

Recent Trends in Terms of Trade Between Agriculture and Industry

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Introduction

The Economic reforms program started in India in 1991. The principles of liberalization, privatization and globalization were accepted. The government abolished the license raj which was essential for industrial licensing. The restrictions on foreign investment were also liberalized. The foreign technology may be important without any restrictions. The importance of public sector undertakings was lessened. The government took a decision of contraction of public sector. The restrictions over agricultural trading were also removed. This program of economic reforms affected on various sectors of Indian economy. Agriculture, industries, domestic trade, foreign trade, banking, insurance etc. sectors were affected. Considering the terms of trade between agriculture and industry since economic reforms it indicates that the terms of trade are in favour of agriculture.

Statement of the problem

The terms of trade between agriculture and industry are in favour of agricultural sector during economic reforms period. The prices of agricultural products remain at relatively higher level comparison to industrial sector. However, the favourable terms have not benefitted to the poor and small farmers. Hence, the economic condition of poor farmers need to be strengthened in order to make them more productive.

Objectives of Study

1. To understand the terms of trade between agriculture and industry in India.
2. To study the impact of favourable terms of trade on agriculture sector.

Data Collection

The present research paper is based on secondary data. Various references, journals and books have been used for the research paper. The list of references is attached at the end of the paper.

Impact of economic reforms

After the implementation of new economic reforms the government removed the restrictions over the exports of agricultural commodities from India. This has accelerated the growth of agricultural exports from India. The subsidies on fertilizer were reduced. The government raised the procurement prices of food grains. The regulation of agricultural trading

was also liberalised. Does the government attempted to promote the growth of agricultural sector by adopting liberalization policy. As the Economic reforms programme attracts criticism that it has neglected agricultural growth. The annual rate of food grains production was higher than that of population growth during 1990-91 to 1998-99. The government also reduced the investment in agriculture. NABARD gather use funds under Rural Infrastructure Development Fund but only 35% of funds were spent on the development of agricultural sector. Deduction in agricultural subsidies adversely affected the agricultural production.

Terms of trade during post economic reforms period

The terms of trade between agriculture and industry may be explained with the help of price index of agricultural commodities and price index of industrial commodities. Considering 1981-82 as a base year, the price index of agricultural commodities was 198.3 in 1990-91. Further it increased to 271.4 in 1993-94. During the same period the price index of industrial commodities increased 243.2 from 182.8. Thus it shows that the terms of trade are in favour of agricultural sector. Considering 1993-94 as base year during 1994-95 to 2005-06 the price index of agricultural commodities rose to 190.7 from 116.1. However, the price index of industrial commodities rose to 171.4 from 112.6. Thus the terms of trade remained in favour of agricultural sectors.

Favorable terms of trade to agriculture

The terms of trade are in favor of agricultural sector especially after economic reforms. The government has raised minimum support prices. The commission for agricultural cost and prices announces minimum support prices and procurement prices. The government determines the prices of agricultural commodities accordingly. The minimum prices are guarantee prices in nature in long term. The proper care is taken that the market prices should not lower than MSP. The procurement prices are fixed at higher level in comparison to MSP. The food grains required for public distribution system are purchased at procurement prices. The government has increased both the MSP and procurement prices during last some years. The procurement price of wheat was 225 rupees per quintal in 1990-91. It increased to rupees 850 in 2007-8. During the same period the procurement price of rice increased to rupees 580 from 205. The prices of coarse cereals were also increased. Thus, the procurement prices in respect of almost all crops were enhanced. It is also said that the prices were increased due to the growing pressure of large farmers. The hike in both MSP and procurement prices attributed to favourable terms of trade to agriculture. The fluctuations in grains production also helped in keeping the prices high.

The new economic policy in India has forced to reduce the subsidies given to agricultural sector. The amount of subsidy is being reduced as a part of the agreement made with WTO. The prices of agricultural commodities tend to rise due to reduction in subsidies. The restrictions on agricultural trading are being removed gradually during economic reforms period. It promoted

agricultural exports. As the export of agricultural commodities thanks to rice it affected the domestic supply of the same. The prices of agricultural goods remained at relatively higher level.

The favourable terms of trade to agricultural sector is related to high production and productivity. It is also connected with the enhanced private investment in agricultural sector. The large farmers and landlords attempted to take the benefits of growing agricultural productivity. According to report on currency and finance the inelastic supply of agricultural goods is responsible for the favourable terms of trade. Demand for agricultural rules continuously growing. However, there are constraints on increasing the supply of agricultural goods. This inelasticity of supply help to keep the agricultural prices at higher level.

Some fundamental changes have taken place in industrial sector during the period of economic reforms. Economic liberalization started in 1991. The policy of deregulation was adopted. Indian rupee made partial convertible on current account in 1992. The restrictions on foreign Investments were removed. The foreign investment promoted in various sectors like telecommunication, mining, cable TV, roads, tourism and energy. Most of the restrictions over import and export of industrial goods were also removed. This paved the way of competition in industrial sector. As a result the prices of industrial goods remain at competitive level. However, the prices of agricultural goods were relatively higher than industrial goods.

Epilogue

The favourable terms of trade has positive impact on agricultural sector. The relatively higher prices of agricultural commodities induced higher investment in agriculture. The investment in chemical fertilizers, irrigation and new technology indicates increasing trends. The modern approach is being adopted by the farmers. This has encouraged increment in the agricultural production. However, the favourable terms of trade could not proved beneficial to the common and poor farmers. They are at the losing end. The poor condition of farmers, lack of alternative employment opportunities, the dependence on monsoon rainfall, exorbitant rate of interest charged by money lenders etc. reasons are responsible directly or indirectly for farmers distress. Hence, there is an urgent need to strengthen the economic condition of poor farmers as they are the base of agriculture in India. The common farmers are still highly indebted even in the new era of globalization.

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