

Introduction

Economic growth in India has accelerated since the early 1990s, when a package of market-oriented reforms to domestic, trade, and exchange rate policies sparked investment and productivity gains in the industrial and services sectors. But agricultural investment has lagged investment in the rest of the economy since the 1980s. Output growth has slowed since the early 1990s (table 1), and agreement on reforms to strengthen agricultural performance has proven difficult.¹ With rising incomes, urbanization, and youthful demographics boosting demand for an increasingly diverse array of food and agricultural products, slowed growth in farm output is translating into rising real prices for some foods, as well as more agricultural imports. Although agricultural imports remain low compared with the size of the Indian economy, they have grown about 13 percent annually in real terms since the early 1990s, and India has emerged as a major global importer of edible oils, pulses, and, most recently, wheat.²

Despite the robust gains elsewhere in the economy, the poor performance of India's agricultural sector—including both production agriculture and marketing—has become a key concern of Indian policymakers. Agriculture accounts for about 21 percent of economic output (2003/04-2005/06 average; Reserve Bank of India, 2007) and is the primary source of employment and income for about 58 percent the population (Government of India, Ministry of Statistics and Program Implementation, 2005), including a large share of Indians living below the poverty line. Lagging performance in such a large segment of the economy jeopardizes the sustainability of the economy's strong overall growth. It has also prompted political resistance to extending market-oriented domestic and trade policy reforms into a farm sector comprised mostly of small farmers and agribusinesses that are seen as vulnerable and unready to compete in international markets.

The lack of substantive yield growth and the inefficiency of markets in Indian agriculture are correlated with low levels of public and private investment in agriculture and agribusiness. In contrast to the dynamism evident in other sectors, investment in Indian agriculture and agribusiness—public and private, domestic and foreign—has been low and, until very recently, has shown little growth. Public investment has been partially constrained by the

¹Calculation of representative growth rates in Indian agriculture is complicated by weather-induced fluctuations in annual performance. To minimize the influence of these fluctuations, growth rates are calculated between endpoints based on 3-year average levels of agricultural GDP (see table 1).

²Agricultural exports grew just 8 percent annually during the same period, but agricultural exports continue to average about double the size of agricultural imports.

Table 1

Growth of real gross domestic product (GDP) and gross fixed capital formation (GFCF) in India

Period	Gross domestic product		Gross fixed capital formation	
	Total	In agriculture	Total	In agriculture
<i>Growth rates (percent per year)¹</i>				
1960s	3.7	2.2	5.9	5.9
1970s	3.2	1.6	4.6	5.1
1980s	5.3	3.4	6.0	0.6
1990-04	5.8	2.9	6.1	2.4
1997-04	5.8	1.8	11.3	3.9

¹Growth rates between 3-year averages centered on years indicated.

Sources: Government of India, Ministry of Program Planning and Implementation, Central Statistical Organization; Government of India, Ministry of Finance, Economic Survey.

large and increasing costs of farm subsidies. Private onfarm investment has been hampered by policies that have historically taxed producers by maintaining relatively low domestic farm prices, inefficient markets that dampen market returns, and weak institutional support for growers, especially small and marginal farmers. Private agribusiness investors, in turn, have faced state and central regulatory policies—including marketing, interstate movement, storage, and taxation policies—that create disincentives for investment, particularly in larger, integrated agribusiness enterprises. Although foreign direct investment is permitted in most agribusiness—the key exception being retailing—the regulatory policies that impede domestic investors have also been a deterrent to foreign investment.