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Looming threat on the food front

Free import of foodgrain is bound to clash with our goal of self-sufficiency in foodgrain production, says Uttam Gupta

AFTER the failure of talks in Geneva on phase-out plan of quantitative restrictions (QRs) on imports by India, USA, Australia, New Zealand, Canada and EEC have moved the Dispute Settlement Body (DSB) of WTO. With this, the consultation mechanism has already been triggered off for which a period of 60 days is allowed. It is, however, unlikely that the deadlock would be broken at this level.

The matter will, therefore, inevitably go to the Dispute Settlement Panel (DSP) for adjudication. While this process may take some time, in case the Panel's findings are adverse, there will be no choice but to immediately remove QRs, or face action which may include trade sanctions.

The whole case has been mismanaged. We did not play a pro-active role in the long-drawn negotiations leading to the WTO Agreement in 1995, which India signed without even realising what it had in store for us. As part of this mindless sell-out, we had agreed to virtual unconditional removal of QRs on imports. While QRs on many items have already been dismantled, about 2700 commodities remain which include the bulk of agricultural products and items reserved for small scale industries (SSI).

For removing QRs on these sensitive commodities, India went to the negotiating table initially, with a nine-year phase-out plan and subsequently, reduced the offer to seven years. Even as the developed countries (DCs) insisted on five-year phase-out, talks failed. Imagine if the DCs had agreed to our seven-year proposal or even nine-year, would that satisfy us? To our policy-makers, it seems 'yes'. After all, they went with this package. But, the buck does not stop here; the issue has much deeper ramifications.

Is it our case that at the end of 7/9 years from now Indian farmers and the SSI would be ready to face competition from imports? Free import of foodgrain is bound to clash with our goal of maintaining self-sufficiency in foodgrain production and hence, food security. Are we saying that this goal would become irrelevant at the end of the phase-out period? Have we forgotten the days of hand-to-mouth existence in the 60s, or India figuring in the *Guiness Book of World Records* for receiving maximum assistance under US PL-480 programme for two consecutive years i e 1964-65 and 1965-66?

For feeding the gigantic population of India, can we allow heavy dependence on import of foodgrain? This is risky, as required quantities may not be available in the world market and we may not have foreign exchange (FE) needed to pay for it. And, even if supply is adequate and FE is not a constraint, price tends to shoot up especially in the event of substantial demand from major importers like India. The constraints of logistics too i e, ocean transport, handling at ports and internal transportation too should not be forgotten. Remember, just 2 million tonne import of wheat on which the government decided in December 1995, took more than six months to arrive at Indian shores.

The above drives home the need for having a sound indigenous agricultural base to meet foodgrain requirements of the growing population on a sustained basis. For almost three decades now, the government has remained committed to this goal.

Before we even think of removing QRs on foodgrain imports — no matter what the time-frame is — it should take a categorical stand on whether it wants continued food security, as the two just cannot go together.

Growth of SSI is essential to provide employment to the jobless, reduce poverty and achieve better distribution of income. This, in turn, is a fundamental requirement for expanding demand and sustaining overall economic growth. The government should, therefore, take a view on whether it wishes to protect and promote SSIs in the larger interest of increasing employment before allowing unrestrained entry of goods manufactured in the SSI sector.

It seems our policy-makers had little time to address these basic issues. Even now, when things have gone overboard, they are still talking of the timing of phase-out and not the substantive question of how removal of QRs will impact on agriculture, employment, indeed, the overall economy. While there is an urgent need to build adequate safeguards to protect our interests, even the case for seeking BoP cover under Article XVIII B of WTO has not been properly projected.

The DCs' contention is that our BoP has improved substantially and hence, there is no justification for continuation of QRs. How does one decide whether BoP is in good shape? The DCs tend to look at the bulging FE reserves per se, currently over $29 billion to establish the point. However, seen in isolation, these give a misleading picture.

The bulk of the increase in reserves is due to massive injection of funds by FIIs and foreign direct investment (FDI). To the FIIs, not only are interest rates in India attractive, but they are also buying shares of Indian companies quite cheap. For many of them, such purchases are speculative. All this is hot money and can go back any moment.

The Mexican crisis of 1995 and recent flight of capital from Asean countries are pointers to the kind of situation in store for us; the bulging FE could disappear in no time. In fact, much of the money coming to India is just a diversion from Asean due to present currency turmoil in the latter. In the event of situation in Asean settling down, sooner than later, the possibility of money leaving India is not ruled out.

Even in regard to FDI, against one-time inflow, there is substantial recurring outflow by way of repatriation of profits. Considering that bulk of FDI is in consumer goods sector, including the SSI, makes the situation even worse as amount of profit in these areas is substantially higher and so is the outflow of foreign exchange.

Whether BoP is sound or not has to be judged from our ability to maintain a favourable balance on trade account. The situation on this front continues to be fragile. During 1996-97, despite slowing down of import, the year ended up with a substantially higher trade deficit mainly because of even lower growth in exports i e, just about 4 per cent. The situation has worsened during the first quarter of current year with a negative growth in exports of one per cent. And, it is unlikely to improve during the rest of the year.

Due to domestic production of crude and PoL failing to catch up with rapidly rising demand, increasing pressure on imports is inevitable.

Increase in demand for fertilisers and other essential items for which domestic raw material resources are not available, has also to be necessarily met by increase in imports. These imports alone and FE requirements on account of servicing of external debt cannot be fully paid for by merchandise exports.