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Agricultural Situation

Indian Agriculture: Status and Reform Potential

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Report Highlights:
Most of India's extensive policy interventions in agricultural markets were introduced in response to conditions prior to independence in 1947, as well as the food crisis of the mid-1960s. Policy intervention ranges from input subsidies and crop price supports, to a system of public procurement, distribution and stockholding for food grains, and multiple controls on private sector activities in marketing, commodity movement, and agribusiness investment. Agricultural policies are now resulting in burdensome subsidies, weak investment, and sluggish growth in the sector, and are increasingly out-of-step with more rapid growth and reform elsewhere in the economy. Recent election results revealed significant dissatisfaction with the performance of the rural and farm sector, which may give impetus to reforms that develop infrastructure and remove regulatory constraints to private investment in agricultural technology and markets.

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PRESSURE FOR AGRICULTURAL REFORM

Even before the recent election, the GOI realized that agriculture reform must be carried out to sustain economic growth. It has proven difficult to achieve political consensus on reform, however, because of the critical role of agriculture in producer and consumer welfare, the sheer numbers involved, and fear of unknown consequences. Farming is the primary source of income for about 65 percent of the population and consumers spend about 55 percent of their income on food. Under the Indian constitution, Agriculture is a state-level responsibility. In general, the Union proposes legislation, and States dispose, or enact, laws and regulations. Individual states face difficulty building consensus for reforms where benefits depend on multi-state convergence.

The surprise emergence of the Congress-led United Progressive Alliance (UPA) coalition in the recent national election may provide an impetus for selective farm sector reforms, although there will also be pressure to maintain or even enhance current levels of subsidies to the sector. Dissatisfaction with the failure of economic reforms, which focused mostly on non-farm sectors, to reach the rural and urban poor was a key factor in the surprise outcome of the election. Agriculture is widely expected to receive renewed emphasis in the priorities of the UPA government. Details of Congress and UPA plans for agricultural reform are not yet available, but this report provides a summary of key issues related to the reform of agricultural subsidies, food grain and price policy, and market regulation.

Why Agriculture Is Important

India remains as predominantly a farming society. Developing new rural and urban employment to diversify farm incomes and absorb surplus agricultural labor is among its most significant development challenges. In India, agriculture is largely a labor-intensive, low technology undertaking carried out on small farms often without the benefits of significant acreage or technological innovation. Reform could help increase agricultural productivity and farm income, but finding new rural and urban employment alternatives is essential for adequate employment growth, raising rural incomes, and maintaining political stability. A history of anemic public investment, inefficient markets, and a lack of incentives for private investment has resulted in an agriculture sector that has become what many believe is a storehouse of surplus labor.

Agriculture is important in India because it represents about 25% of India's GDP. From an employment perspective, agriculture provides 115 to 130 million jobs, equivalent to almost the entire employed population of the U.S. More importantly, 650 million Indians, or just short of three times the entire population of the U.S., rely on agriculture, directly or indirectly, to determine their living standard, according to a GOI Planning Commission report.

India's land, soil, water, and climate provide it with one of the strongest agricultural resource bases in the world, allowing for a potential comparative advantage in many crops and livestock products, according to studies by both USDA/ERS and the International Farm Policy Research Institute (IFPRI). Given these natural resources, Indian farmers are significant producers of many commodities, but productivity, quality, and variety fall short of international standards. Nonetheless, India's ability to feed its population is a significant achievement. On the way to achieving this task, the country has become a leading producer of a number of commodities including rice, wheat, coarse grains, pulses, cotton, milk, eggs, and poultry meat.

The Importance of Food Price Stability

In addition to its importance in national income and employment, farm sector performance and policies play a critical role in price stability and consumer welfare. On average, about 55% of Indian household income is spent of food, a share that is sharply higher than in developed countries. For low-income consumers, the share of expenditures on food can rise to 70-80%. As a result, Indians are very sensitive to changes in food prices and food price stability is a core political issue. A professor at Jawaharlal Nehru University warned that Indian governments have fallen because of public outcry over increases in prices of basic foods, such as onions, suggesting that price volatility is an issue the GOI must monitor very seriously if it reforms agriculture.

History of Agriculture in India: A Reaction to Crisis

Post-independence, India abolished absentee land ownership and implemented land redistribution and, in the 1950s, 5% of food grains were imported. Droughts in the 1960s led to a crisis in 1966, when India imported 10 million tons of food grain while only producing 72 million tons, more than doubling the import dependency to 12%. In 1967, import dependency increased further when 12 million tons were imported and India lived "boat to mouth."

After the crisis of 1966-67, and because of concern with rising dependence on imported grain, India advanced the policy initiative now termed the Green Revolution. The strategy led to expanded irrigation, increased use of high yielding varieties (HYV) of wheat and rice, increased use of fertilizers and chemical pesticides, expanded institutional support (notably extension of credit), and supported prices to favor production of food grains.

The support programs implemented during the Green Revolution have helped India become a surplus producer of a number of cereals. In the process however, the GOI institutionalized policies and programs narrowly focused on increasing wheat and rice production and based on extensive government intervention in markets. These policies, many of which began as reactions to the 1943 Bengal Famine, have included restrictions on the scale of agribusiness investment, extensive input subsidies, control of imports and exports, significant government involvement in food procurement and distribution, restriction of intra-state and inter-state movement of foodstuffs, and price management. The success of the Green Revolution has allowed many of these policies to perpetuate, maintaining a focus on wheat and rice production, despite cereal surpluses and strengthening demand for a more diversified array of agricultural products. Many of these policies, along with an abiding distrust of private traders, are now hindrances to private investment and the creation of institutions needed to develop a more diverse and market-oriented farm sector.

Slowed Growth in Agriculture

While annual agricultural growth was about 3.5% during the 1980s, it slowed to 2.9% during 1992-2001, and averaged only 2.3% during 1997-2001 due to slowed growth in productivity and declining investment. For most of the 1990s, public investment in agriculture declined because resources were shifted to subsidies, limiting public investment in technologies, infrastructure, and institutions to respond to strengthening demand for non-grain crops. Declining public outlays have been offset by a promising increase in private investment, but the proportion of private investment in agriculture and agribusiness remains sharply lower than in the economy as a whole. Longstanding GOI intervention in markets has dissuaded both producers and agribusiness investors from trying to meet shifting consumer demands by diversifying and developing more efficient supply chains.

Preliminary GOI estimates put real GDP growth at 8.1% for 2003/04 (April/March). This growth is underpinned by double-digit gains in agriculture as normal rainfall allowed the sector to rebound from the first widespread monsoon failure in a decade in 2002/03. The weak and variable performance of agriculture is a significant economic problem for India. Between 1990 and 2003, the agriculture share of GDP varied between 22% and 32%, as the sector's annual growth fluctuated between -3.1% and +9.6%.

Population and Labor Pressures

Although India is an importer of some important food items, such as pulses and edible oil, it remains a net exporter of agricultural goods. Its development strategy will likely maintain a focus on self-reliance in food, but the primary underlying concern continues to be job creation. Progress on agricultural reform is likely to be closely linked to success in creating off-farm rural employment for its huge and growing population of low skilled labor. India's population continues to grow from a large base at a significant pace of roughly 1.8% per year. Today about 25%, or 250 million Indians, are below the poverty line, and 40%, or just over 400 million are illiterate. The median age of India's population is 24 years, and according to various studies from international organizations, India's population should reach between 1.3 and 1.4 billion by 2025; only stabilizing by 2060 at 1.7 billion according to UN calculations. To add to the government's concerns, recent economic expansion has frequently been characterized as "jobless growth," though corroborating employment figures are sketchy, especially in rural and unorganized sectors.

Along with this, a combination of slowing growth in crop yields, small and diminishing farm size, and insufficient employment opportunities in rural areas, is leading to a continued flow of rural labor to urban areas. In 1991, only 26% of India's population lived in urban areas. Today closer to 30% of the population lives in cities and, by 2025, 40% of Indians are expected to be urban dwellers. In India, 36 cities currently have populations over 1 million. By comparison, the 2000 U.S. Census lists 50 cities with populations over 1 million. The strain on existing infrastructure is tangible. According to disaster management specialists in the GOI, 2 out of 3 of New Delhi's 14 million residents live without adequate access to electricity, water, or sanitary conditions. Many of these residents are newly arrived from rural areas. The potential political volatility that these groups represent in urban areas is significant. The impact of policy change on agricultural employment and rural-to-urban migration is a critical issue.

Weak Growth of Rural Industry and Employment

A key problem of labor redistribution in India is that there has been no middle ground in the form of adequate growth in rural non-farm jobs. Sufficient new jobs are not being created in existing rural manufacturing and service industries. The majority of non-farm rural employment is in small-scale industry, which accounts for 80% of India's manufacturing employees, the second largest labor group after agriculture. In order to provide a viable rural alternative to farming and existing slow-growth small-scale industry, the GOI aims to develop an environment where rural industry, including agricultural processing and other forms of agribusiness, can flourish.

It is unclear exactly what types of industries will emerge to absorb surplus rural labor. Some believe there is great potential in a rapidly expanding textile industry, particularly with the upcoming end of trade quotas under the Multi-Fiber Agreement, though industry leaders disagree. The recently liberalized food-processing industry, as well as other forms of agribusiness, could become key sources of rural employment. To date, agricultural processing, marketing, and other forms of agribusiness have received little private investment due in large part to a combination of government disincentives and inefficient infrastructure that reduces returns to such investments. The cost of getting goods to market is very high because of the large number of middlemen, prohibitions on land consolidation, and lack of investment in transportation and refrigerated delivery networks.

Now that the food-processing and other areas of agribusiness have been opened to foreign direct investment, changes are being made to other market regulations that have served as disincentives. Lack of dependable supplies of electricity, water, and low quality rural roads remain as major obstacles to rural job growth. Further, the existing structure of non-farm employment in rural areas is shaped by policy biases towards small-scale rural manufacturing industries that some describe as "hurtling down the path of sickness to probably die." In short, changes in the policy environment are needed to improve private investment incentives and boost rural employment growth to absorb displaced agricultural labor.

MAJOR REFORM ISSUES

Farm Subsidies-An Increasing Burden

The annual cost of India's farm subsidies, including outlays of food grain procurement, storage and distribution (the "food subsidy"), electrical power, fertilizer, and irrigation water totaled about $14.5 billion in 2003/04 and averaged about $12.3 billion over the last 5 years. This does not include indirect subsidies such as subsidized credit. At these levels, farm subsidies amount to at least 12% of agricultural GDP and 15% of total government expenditure. The food subsidy, which reached about $5.5 billion in 2003/04, is the largest and fastest growing component of agricultural outlays, followed by agricultural power (about $5.2 billion), fertilizer (about $2.6 billion), and water (about $1.2 billion). All these subsidies are not subject to WTO disciplines because they are accounted as either domestic food aid or assistance to small and marginal farmers, making them exempt from current WTO definitions of domestic support. However, the magnitude of the subsidies corresponds with a worrisome decline in public investment in farm infrastructure, research, and institutions, as well as environmental problems associated with overuse of fertilizer and water resources.

Fertilizer - India is the third largest producer and consumer of fertilizer after China and the United States. The fertilizer subsidy in India totaled about $2.6 billion in 2003/04, compared with a high of $3.1 billion in 1999/00 and a recent low of $1.4 billion in 1993/94. Part of the fertilizer subsidy benefits farmers by pricing domestic fertilizers below world prices, and another part (the Retention Price Scheme) benefits less efficient domestic manufacturers of some fertilizers by assuring them a minimum return on capital. In the case of diammonium phosphate (DAP), urea, and other fertilizers that are both imported and produced domestically, the retention price subsidies protect the inefficient domestic manufacturers, while subsidized retail prices aid farmers. Despite multiple efforts to cut the fertilizer subsidy over the years, its broad constituency among both farmers and in the fertilizer industry has made major reform difficult and skewed the benefits of subsidies away from farmers in favor of inefficient fertilizer manufacturers.

Power and water - Subsidies on electricity, used mostly for pumping groundwater for irrigation, and for government-built canals, combine to significantly reduce farmer costs of irrigation. The benefits are spread across irrigated areas of the country, but the wheat-rice-sugarcane growing areas of Punjab, Haryana, and Uttar Pradesh, and rice-growing areas of Andhra Pradesh, have reaped particularly large shares of the benefits. The subsidy has contributed to over-pumping and wasteful use of energy and groundwater, causing an increasingly serious problem with depletion of groundwater resources in some areas.

Free water and power policies combined with high rates of power and water theft have caused India's state electricity and water boards to incur huge financial losses. The boards are typically unable to adequately maintain their units or invest in developing new capacity, resulting in chronic intermittent supply for all users and slowing capacity additions. Funding of electricity and water board deficits also limits state and local government capacity to invest in agricultural infrastructure, including new irrigation capacity. Despite these problems, power and water subsidies remain an expedient means of meting out benefits to rural voters. Following the recent election, the surprise Congress Party victory in Andhra Pradesh immediately implemented a campaign promise to reintroduce free electricity for farmers and poor households, an action that was then copied by neighboring Tamil Nadu.

Changing Role of Food Grain and Price Policy

Agricultural development and policy priorities have focused primarily on achieving self-sufficiency in India's two food staples: wheat and rice. For these and other major crops, the GOI sets annual minimum support prices (MSPs) for growers. In the case of wheat and rice, but generally not other crops, MSPs are defended by purchases during harvest by the Food Corporation of India (FCI), a government parastatal. Wheat and rice procured by the FCI is used to supply the Public Distribution System (PDS) and other programs that provide subsidized grain to target groups, or are sold through open market or export sales. The FCI maintains operational and buffer stocks of wheat and rice and also stores any surpluses occurring when procurement exceeds distribution needs. In recent years, the share of wheat and rice output procured by the GOI has increased to about 25 percent, with the remainder either consumed on farm or sold in the open market.

The most visible recent impact of India's agricultural policy problems has been the accumulation of large GOI surpluses of wheat and rice beginning in the late 1990s. The stock buildup corresponds with higher internal prices and reduced per capita consumption, even as 260 million Indians continue to live in poverty. Several factors contributed to the large surpluses, including higher prices stemming from abnormally large increases in MSPs during the late 1990s, changes in food distribution programs, and underlying changes in patterns of food demand. Although stocks have now been reduced by a poor 2002/03 harvest, combined with increases in domestic distribution and exports, the underlying problems with price policy remain.

Price Policy - While wheat and rice MSP policy historically has maintained a balance between producer and consumer interests, price policy became more producer-oriented in the second half of the 1990s. MSPs for wheat and rice received relatively large increases, partly to boost returns over production costs, and partly to pass through benefits of atypically high global prices in the mid-1990s. The higher prices boosted production and the FCI was forced to procure an increasing share of the wheat and rice crops at the MSP. By the late 1990s, the FCI was buying most of the marketed surplus of average quality grain, resulting in what some call a "de facto nationalization" of wheat and rice trade. Despite the growing surpluses, it became politically difficult to reduce or even halt further increases in the MSPs, as procurement is concentrated in 5 states. In 2003/04, the GOI has finally frozen wheat and rice MSPs at previous levels. To prevent such imbalances from occurring in the future, it will be important for MSP policy to be more closely linked to domestic and world market conditions, to reestablish the balance between producer and consumer interests, and to develop alternative mechanisms, such as crop insurance, to provide income stability for farmers.

Distribution policy - At the same time MSP policy was stimulating FCI procurement of wheat and rice in the late 1990s, the GOI began a reform of its food distribution programs intended to improve targeting of food subsidies on low income groups. The Public

Distribution system (PDS), which allowed all consumers to purchase subsidized grain at government outlets, was transformed into the Targeted Public Distribution System (TPDS). Under the TPDS, heavily subsidized grain is sold to "below poverty line" (BPL) and the "poorest-of-poor" consumers, and at higher prices to "above poverty line"(APL) consumers. In addition, an array of new schemes aimed at specific low-income groups, including food-for-work and school meal programs, were started. Initially, implementation problems for these new programs led to a decline in the volume of wheat and rice distributed, which contributed to the accumulation of FCI surpluses. Although implementation of the targeted programs still remains a problem, distribution volumes have now increased, partly due to increased leakage of the highly subsidized grain meant for the poorer clientele into the open market, and will likely prevent the accumulation of FCI stocks, or declines in consumption, of the magnitude that occurred in the late 1990s.

Diversification of food demand - Recent consumer demand studies and trends in food consumption indicate that per capita wheat and rice consumption has declined in recent years and that other food groups, including fruits, vegetables, dairy, edible oils, poultry, and eggs are now leading growth in food demand. Although lower income consumers still reveal a preference to boost wheat and rice consumption, aggregate demand is clearly becoming more diverse as incomes rise. The diversification of demand creates a major challenge for altering government policy, institutions, and expenditure priorities, which have historically focused on achievement of food grain self-sufficiency. Furthermore, the intensive rice-wheat rotation in northern surplus states is creating ecological problems, further strengthening the need for crop diversification.

Food grain exports - Large wheat and rice surpluses accumulated beginning in the late 1990s led the GOI to provide export subsidies as a means of reducing large financial and physical storage losses. Export subsidies covered all transport and handling costs, and also facilitated some exports at prices below the MSPs paid to farmers, potentially in violation of WTO commitments. Subsidized exports averaged 3.9 million tons of rice and 3.1 million tons of wheat between 2000 and 2003. As of August 2003, with stocks sharply reduced, export subsidies were withdrawn, but subsidies on transport costs may be reinstated as the new harvest rebuilds stocks. However, with static or declining wheat and rice production in recent years and the recovery in the volume of subsidized food distribution, it is less likely that the large surpluses and export levels of recent years will reemerge.

Market Interventions Impede Private Investment

Addressing an extensive array of long-standing regulations affecting agricultural markets is a key area for policy reform. Restrictions on such activities as commodity movement and storage, the scale of agribusiness investment, private markets, land leasing, and contract farming, have dampened incentives and led to relatively low levels of private investment in agricultural marketing and processing. As a result, India's agricultural supply chains are dominated by small-scale, non-integrated enterprises characterized by low value-addition, few standardized products, high costs, and high physical losses. There is vast scope for more efficient supply chains to improve both producer returns and consumer value. Private and public investment in agriculture and agribusiness is sharply lower than other areas of the economy. Improving the environment for private agribusiness investment, including foreign investment, is now a key challenge for policy makers.

Movement and storage restrictions - The Essential Commodities Act (ECA), implemented in response to food scarcity concerns in the pre-independence period, allows the central or state governments to impose movement restrictions and storage limits on private traders of cereals, pulses, edible oils, sugar, and other essential commodities. The ECA, which can be imposed by administrative fiat, is a major deterrent to private investment in larger scale and integrated marketing and storage enterprises. Although the ECA was withdrawn at the central government level in the wake of recent food grain surpluses, it remains on the books, and hence a deterrent to investment, in most Indian states.

Restrictions on private marketing - The Agricultural Produce Market Committee (APMC) Act in each Indian state requires that all agricultural products be sold only in government-regulated markets. These markets impose substantial taxes on buyers, in addition to commissions and fees taken by middlemen, but typically provide little service in such areas as price discovery, grading, or inspection. A key impact of the APMC regulation is that private sector processors, wholesalers, and retailers are unable to legally integrate their enterprises by purchasing commodities directly from farmers or other sellers, and farmers have been unable to legally enter into contracts with buyers. Furthermore, under this system farmers have no incentive to upgrade quality and adopt grade standards. This has inhibited private and foreign investment in the food processing sector. Recently, these laws have been relaxed in specific states for specific commodities, and the GOI has drafted and recommended new legislation to the states that would permit private markets to operate. For APMC reforms to move faster, it will be necessary for the central government to increase pressure and incentives on state governments to implement the recommended reforms.

Restrictions on investment scale - From independence through the late 1990s, most agribusiness activities developed under India's Small Scale Industry (SSI) laws that restricted firms to capital investment levels of between Rs 10-30 million ($220k-660k). Although now largely off the books some sectors, such as peanut and rapeseed processing, remain under SSI law, and the long-standing regulation still defines the current small-scale, nonintegrated, and low technology structure that prevails in Indian agribusiness. As the sector develops in the future, there will be considerable scope for vertical and horizontal consolidation of enterprises, and for technology upgrades.

Land ownership and leasing - Current Indian state laws impose ceilings on ownership of agricultural land, and weak leasing laws that provide limited protection for renters and landowners limit the rental of farm land. Ownership ceilings vary by state, but typically range between 7-11 hectares for irrigated land and double that for nonirrigated land. However, average holdings are only about 1.6 hectares, and only a small share of farmers have holdings near the ceiling levels, in part because holdings are repeatedly fragmented in intergenerational transfers. With small average holdings, production agriculture is characterized by labor-intensive practices and relatively low levels of technology and market income. There is growing recognition that stronger land leasing laws are needed to facilitate movement towards larger operational holdings, as well as diversification to off farm employment and earnings. New leasing laws are, reportedly, being drafted but have not been implemented.

Contract farming - The APMC regulations (see above) and poor contract enforcement combine to limit the use of contract farming arrangements. This limits the potential for farmers to share marketing risk with buyers, and for processors and traders to assure availability and quality of produce. Recently, however, there has been successful use of contract arrangements for production of poultry and horticultural products in some regions. New contract farming regulations have, reportedly, been drafted but have not yet been implemented by states, except for a few specific commodities. Frito Lay, for example, has begun developing a supply chain for potatoes in West Bengal by offering alternate employment to middlemen and entering into contract production agreements with farmers on a quasi-cooperative basis. PepsiCo also has had contracting arrangements in Punjab for about the last ten years.

Food safety laws - Indian food safety regulation is currently spread across several outdated parliamentary laws and administered by five different ministries. Compliance with these regulations, which are often outdated or not harmonized with internationally accepted safety norms, is a significant barrier for agribusiness, and can be a deterrent to international competitiveness. A new unified and internationally harmonized food safety statute is currently being drafted.

Agricultural Credit

The first major agricultural sector initiative of the new government was to ensure that the flow of rural credit is doubled in the next three years and the credit coverage of small and marginal farmers by institutional lending is expanded substantially. The government also decided to review the rural credit delivery system and to make it more efficient. Other initiatives included nurturing the rural cooperative credit system, taking immediate action to ease the rural debt burden and high interest rates on farm loans, and to make crop and livestock insurance schemes more effective.

FDI Growing Slowly

Foreign direct investment (FDI) is now permitted in agribusiness activities other than crop production. An economy wide ban on FDI in retail trade also prevents FDI in food retailing. Ongoing FDI by foreign restaurant and fast food chains, and more recently by foreign supermarket chains, is being accomplished by franchising outlets to Indian partners. Although FDI in fast food chains, and in food wholesaling and processing, is on the rise, it remains a small share of overall investment in these sectors and growth is relatively slow. Addressing the factors that restrict domestic investment in agriculture and agribusiness will likely also benefit FDI. In addition, many private sector interests are pushing to open up FDI in food retailing, which they believe will be a catalyst for development of more efficient supply chains, as it has been in other developing countries.

Additional Import Liberalization to Come Slowly

India completed removal of quantitative restrictions on agricultural trade in 2001, but farmers and agribusiness continue to be protected by tariffs, as well as non-tariff barriers to trade. India's average applied rates on all goods is now about 20%, while applied duties on agricultural products average 60% and range from 10-182% (at 3 digit level of aggregation). Agricultural bound rates are significantly higher, averaging 112% and ranging from 10 to 300%, indicating that India has substantial room to legally raise most applied tariffs to increase protection for domestic goods. The easing of quantitative and tariff restrictions on agricultural goods helped boost farm imports about 10% annually from $872 million in 1990/91 to $2.6 billion in 2002/03. Growth in the value of farm imports has, however, slowed in more recent years due to lower commodity prices and an absence of new reforms.

India will remain cautious on additional import reforms because of concern with potential impacts on farm income, as well as the presence of significant domestic and export subsidies in developed countries. India has been careful in liberalizing agricultural tariffs, focusing on sectors where local production is not competitive (such as edible oils) or inadequate (such as pulses) or where low-priced imports aid export competitiveness of value-added goods (such as raw cotton). For most edible oils, applied tariffs are set well below bound rates, allowing consumers to benefit from world-high imports of relatively low-priced palm and soybean oils. For raw cotton, tariffs have been reduced to zero for export-oriented textile mills that need access to high quality and low cost raw cotton to remain competitive.

By contrast, relatively high tariffs are maintained for items such as apples and processed packaged foods (50%), and alcoholic beverages (182%) continue to be well above world averages to protect significant, but generally poor quality, domestic industries. For these goods, high tariffs, combined with uncompetitive and inefficient distribution chains constrain sales of imports in a market where consumers are very price-sensitive.

Agriculture Sensitivities in Multilateral Negotiations

India has emerged as a leader of the G-20 group of developing countries formed to seek reductions in domestic support, export subsidies, and tariff protection in developed countries during the ongoing round of WTO negotiations. Most Indian WTO observers and politicians are of the view that developed country subsidies are a threat to Indian agriculture in an open trading environment, and there is little for India to gain from the negotiations unless there are major reductions in developed country support for agriculture. The trade protections these groups want to maintain have strong popular appeal in India.

While India is most vocal about support in developed countries, its most pressing concerns are internal. Following the removal of quantitative restrictions to farm imports in 2001, India's reform of border policies is already ahead of domestic reform. Few in the government believe India can become a major agricultural exporter overnight and worry about India's competitiveness should current trade barriers be lowered before domestic reforms have been implemented. Until then, India can be expected to continue to protect a sector that is currently non-competitive and potentially politically volatile. Consensus and effective implementation of domestic reforms will be a key to India's contributions to multilateral reform.

Reform Potential and Opportunities

The surprise BJP loss in the recent election, attributed largely to the failure of recent stronger economic growth to benefit the poor, has made agricultural reform a high priority for the new UPA government. Although the UPA's program is still being developed, the new Prime Minister, Finance Minister, head of the influential Planning Commission, and Agriculture and Food Minister have all been strong advocates of market oriented reforms. While the presence of left-leaning parties in the ruling coalition is likely to temper market-oriented reform, particularly any rapid withdrawal of input subsidies, other key measures may be less controversial.

A recent McKinsey report suggests that reducing or eliminating historically burdensome government involvement in markets, land ownership, and businesses as the key to boosting growth in the economy, and particular agriculture. The recent election has provided a political mandate to implement reforms in agriculture and agribusiness to strengthen rural employment and incomes. The USG could play a vital positive role in areas of regulatory reform and development of institutions to support the emergence of private markets and more efficient supply chains. The new UPA government, with its cast of members who successfully implemented India's first round of reforms, is making agriculture a top priority, although the extent to which it will be able to implement real reform is not yet tested.