UNIT 22 AGRICULTURE IN THE CONTEXT OF GLOBALIZATION OF THE ECONOMY

Structure

22.0 Objectives
22.1 Introduction
22.2 Economic Reforms and Agriculture
22.3 Areas of Reforms in Indian Agriculture
22.3.1 Prices
22.3.2 Subsidies
22.3.3 Exports
22.4 External Trade in Agri-Products
22.5 WTO Recommendations for Indian Agriculture
22.6 Implications of WTO Recommendations
22.7 Let Us Sum Up
22.8 Key Words
22.9 Some Useful Books
22.10 Answers/Hints to Check Your Progress Exercises

22.0 OBJECTIVES

After going through this unit, you will be in a position to:

- identify the areas where reforms are needed in agriculture;
- explain the export performance of India in the field of agriculture;
- examine the prescriptions of the World Trade Organization (WTO) in the context of Indian agriculture; and
- explain the effects of globalization on Indian agriculture.

22.1 INTRODUCTION

In India the process of economic liberalization and globalization started rapidly in the beginning of the 1990s. It signified a break from the policies that the country had been following since Independence. The important features of the new economic policy are: i) reduced state intervention, ii) withdrawal of licensing system, iii) opening up of more sectors of the economy to private sector and even to foreign concerns, iv) moves towards dismantling of subsidies and public distribution system, v) abolition of import quotas, reducing import tariffs and duties, vi) giving more freedom to capital movements, vii) relaxing the labour laws, and viii) encouraging exports. In short, the government wants to allow greater role for the private sector and confine its operations to governance and minimal production activities.

22.2 ECONOMIC REFORMS AND AGRICULTURE

Economic reforms include a number of issues. They try to correct the basic shortcomings of the economy that hinder its growth and welfare of its people. Purpose of economic reforms is to generate output and employment, and maximize economic growth. In an agriculture dependent economy no effort in this direction can be successful without making agriculture conducive for growth. Therefore, economic reforms have relevance for agriculture as well.

The principal thrusts of reforms in agricultural sector are the following:

a) **Encourage private investments:** This can be achieved by providing credit facilities, irrigation, transportation, marketing, warehousing facilities, information and export opportunities to the farmers.

b) **Land Reforms:** In India about 75% of the cultivators own 25% of the total land under cultivation. If these poor farmers could be provided with more land by redistributing the land it will boost agricultural production and investments. This is because land owned by the existing big landlords are often leased out to poor tenants. These tenants do not possess enough money to invest. There is also a large section of landless labourers and tenant farmers who need to be allocated land. Such redistribution of land would ensure a regular source of income to agricultural labourers and tenants besides increasing production. For this measure to be successful supplementary supports in the form of cheap seeds, fertilizers, irrigation and credits have to be provided.

c) **Taxing the Agricultural Rich:** On the ground that majority of the Indian farmers are poor, the government does not impose taxes on agricultural income. But the benefits of such a policy accrue to the rich landlords and farmers who only get richer by this exemption. Moreover, this concession has become a means of tax evasion. People often show their non-agricultural income as agricultural income and claim tax exemptions. To generate sufficient resources for development purposes, the possibility of taxing rich landlords and farmers needs to be explored.

d) **Managing the Terms of Trade:** The price relation between the agricultural and industrial sectors is a matter of great importance. It determines the level of real income for the entire population. In a poor country like India, high food prices (which means a high terms of trade for agriculture) mean a low living standard for a large segment of the population. It means high poverty level and low demand for industrial goods. As a result, industrial output and employment may suffer. High procurement prices offered by the government mainly benefit rich farmers with marketable surplus.

e) **Promoting Exports of Agricultural Goods:** India has the potential of growing a variety of crops because of its differing climatic conditions. Thus this potential should be properly utilized in order to capture the foreign market for these goods. At the same time, however, it should be remembered that in many cases higher global prices often leads to outflow of foodgrains and food products which could lead to shortages in the country.

f) **Rationalizing Subsidies:** Subsidies have been the subject of much debate in India. In the post-independence period Indian farmers have been given huge amount of subsidies under a number of heads. Be it building of public infrastructure such as dams and irrigation projects, or provision of cheap power, HYV seeds and fertilizer, or even regular procurement of crops at remunerative prices. However, critics question whether the subsidies are reaching the target groups. Many are of the view that only the rich farmers in select northern states get most of these subsidies. Thus a proper scheme for the provision of subsidies, which benefits majority of farmers, needs to be designed.

g) **Free Trade in Agri-Products:** As we have seen in the previous unit India is facing a problem of over-supply in foodgrains and many other agricultural commodities. However, for many years there was restriction on movement of agri-products across states. These restrictions were imposed in the form of licensing of dealers, placing limits on stocks, and control on movement of commodities under the Essential Commodities Act, 1955. The government has now withdrawn licensing requirement of dealers and restrictions on storage and movement of foodgrains (wheat, paddy, rice, coarse grains), sugar, oilseeds and edible oils. Free movement of agricultural products has another benefit – we do not need self-sufficiency in all agricultural commodities at the regional level. Once self-sufficiency is attained at the national level, free trade will help in movement of foodgrains from surplus to deficit regions. Moreover, free trade will create an integrated national market in agricultural produce.

22.3 AREAS OF REFORMS IN INDIAN AGRICULTURE

Based on the discussion in the previous section we attempt to identity areas in which reforms need to be carried out. We enlist them below.

22.3.1 Prices

The prices which the cultivators get for their crops and the prices at which consumers buy from the market need to be rationalized. We saw in Unit 19 that high remunerative price induces agricultural investments and growth. But it may lead to impoverishment of lower income groups and decelerate industrial growth. The price charged at the public distribution system (PDS) shops also needs to be reformulated. The hike in issue prices in recent years has resulted in low off-take from the PDS outlets. This is because the price levels for the 'Above Poverty Line' (APL) target group exceeded the market price whereas the products on offer were of sub-standard quality. For the 'Below Poverty Line' (BPL) group the prices were somewhat lower but the rich and the influential got themselves registered as BPL and reaped the benefits. The result has been fall in cereal consumption by the poor and rising inequality. There is a need for a well thought out policy in this area which protects the interests of both producers and consumers.

22.3.2 Subsidies

Subsidies are related to the issue of prices. Lower price that the consumers pay at PDS fair price shops is due to the subsidies granted by the government. However, as mentioned above, in many cases subsidies do not reach the target groups. In the case of 'production subsidies' provision of subsidised fertilizers, seeds, pump sets and other equipments have helped the rich farmers, particularly in agriculturally developed states. On the whole, we can say that agricultural subsidies need to be streamlined or reformed. It does not mean that they have to be done away with; rather they have to be properly focussed.

22.3.3 Exports

Exports by a farmer results in higher income for the farmer. It also earns foreign exchange for the country which makes its economic position stronger. Therefore, the government should look at the issue of export promotion of agricultural products and provide necessary support. It should minimize the legal and bureaucratic hassles in the way of setting up of a production unit and exporting abroad. But the considerations which we have talked about earlier, such as not fueling the domestic food price or not contributing to poverty, should also be kept in mind.

Check Your Progress 1

1) Point out the areas in which agricultural reforms are needed in India.

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2) What are the effects of high foodgrains prices?

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3) Do you suggest that the agricultural income should be taxed in India? Why?

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22.4 EXTERNAL TRADE OF AGRI-PRODUCTS

In the previous Unit we had learnt that India achieved self-sufficiency in foodgrains during the 1980s. Before that India was a net importer of foodgrains.

India's agricultural exports include rice, wheat, cereals, tobacco, sugar and molasses, poultry and dairy products, horticulture products, spices, cashew, sesame and niger seed, groundnut, oil meals, castor oil, shellac, fruits and vegetables, cotton, processed vegetables, juices, and meat and marine products. Of these items, marine products have emerged to be the single largest contributor to agricultural exports. In the year 2000-01 agricultural products worth US$6 billion were exported from the country, 23 per cent of which was contributed by marine products alone. The next important item of agri-exports was cereals, mostly basmati and non-basmati rice, which accounted for 12 per cent of the total.

India has a competitive advantage in several agricultural commodities. Self-sufficiency in agro-inputs, low labour costs and diverse agro-climatic conditions are some of the factors which give India an advantage. However, raising agricultural productivity to international standards is a major challenge before India. Although states such as Punjab, Haryana and Andhra Pradesh have attained productivity levels of world standard, other states are lagging behind.

Table 22.1 : Exports of Agriculture and Allied Products

Year	Rs. Crore	US$ million	Share in total exports (%)
1960-61	284	596	44.2
1970-71	487	644	31.7
1980-81	2057	2601	30.7
1990-91	6317	3521	19.4
1995-96	21138	6320	19.9
2000-01	28535	6246	14.0

Source: Indian Economic Survey 2001-02.

From Table 22.1 we make two observations. First, export of agricultural products has increased sharply over the years not only in rupee terms but also in terms of dollars. While agricultural exports earned foreign exchange worth $596 million in 1960-61, the amount increased to $6246 million in 2000-01. Secondly, the share of agriculture in total exports of India has decreased over time. While agricultural products constituted 44.2 per cent of total exports in 1960-6,1 it was only 14 per cent of total export in 2000-01. The implication of the above is that exports of non-agricultural products have increased at a faster rate than that of agricultural products.

Agricultural imports are about 5 to 6 per cent of total imports of the country. The major items of imports are edible oil, cotton, pulses and wood products. In the year 2000-01 India's agri-imports were only US$1.8 billion, much lower than its agri-exports of US$6 billion. Edible oil, in recent years, has become the single largest item of agri-imports for India. It accounts for about 60 to 70 per cent of the value of total agricultural imports. Raw cashewnut, almonds and pulses are the other major agri-imports of India, each contributing about 5 to 10 percent of total agricultural imports.

From a historical perspective we observe that till the 1980s Indian agricultural exports were limited to some commercial crops like spices, tea and coffee. Imports were largely restricted through quantitative restrictions (QRs) and high level of tariffs. The objective was to regulate the supply of agricultural commodities. Thus restrictions were imposed to check the inflow of agricultural commodities which may result in excess supply and consequently result in adverse terms of trade for agriculture. Similarly, exports of agricultural commodities were restricted keeping in view domestic availability. Excess exports may result in domestic shortages and consequent price rise.

In April 2000 imports of about 700 agricultural items was subjected to QRs. However, the Export-Import Policy of 2001 removed QRs on 228 agricultural items. As per the WTO guidelines QRs would be withdrawn in a phased manner. Thus, agricultural exports as well as imports, in the era of globalization, will be regulated through imposition of tariffs only.

Since the 1990s there has been an increase in openness or outward orientation of India's agricultural sector. However, agricultural sector is less outward-oriented than the economy as a whole.

22.5 WTO RECOMMENDATIONS FOR INDIAN AGRICULTURE

In recent years the mainstream economic policy prescription has given more importance to free trade and market mechanism. There has emerged a view that global trade and capital movement benefit both the developed and developing economies. Thus World Trade Organisation (WTO) and international lending institutions such as World Bank, International Monetary Fund, Asian Development Bank and others have emphasized unrestricted global trade and capital movements. The WTO was established in 1995 with 135 member nations and it replaced the General Agreement on Tariff and Trade (GATT). The major objectives of the WTO are encouraging free trade through negotiations and promoting competitiveness in production. WTO includes issues concerning trade vis-à-vis labour, environment, competition and investment.

The underlying logic behind promotion of free trade is that an economy which cannot produce certain goods at economical costs can import them at cheaper rates.. Conversely it can export goods in which it is efficient to countries that cannot produce these goods at low costs. This way each country specializes in the goods for which it enjoys "comparative advantage". The doctrine of comparative advantage was propounded by David Ricardo two hundred years ago. It says that every country will have some commodity which it can produce at the minimum relative cost. And it will be beneficial for all the countries if they specialize in production and export of commodities where they have comparative advantage. The aggregate welfare and output will be maximized in this way.

It follows from the above theory that measures which restrict trade or encourage production of commodities in which a country does not have comparative advantage lead to a fall in domestic and global welfare. It then follows that all tariffs and quotas on imports should be scrapped. Subsidies that are given to production of exports goods should be withdrawn because they distort the free market price. Free market price ensures that resources are efficiently allocated between alternative uses. Extending this logic to agricultural goods, it is recommended that all quantitative restrictions (QRs) on the imports of agricultural products should be abolished. The restrictions India had earlier on import of agricultural goods were based on a different understanding. The import quotas sought to guarantee that Indian farmers were protected against foreign competition and dumping. It was argued that dependence of food imports might mean poverty and famine in years when global food shortage occurs.

Another set of measures suggested by the WTO is related to *patent laws* and their implementation. WTO believes that a company inventing a particular product should have the exclusive rights to benefit from it. This will ensure that people do get necessary incentive and money to invent and research on a new product. Result of this policy is that anybody using a patented product or producing it has to pay a royalty to the original inventor. This is called TRIPS (trade related intellectual property rights). It has the implication that in order to use high yielding patented varieties of seeds, fertilizers and pesticides, the users have to pay a fee to the respective patent holders. Anyone who wants to do research on a patented seed is being forbidden to do so without permission and payment of royalty to the patent holder. The impact of such patents is an increase in the cost of production for the farmers.

Other broad WTO recommendations which also affect Indian agriculture are as follows:

i) Reduction in subsidies to farmers: The WTO believes that subsidies have two adverse effects. First, it distorts free market prices leading to misallocation of resources. Second, it raises government fiscal deficit. High fiscal deficit may lead to balance of payment difficulties and inflation.

ii) Reduction in government spending: The international organizations such as IMF have been suggesting that the government should cut down on expenditure so as to reduce fiscal deficit. An outcome of such efforts by many governments including India has been a reduction in the outlay on public infrastructure such as roads, electricity, transportation and rural banking. Investments on public irrigation facilities have also declined.

iii) Privatization of the public sector units: The WTO believes that government should have no economic interventions in production and resource allocation. It should play the role of a facilitator in realization of higher growth and maintain economic stability. An implication of such a prescription has been the selling off of public sector undertakings.

iv) Dismantling the PDS: The PDS implies two kinds of subsidies to be paid by the government. First to the farmers in terms of procurement price higher than market price. Second to the consumers by selling foodgrains at lower than market price. Such operations raise fiscal deficit and promotes inefficiency.

Check Your Progress 2

1) What are the major crops that India exports?

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2) What are the recommendations of the WTO for agricultural reforms?

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22.6 IMPLICATIONS OF WTO RECOMMENDATIONS ON INDIAN AGRICULTURE

India has been able to withstand the WTO prescriptions to some extent. It has not followed all the prescriptions of the WTO. The areas where WTO prescriptions have influenced government policies as follows:

a) The recommendation on subsidy cuts has been partially followed. This is true in the case of subsidy on provision of public infrastructure. Government intervention on rural electrification, irrigation projects and other infrastructural investments has been falling since the 1980s itself. As a result, the aggregate investments in agriculture have stagnated in absolute terms. It increased from Rs.63 billion in 1960-61 to Rs 182 billion in 1978-79. Thereafter it went on a declining trend and recovered marginally to Rs 190 billion in 1998-99. Thus, far from increasing at a positive rate it has just remained at the same level during the last two decades. One principal reason for this has been the decline in public investment expenditure (see Unit 15). This decline started in the mid-1980s when the government started taking IMF loans, which were tied with conditionalities similar to what the WTO recommends today. The decline has continued till today. As a result, the share of private sector in total investments in the agricultural sector has increased from 50% in 1980-81 to 75% in 1998-99. Though the private investments have risen in absolute terms at constant prices, in recent years these also have stagnated. For agricultural sector as a whole, the increase in private investments have not led to an increase in the aggregate investments, mainly due to the sharp decline in public investments.

b) Another example where WTO recommendations have been adhered to is the case of abolition of import quotas in agricultural products. Quotas or quantitative restrictions (QRs) were imposed to protect the cultivators against cheap imports or *dumping* by foreign countries. Dumping means that a country, in order to capture the market of another country, exports goods at very low prices to the latter. Once the market is captured and domestic producers are out-competed, the exporting country becomes a monopolist and charges high prices for its exports. Only a rich country with enough financial resources can follow such an aggressive policy.

c) The recommendations, which were not followed much, were the subsidy cuts on procurement of foodgrains. The WTO has recommended that either the procurement operations should be curtailed or the procurement prices should be fixed at a low margin over the prevalent market price. Either way the total subsidies will decline. But political compulsions have not let this happen. The farmers' lobby has proven to be more powerful than the WTO prescriptions. Therefore, huge amount of grains are still being procured at prices which are higher than the market price. However, the storage of this grain has been a big problem. Since WTO recommends that the grains cannot be sold at a cheap rate through the PDS (because that is also a kind of subsidy given to consumers), PDS prices have been raised. But poor people who buy food from the PDS shops cannot pay such high prices. Result has been a huge and unmanageable food-stock at the Food Corporation of India (FCI) go-downs. The cost of storage is pretty high; hence much of the stock is ill-managed and is rotting. In July 2002 India had accumulated about 63 million tonnes of foodgrains. This is far higher than the recommended storage.

d) Besides public infrastructure provisions, other channels of subsidy are cheap seeds, fertilizers, and subsidies on account of private irrigation facilities such as pump sets. These have been declining in the 1990s. This along with the decrease in public investments has retarded agricultural production growth rate in the 1990s compared to the previous decade. The slowing down of growth is more evident in the case of foodgrains production. Compared to a growth rate of 2.9 per cent per annum in the 1980s, in the 1990s this rate was 1.8 per cent per annum. Note that this growth rate is below the annual population growth rate of India.

Following major changes in the field of infrastructure have been noticed:

i) Expansion of irrigation slowed down because annual growth rate in public investments in agriculture declined from 4.0 per cent in 1980s to 1.9 per cent in the 1990s.

ii) Low public investments in Research and Development: 0.5% of agricultural GDP against the ICAR (Indian Council of Agricultural Research) recommended norm of 1 per cent.

iii) Decline in the annual growth rate of use of fertilizers form 7.8 per cent in the 1980s to 4.3 per cent in the 1990s.

iv) Deceleration of growth rate in area under HYV seeds from 4.9 per cent in the 1980s to 2.8 per cent in the 1990s

v) Decline in soil fertility due to intensive cultivation and wheat–rice rotations year after year in the north-west region.

vi) Over-exploitation of ground water through small scale private irrigation: This has led to lowering of water table. It can be linked to the fact that the private investment is the major component in the total investments in agriculture in recent years (see Unit 15). Private irrigation unlike public irrigation draws heavily on the ground water.

e) Lower agricultural growth rate was accompanied by a favourable terms of trade for agriculture. Taking 1990-91 as the base year the consumer price index (CPI) for agricultural labourer for non-food articles was 100.3 in 1999-2000, whereas the wholesale price index (WPI) for cereals was 126.0. These two figures imply that the input costs have been rising for the industrial producers and the demand has been sluggish. This could have led to a decline in growth rate of output and employment in the industrial sector.

f) Just as in the case of investments in agricultural sector, employment in the public sector undertakings (PSUs) declined in the 1990s. During 1983 to 1994 the employment growth rate in PSUs was 1.52 per cent per annum. On the other hand, during 1994 to 2000 it decreased at a rate of 0.03 per cent per annum. Private sector suffered on two counts: First due to low demands emanating from agricultural sluggishness and adverse terms of trade. Second, due to the curtailment of public investments, supply side bottlenecks appeared. Employment in the private sector increased during 1983 to 1994 at a rate of 2.04 per cent per year. However, during 1994 to 2000 its growth rate was 0.98 per cent. Moreover, private sector could not generate enough employment to make up for the shrinking employment opportunities in the public sector.

g) Result of low employment generation and rising food prices has been the decline in per capita cereal consumption. In recent years monthly per capita consumption of cereals decreased from 14.4 kg. in 1987 to 12.8 kg. in 1997 in rural areas. During the same period it decreased from 11.2 kg. to 10.3 kg. in urban areas. Note that the decline in the consumption of cereal has been more for the rural areas than for the urban areas. Since agriculture is the backbone of rural areas, the misery has increased in agricultural households.

h) Higher exports of foodgrains have also been a feature of the 1990s. However, the prices that our grains have received in the global market have been much less than the standard international prices. Wheat, for example, was sold for $103 per tonne in 2001, whereas the ruling price at that time was $130. Second surprising feature of the export push is that we are subsidizing our exports. In the year 2001 the economic cost for a tonne of wheat was Rs 8300 to the FCI; wheat was exported at a price of Rs 4000 per tonne. So we have paid subsidy of Rs 4300 per tonne to the foreign buyers. Contrast this with the fact that issue price of APL did not carry any subsidy.

i) Opening the farming sector to the global market has brought about a shift in the cropping pattern. Mainly, the shift has been from the food crops (especially of the low quality such as jowar and bajra) to cash crops such as oil seeds (sunflower, soya beans) and cotton. Before the 1990s there were much restrictions on export of agricultural products. As a result, the domestic production decisions were more immune to international price movements. Crops of coarse variety such as jowar, bajra, ragi were produced in abundance which catered to the needs of the poorer sections of the country. In recent years farmers have realized that production of cash crops such as sunflower, soya and cotton are more profitable since they fetch a much higher price in the international market. As a consequence, a shifting in cropping pattern is taking place. Production of coarse cereals has been declining and that of cash crops rising. Results of this switching over have not been positive, particularly for the poorer sections.

Check Your Progress 3

1) What has been the trend in the public investment in agriculture in India in the nineties? Have private investments been rising as a result?

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2) In spite of bursting food stocks the FCI is procuring more and more foodgrains at higher prices from the farmers. At the same time the public distribution system is being dismantled. How do you explain this?

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22.7 LET US SUM UP

For achievement of higher growth we need to make certain fundamental changes in the economy through appropriate policy measures. These measures are collectively called economic reforms. For an agricultural economy such as India economic reforms cannot ignore the agricultural sector. Therefore, the economy has to make some basic adjustments to its agricultural sector. Some of the changes that are required are: i) taxing the agricultural income while ensuring that only the rich farmers pay, ii) rationalization of subsidies, and iii) proper pricing of agricultural goods. While undertaking these measures we need to consider issues such as remunerative prices to farmers, higher industrial growth and poverty eradication.

While these reforms seem to be very important given the state of Indian agriculture, the WTO has made certain recommendations which are not always in national interest. These are: i) promotion of foodgrains exports, ii) removal of all subsidies, iii) cutting down on government expenditure, iv) removal of import and export quotas, and v) upholding of patent laws in the case of agricultural seeds, insecticides and fertilizers.

While taking steps for implementation of WTO agenda even partially, we should be careful that these measures do not have adverse effects on problems such as i) rising inequality in the distribution of income in agricultural sector, ii) declining agricultural growth rate, iii) rising poverty in the agricultural sector, iv) falling overall cereal consumption of the economy, v) rising food prices faster than average inflation rate, vi) falling demand for the industrial sector and its stagnation, and vii) low employment generation.

22.8 KEY WORDS

Subsidies : can be considered as grants given by the government to people. Agricultural subsidies, for example, are given to farmers in the forms of cheap fertilizer, equipment, seeds and higher procurement price.

Tariffs : Taxes imposed on value of imports.

Terms of Trade : is the ratio of the prices between two sectors. For example, terms of trade between agriculture and industries would be the ratio of agricultural prices to industrial prices.

Trade Related Intellectual Property Rights : (TRIPS) is recommended by the WTO to ensure that the inventor of a certain product (or process) is paid royalty by the users.

World Trade Organization : (WTO) was founded in 1995 replacing General Agreement on Tariffs and Trade (GATT). Its purpose is to promote multilateral global trade and welfare.

22.9 SOME USEFUL BOOKS

Datt, R. and K. P. M. Sundaram, 2001, *Indian Economy*, S. Chand and Co., New Delhi.

Kapila, U. (ed.), 1990, *Indian Economy since Independence: Different Aspects of Agricultural Development*, vol II, Academic Foundation, Delhi.

Misra, S. K. and V. K. Puri, 2001, *Indian Economy*, Himalaya Publishing House, New Delhi.

Patnaik, U., 1999, *The Long Transition*, Tulika Publications, New Delhi.

Raj, K. N., 1990, *Organizational Issues in Indian Agriculture*, Oxford University Press, New Delhi.

22.10 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

1) The areas where reforms are needed are prices, subsidies and exports. Go through Section 22.3 for further details.

2) Food being an essential consumption item an increase in its price is likely to generate higher inflation. However, the impact of foodgrains price rise is not limited to inflation alone. It may adversely affect poverty and industrial growth. See Section 22.2 (d).

3) Go through Section 2.2 (c) and answer

Check Your Progress 2

1) India's agricultural exports include rice, wheat, tobacco, sugar and molasses, poultry and dairy produces, horticulture products, spices, cashews, sesame and niger seed, groundnut, oil meals, castor oil, shellac, fruits and vegetables, cotton, processed vegetables, juices and meat and marine products.

2) You may bring out the major policy prescriptions of WTO. Go through Section 22.5 and answer.

Check Your Progress 3

1) Go through point (a) of Section 22.6 and answer.

2) See point (c) of Section 22.6 and answer.