shows the rents obtained (line B) where farm land is conserved. Competitors for land need only show that net returns are higher than line B to make their case for taking over farm land, which can be relatively easy to demonstrate in cases of, for example, housing in crowded urban locations or industrial plants. Line E shows the disastrous consequences involved in the state's pursuit to increase their net return per acre (e.g. in order to increase commodities for export or to meet domestic demand). It shows the declining marginal productivity of the land brought about by the environmentally bad practice of over-farming. Eventually negative net returns are obtained and the land becomes an even stronger target for other uses or becomes altogether unproductive.

Policies which would allow farmland to operate at a level where net return equals line B are most desirable: however, it is clear that economic incentives (e.g. price support for farmers while assuring the availability of food for the populace) and/or government subsidization of farming activities (including fertilizers and pesticides), along with the necessary R&D to improve agricultural productivity in an environmentally sound way, would be necessary in order to help protect rural agricultural land from encroachment, overuse and industrial expansion.

Signs of India's impaired ability to continue the pace of growth in the agricultural sector is already beginning to reveal themselves. In their article entitled "Sustainability of Rice-Wheat Crop System in Indo-Gangetic Region", Ramesh Chand and T. Haque

demonstrate that despite the need to increase production rates in rice and wheat to accommodate both India's growing population and the "urge for promotion of export in the wake of WTO induced trade liberalisation"<sup>85</sup>, and, in part, because of it, India's productive capacity is being severely diminished. As they note: "agricultural experts have expressed apprehension that it may not be possible to sustain the growth rates experienced in the recent past, particularly in the intensive rice-wheat growing Indo-Gangetic plains which at present contribute about 60 per cent of total output of rice and wheat."<sup>86</sup> Specific challenges facing this sector include problems with water management (particularly groundwater depletion) and threats posed by insects, diseases and weeds. Socio-economic and infrastructure constraints were identified as one which affects certain Indian regions including various labour issues, water rates and electricity charges, as was declining soil fertility and factor productivity, which results not only from inadequate farming practices (e.g. the non-rotation of crops) but also from the "rising costs of chemical fertilizers and plant protection measures."<sup>87</sup>

What is of particular concern is that a number of these challenges could become more onerous in the face of continued economic liberalisation. The continued removal of restrictions on exports, for example, would continue to put pressure on India's land

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<sup>85</sup> Ramesh Chand and T. Haque "Sustainability of Rice-Wheat Crop System in Indo-Gangetic Region" in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXII No. 13, 29 March 1997, p. A-26.

<sup>86</sup> Ibid.

<sup>87</sup> Ibid., p. A-29.

resource and threaten its long term food security, while the creation of "corporate agriculture" could, as earlier pointed out, have a depressing effect on employment and wages by putting the availability of jobs in the hands of a decreasing number of landowners. This will have negative employment effects on not only traditional agricultural workers, as had the policies of 1960 which helped concentrate agricultural resources in the hands of a powerful group of capitalists in northern India, but those involved in non-agricultural work who are looking to supplement their incomes, particularly those living in rural areas -- "most of the non-agricultural households reporting subsidiary activities had subsidiary income from agricultural activities (except for agricultural labour), the latter often were made possible by access to land."<sup>88</sup>

At the same time, the withdrawal of subsidies on agricultural inputs (e.g. fertilizers) will continue to impair the ability of environmentally sound farming. Thus, rather than serving to increase India's agricultural output, the 1991 reforms are contributing to this sector's demise through pressures on the land resource to be overly productive. As these pressures have come about in a sector which, relatively speaking, has experienced only limited reforms, the long-term prospects for agriculture do not appear to be very optimistic should, as the IMF and World Bank have advised, greater liberalisation be introduced into the agricultural sector.

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<sup>88</sup> Jeemol Unni "Diversification of Economic Activities and Non-Agricultural Employment in Rural Gujarat" in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXI No. 33, 17 August 1996, p. 2243.

Table 3 -- *India's Export and Import, 1990-91 to 1995-96*, demonstrates the increase in post-1991 exports, together with a rising trend in its trade deficit. What is important to note about these exports is that "in the post-reform period, the higher growth in India's export has been due to the contribution of the agricultural sector"<sup>89</sup> thus illustrating how this sector has been used, at the expense of its own food security, to meet its liberalisation goals.

**Table 3: India's Exports and Imports -- 1990-91 to 1995-96**

(\$ Million)			
	Exports	Imports	Trade Balance
1990-91	18 143	24 075	-5 932
1991-92	17 865	19 411	-1 546
1992-93	18 536	21 880	-3 344
1993-94	22 234	23 303	-1 069
1994-95	26 231	28 259	-2 028
1995-96	31 831	36 370	-4 539

Source: Rajesh Mehta, "Trade Policy Reforms, 1991-92 to 1995-96: Their Impact on External Trade" in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXII No. 15, 12 April 1997, p. 779.

Attempts by the Indian federal government to influence the agri-food business and introduce reforms in this sector will no doubt be met with resistance by not only the voting public but by individual states as well. While the federal government can influence many of the levers which affect farming including subsidies, electricity and other infrastructure projects, individual states have constitutional jurisdiction in the area

<sup>89</sup> Rajesh Mehta, "Trade Policy Reforms, 1991-92 to 1995-96: Their Impact on External Trade", p. 779.

of agriculture *per se*. Several of these agriculturally strong states, including Uttar Pradesh and Haryana, which have typically elected left-wing governments, have attempted to counter-balance cutbacks at the federal level with supplemental spending of their own: however, 1996 saw several such states facing their own fiscal constraints which impede their ability to help this industry<sup>90</sup>, one shared by the federal government which was facing not only its own crisis but a different orientation on the part of those organizations on which it traditionally relied on for assistance.

The result of the increasing inability of individual Indian states to utilize their own fiscal measures could be clearly seen at the Conference of State Food Ministers of India which was recently held in New Delhi, on the topic of the Public Distribution System (the means by which food resources are shipped to, and distributed in, agriculturally deficit states) where compromises are increasingly used to obtain the states' food related goals at the regional level. While getting assurances on the availability of rice and wheat, and ensuring a market price at a rate advantageous to the poorest segment of India's population (i.e. households with family incomes below 15 000 rupees per year), it did not come without some cost: "the central issue, price would continue to be substantially below the market price. The centre had obviously to make major concessions in order to have its proposal for targeting accepted."<sup>91</sup>

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<sup>90</sup> Barbara Harriss-White and S. Jankarajan "From Green Revolution to Rural Industrial Revolution in South India", p. 1469.

<sup>91</sup> "Confusing Decision" in *Economic and Political Weekly*. (Mumbai: Hitkari House). Vol. XXXI No. 33, 17 August 1996, p. 2200.

It seems likely that the Indian government, in keeping with the spirit of the 1991 reforms, would prefer to continue to have domestic food prices continue their approach to world market prices in the near future although one could speculate that other sectors of the economy will have to make sufficient advancements to make this possible. The aforementioned notion of the "trickle down" theory as applied to the industrial and foreign sectors in their relation to the agricultural sector seems to support this notion, where presumably the higher wages generated by the industrial and foreign sectors would imply that the prices of agricultural products could be increased with an accompanying increase in the returns of the agricultural industry and, more importantly, an increase in the wages of agricultural workers.

Contrary to this situation, it seems more plausible that in the unlikely event that real wages were to increase in the industrial/foreign sectors, with an overall decrease in unemployment, that in the event food prices were to go up, it would not necessarily reflect in a positive increase in the revenues to India's agricultural workers. More likely, the savings would accrue to the government in the form of reduced subsidies which were offered by the government to keep food prices below the market level to the advantage of India's poor. It appears likely that an increase in profits would also be used to compensate for the reduction in subsidies which the Indian government assigned to agricultural factor inputs. The reality of the situation, since 1991, has in fact been a decrease in real wages (which, in the face of food price increases, has contributed to increasing impoverishment and a reduction in the *per capita* domestic consumption of

food in India), and so the above scenario remains a moot point.

## 8.0 Projections

There have been serious doubts expressed in a number of circles as to whether India will pursue its 1991 reforms in the future, or at least pursue them with the commitment necessary to fulfill the IMF's original Indian objectives. In keeping with what some observers consider to be a protectionist trend on the part of many countries, including, as previously noted, some OECD countries, concern has been expressed that such is the case for India, leading one observer to comment that this country is a reflection of the postmodernization theory "emphasizing cultural resistance to global standardization."<sup>92</sup>

This theory was realized, in part, through the positions of various political movements in India and the political support extended to them. The following quote clearly illustrates this reality, together with an "unofficial" appeal for broader public support for import substitution as a *de facto* policy for India: "[t]he major opposition party, the Hindu Bharatiya Janata Party (BJP) had rhetorically condemned the government's 'open door' policy. Invoking Mahatma Gandhi's *swadeshi* (self-reliance) the Rashtriya Swayam Sevak Sangh (RSS) (the BJP's parent fundamentalist movement) called for a massive boycott of foreign goods... In 1996, with the defeat of Congress in parliamentary

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<sup>92</sup> Presumably the "global standardization" to which Dallmayr refers includes those economic policies of the IMF and the World Bank in terms of open markets, trade liberalization and the reduction of restrictions against foreign capital, and reflect the position taken by most OECD countries -- Fred Dallmayr, *Modernization and Postmodernization: Theoretical Comments on India*. (Notre Dame, Indiana: University of Notre Dame, June 1993), p. 1.

elections, the BJP formed a government<sup>93</sup>, albeit for a very short period of time.

Given this base of popular support for continued protection for domestic Indian establishments it should not be surprising that such policies will continue to exist to some degree; however, the question may be to what extent will the 1991 reforms become obsolete on the one hand, or revamped on the other. As was recently observed in an OECD forum on India “[p]rotection nevertheless remains high by international standards, especially in consumer goods, and there is cause for worry as to whether liberalisation will be sustained. Resistance from vested-interest groups, as everywhere, persists.”<sup>94</sup>

Despite some continued protection, in the face of increased FDI, this can become a questionable point as foreign firms enter the Indian market they can displace indigenous capital, particularly small- and medium-sized enterprises, through a variety of means including the removal of subsidies on which such firms have traditionally been dependent.

There is the expectation also that India’s broader economic policies will not serve the cause of development, or the alleviation of suffering in that country, even in the long term. As indicated earlier, the immediate effects of the 1991 reforms had devastating, albeit not always immediately perceptible, consequences for much of India’s population.

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<sup>93</sup> Michel Chossudovsky, *The Globalisation of Poverty*, p. 132.

<sup>94</sup> Oman, Charles (ed.), *Policy Reform in India*. (Paris: Publications Service, Organisation for Economic Co-operation and Development, 1996), p. 11.

Five years after the introduction of these reforms, it was observed that there are “increasing concerns that any improvements in economic efficiency and economic growth may be achieved at the expense of greater income inequality, higher unemployment, continued environmental damage, and declining real income for the poor and middle classes.”<sup>95</sup> This quote takes on a larger, more chilling dimension when considered against the suggestion that not only are these threats facing the people of India, but that the time lag until improvements in the equitable distribution of wealth, which some expect to result from the reforms, among segments of the population may be unbearably long, particularly given that even short term hardships can be a death sentence for the poor. “A view is widely held that large numbers of the poor are not likely to feel the benefits of liberalisation for 10 or 15 years.”<sup>96</sup> It further underscores the point that the reforms have had a negative effect on improving income equality in India (which, if incomes were to be distributed more fairly, could benefit from a massive mobilization of resources). If, as statistics indicate, *per capita* income in India has gone up, then one can ask who is benefitting from this increase at the expense of those suffering from income inequality.

Despite the possibility of continuing widespread misery in India, the International Monetary Fund has recently reiterated its defence of the 1991 reforms and, in fact, have

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<sup>95</sup> Michael P. Todaro, *Economic Development (6<sup>th</sup> ed.)*, p. 178.

<sup>96</sup> Oman, Charles (ed.), *Policy Reform in India*, p. 11.

recommended their extension to more sectors of the Indian economy. The IMF's recent document entitled *India: Economic Reform and Growth*, has stated that "the reforms are by no means complete... little has been done to address the serious distortions in public enterprises, labour markets, and the agricultural sector."<sup>97</sup> Clearly, the IMF, aware of the fact that India has a continuing deficit problem, will attempt to reinvigorate the earlier reforms: it has recently criticized India's high tariff rates and continued opposition to quantitative restrictions of imports, the traditional foundations of India's import substitution policy, for example.

Of great concern in the above mentioned IMF document is its suggestion that not only will continued reforms benefit the economy, but that they will do so in a way such that these benefits will be equitably distributed among the Indian population. The IMF goes so far as to make this suggestion without explicitly explaining how this distribution will come about. The following quote indicates that the IMF believes that reforms alone are sufficient to achieve equity, which clearly has not happened to date: "broadening the reforms to cover agriculture -- which employs the bulk of the population -- should spread the benefits of reform and help improve income distribution."<sup>98</sup> This suggestion is somewhat discredited by other observers of the Indian economy. The realization that significant social costs have resulted, and will continue to result, from the 1991 policies is

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<sup>97</sup> Ajai Chopra et. al. *India: Economic Reform and Growth*, p. 3.

<sup>98</sup> *Ibid.*, p. 3.

acknowledged even by a number of neo-classical economists. As Todaro so concisely summarized on the Indian situation "there are increasing concerns that any improvements in economic efficiency and economic growth may be achieved at the expense of greater income inequality, higher unemployment, continued environmental damage, and declining real income for the poor and middle classes."<sup>99</sup>

A further cause for concern is that the World Bank explicitly targets the agricultural sector as one which is ripe for reform.<sup>100</sup> The threat, in the wake of numerous bankruptcies of small- to medium-sized agricultural enterprises, of increased foreign control over the agricultural sector looms large in an industry which is already facing a great environmental threat to over 2 million square kilometres of land. The expected decline in land prices, resulting from bankruptcies (assuming continued reforms result in a continued cut in subsidies as well as a lifting of quantitative restrictions on agricultural trade), combined with a lax application of minimum wage laws for agricultural workers, the strategic use of Plant Breeders' Rights by Japanese and western transnational corporations<sup>101</sup> and a number of other related factors, could combine to increase the level of control of these corporate agricultural companies over an industry upon which India's food security rests. In the intellectual property sphere, this control is derived from the

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<sup>99</sup> Michael P. Todaro, *Economic Development (6<sup>th</sup> ed.)*, p. 178.

<sup>100</sup> The IMF specifically mentions, and criticises, quantitative restrictions on the trade of agricultural products for example in its comment on Indian trade policy -- Ajai Chopra et. al. *India: Economic Reform and Growth*, p. 3.

<sup>101</sup> Michel Chossudovsky, *The Globalisation of Poverty*, p. 128.

virtual monopoly position gained from the ownership of various agricultural plant products.

The final concern with regard to an open economy, and the projections thereof, is the suggestion that Indian society itself is incompatible with the professional and contractual arrangements found in such economies. As Pande observes, the "Indian economic environment is beleaguered by feudalism where entry of other than kith and kin is largely restricted. Liberalisation, privatisation and globalisation necessitate contractual relations based on merits of performance rather than the birth-based status, lineage, school or civil service forts of reservation."<sup>102</sup> At this point it is uncertain in which direction India's new socio-economic relationships will be defined although it seems unlikely that India's caste system will be significantly altered by that country's liberalisation. On one side, there is the suggestion that, in fact, it might result in a more egalitarian approach to employment and decision-making opportunities. However, there is also the possibility that the "traditional" relationships mentioned above will be entrenched and that increased contact through foreign commercial relations might be altered to accommodate feudalism rather than the other way around.

Despite these arguments contesting the feasibility of continued reform, India has continued to put itself in a position where it is beholden to the World Bank and IMF. For

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<sup>102</sup> G.C. Pande, "Economic Liberalization in India", p. 34.

example, at the spring meetings of these two organizations, which were held on 28 and 29 April 1997, a high level Indian delegation, which included the Governor of the Reserve Bank of India and the Finance Secretary, was in attendance. The representatives stressed the "commitment of the new government under Mr. I. K. Gujral to continue economic liberalization."<sup>103</sup> While ostensibly this statement should have provided relief to the IMF and World Bank representatives, it may have simply been a preamble for the request which was to follow shortly, which included requests for financial assistance. This is to suggest that the motivation behind India's reiteration of the 1991 policies was to ease the potential fears which may have arisen as a result of its asking for help for a new series of spending initiatives.

It is interesting to note, however, that the requests on the part of the Indian delegation were not just for loans, but for assistance in the types of development alluded to earlier by Alagh and others, specifically the development of a national infrastructure with social objectives as a consideration (which would contribute to India's overall indebtedness and ability to finance internal development). It will be interesting to witness to what degree the IMF and World Bank continue their foray into India's domestic economic development as a result of the following request. "During these meetings, India urged the World Bank to double its loans to India from \$1 billion a year... The Finance Secretary urged the World Bank to find ways to expand investment in infrastructure, both in the

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<sup>103</sup> India, Embassy of, Washington D.C. "World Bank-IMF Spring Meetings: India urges World Bank to double commitments" in *India: Economic News*. Volume VIII, Number 05, May 1997.

private and public sectors, so as to remove a key constraint on growth and poverty alleviation.”

## 9.0 Conclusion

India, like many other developing countries (including Canada's *National Plan*, originally instituted in the mid-19<sup>th</sup> century), has traditionally relied on protectionist policies in order to initiate and foster domestic enterprises which, after a period of incubation could, first, supply its own population and second, compete in the world market or, in the case of agriculture, achieve the remarkable status of self-sufficiency for a market comprising close to 1 billion people. While contributing to certain inefficiencies, this approach has achieved some measure of success in developing domestic enterprises. As was mentioned earlier, “India pursued a vigorous import substitution strategy... Protection helped many industries to flourish.”<sup>104</sup> While some outside observers would routinely condemn India's policies as too “left wing” (a Department of Foreign Affairs and International Trade sponsored document, for example, going so far as to comment on India's “socialist regulation and import/export license-raj”<sup>105</sup>), India remains a democracy whose participatory traditions helped shape and define its independent and protectionist policies.

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<sup>104</sup> Dipendra Sinha and Tapen Sinha, “Openness and Economic Growth in India”, p. 117.

<sup>105</sup> I. Prakash Sharma, *Prospects of Further Reforms in India: Policy Staff Commentary No.*, p. 3.

India, again like other developing countries, as a result of its fiscal crises, yielded to the demands of the International Monetary Fund, the World Trade Organization and the World Bank to reverse those policies which India found advantageous from a domestic perspective. Loan requirements compelled it to submit to a wide range series of policy reforms aimed at, among other things, opening up this vast market to western imports, increasing the opportunities for foreign enterprises to establish domestic branch plants or establishments, increasing the competitive environment, promoting deregulation, decreasing the capacity of the government to act in the fiscal realm and establishing a general reform of its economic policies.

Needless to say, the effects of these economic reforms went beyond those stated objectives of the IMF and World Bank and resulted in profound and severe socio-economic consequences for the people of India. In addition to expanded poverty, bankruptcies and other displacements, small- and medium-sized firms were adversely affected by the influx of competitive pressures as were those larger or more developed firms which, on the brink of competing internationally, were all of the sudden thrust unprepared into a competitive environment.

This paper attempted to examine the events of 1991 in the light of first, the dubious after-effects of India's liberalisation, many of which were unforeseen, and which resulted in negative consequences for India and favourable ones for foreign countries, and second, arguments which, while not necessarily negating the advantages of a more open

economy, of which many do exist, favour a limited use of protectionist policies. Many such arguments have been advocated by developmental economists and the use of protectionist type policies have garnered some favourable results, as the discussion presented attempts to illustrate. Beyond this, however, is the consideration that the simplistic application of liberal theories and practices are not always appropriate in cases where the markets involved represent somewhat exceptional circumstances. Using agriculture as an example, this paper has attempted to demonstrate that this particular sector does not necessarily "fit" into such a policy paradigm, as indeed many developed countries' agricultural policies have been spared such liberal influences.

The issue of food security represents an example of how, ultimately, a developing country's economic policy should not be divorced from its developmental policy, as Alagh suggests. The welfare of a nation's citizens should still be taken into account in designing circumstances surrounding its economic and competitive structure, particularly where the physical means necessary to preserve the lives of the population is considered. In this sense, Indian representatives were right to challenge IMF and World Bank officials to find ways to address poverty (including the somewhat surprising suggestion that these organizations attempt to enhance *public* investment). It will be interesting to see the extent to which the IMF and World Bank, having achieved some success in instituting reforms in India, will give consideration to India's social, as opposed to purely economic, goals and whether these goals will be to the benefit of India or those countries which imposed the reforms.



**APPENDIX I -- UNITED STATES FORTUNE-500 INVESTORS IN INDIA**

Abbott Laboratories	AlliedSignal Incorporated	American Express Company
American Home Products Corporation	AMP Incorporated	Apple Computer, Incorporated
Asarco, Incorporated	AT&T	Avery Dennison Corporation
BankAmerica Corporation	The Bank of New York	Bankers Trust New York Corporate
The Black & Decker Corporation	Brunswick Corporation	Caterpillar, Incorporated
The Chase Manhattan Corporation	Chevron Corporation	Citicorp
The Coca-Cola Company	Colgate-Palmolive Company	COMPAQ Computer Corporation
ConAgra, Incorporated	Cooper Industries, Incorporated	Corning Incorporated
CPC International Incorporated	Cummins Engine Company, Incorporated	Dana Corporation
Digital Equipment	The Dow Chemical Company	E.I. DuPont de Nemours & Company
Eastman Kodak Company	Emerson Electric Company	Enron Corporation
The Estee Lauder Co., Incorporated	Farmland Industries, Incorporated	Federal Express
Ford Motor Company	General Electric Company	General Motors Corporation
The Gillette Company	The Goodyear Tyre & Rubber Company	W.R. Grace & Company
Harris Corporation	Hasbro Incorporated	Hewlett-Packard Company
Honeywell, Incorporated	InaCom Corporation	Ingersoll-Rand Company
Intel Corporation	International Business Machines Corp.	Johnson Controls Incorporated
Johnson & Johnson	Kellogg Company	McDonaldThe McGraw-Hill Co., Incorporated

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Merck & Company, Incorporated	Merrill Lynch & Company, Incorporated	Microsoft Corporation
Minnesota Mining & Manufacturers Co.	Mobil Corporation	Monsanto Company
J.P. Morgan & Company	Morgan Stanley Group	Motorola Incorporated
NYNEX Corporation	Oracle Corporation	Parker Hannifin Corporation
PepsiCo Incorporated	Pfizer Incorporated	Phelps Dodge Corporation
Phillip Morris Companies Inc.	Phillips Petroleum Company	PPG Industries, Incorporated
The Procter & Gamble Company	Raytheon Company	Rockwell International Corporation
Rohm & Haas Company	Sara Lee Corporation	Shering-Plough Corporation
Silicon Graphics	Sprint Corporation	Sun Microsystems
Tenneco Incorporated	Textron Incorporated	TRW Incorporated
Union Carbide Corporation	United Parcel Service of America, Inc.	United Technologies Corporation
UNISYS Corporation	US WEST, Incorporated	USX Corporation
The Walt Disney Company	Warner-Lambert Company	Western Digital Corporation

Source: Embassy of India, Washington, D.C., "Foreign Investment in India" in *India: Economic News*. Vol. VIII, No. 8, August, 1997.

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