Trade and Trade Policy

Since 1970, India's trade in cereals has shown a trend from net imports to net exports of both wheat and rice—a trend that reflects shifts in trade policy, as well as longer term changes in supply and demand (fig. 8). Through the 1980s and early 1990s, Indian agriculture had export restrictions and overvalued exchange rates that resulted in net taxation of the farm sector. Exports of agricultural goods, including wheat and rice, were restricted through various regulations to bolster India's domestic food security. For wheat and rice, quantitative controls on imports and exports were administered through the Food Corporation of India (FCI).

In the mid-1990s, trade policies were changed when quantitative restrictions on imports were lifted and replaced by tariffs. The wheat tariff was initially set at zero, but was raised to 50 percent in 1999 to curb imports into southern India at a time when surpluses were growing in the north. The rice tariff has remained at 70 percent, a level that prohibits trade from occurring.[3] Export restrictions on wheat and rice, historically imposed through State trading, quotas, and minimum export prices, have been progressively liberalized.

[3] India's World Trade Organization bound tariffs are 100 percent for wheat and 70 percent for milled rice.

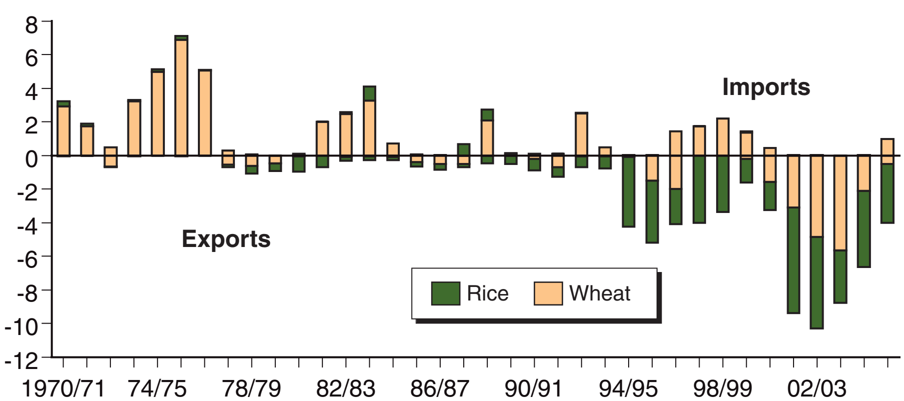
In 2000, India began to provide budgetary subsidies to support exports of surplus wheat and rice when the combination of declining world prices and higher domestic prices made Indian wheat and rice uncompetitive in world markets. In 2005, the Government halted export subsidies because of tightening domestic supplies and reduced Indian competitiveness in international markets, although private traders remain free to export wheat and rice.

The removal of quantitative restrictions on exports and imports, while having potentially positive impacts on investment and competitiveness in the wheat and rice sectors, has exposed problems with the existing mechanism for minimum support prices (MSPs) and created new challenges for meeting the needs of consumers through the targeted public distribution system (TPDS):

Figure 8

Trends in India's wheat and rice trade

Million tons



Source: USDA Production, Supply, and Distribution database.

- The removal of quantitative trade restrictions has exposed the need for an MSP-setting mechanism that keeps support prices better connected to domestic and world prices, rather than production costs. While the MSP based primarily on production costs worked effectively and benefited producers and traders in an environment of relatively high international prices during the mid-1990s, it created problems when world prices fell from their 1995/96 peak. In the late 1990s, MSPs set largely on the basis of production costs and political imperatives to support producers became disconnected from market realities, leading to declining consumption and large grain surpluses and budgetary costs.
- The removal of export restraints has increased demands on domestic distribution programs to stabilize supplies for lower income consumers. An important rationale for earlier restraints on exports was to ensure stable supplies and prices for domestic consumers. Higher domestic prices and declines in per capita rice consumption in the period following the liberalization of wheat and rice trade suggest that at least some consumers have been adversely affected. However, since global rice prices have been declining since the mid-1990s, these impacts were likely at least partially driven by high MSPs and declines in distribution associated with implementation of the TPDS, and not just the removal of export restraints.