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STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

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WTO NEGOTIATIONS ON AGRICULTURE AND THE IMPLICATIONS FOR DEVELOPING COUNTRIES INCLUDING INDIA

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ABSTRACT

The World Trade Organization has occasionally been criticized for being ruled by its wealthiest and strongest members and not taking into account the views and concerns of weaker economies. In many of these economies, agriculture is a major source of income. Therefore, it is perhaps vital for these countries that the WTO is efficient enough to deal with issues relating to international agricultural trade. Thus the present study aims at analyzing to what degree the WTO appears to have the capacity to deal with agricultural issues, which have arisen, in developing countries, partly due to the organization's trade agreements and regulations.

KEYWORDS

WTO, AOA, GATT, UNCTAD, IBRD, IMF, Final Act, Tariff and Non-tariff, Barriers, Duties.

INTRODUCTION

A number of global economic Institutions, have been formed to carry out multilateral free trade in a world of multi-lingual and multi-religious community in order to boost the world trade and help the developing countries to improve their economy. The main Institutions that form part of global economic Institutions are General Agreement on Tariff and Trade (GATT) or, World Trade Organisation (WTO), United Nations Conference on Trade and Development (UNCTAD), International Monetary Fund (IMF) and the International Bank for Re-construction and Development (IBRD)-World Bank. Hence, WTO provides a forum to the member countries where international trade problems can be discussed and training opportunities are enlarged.

The Final Act at a meeting in Marrakesh, Morocco on 15th April, 1994 which confirmed that the Uruguay Round would strengthen "the world economy" and led to more trade, investment, employment and income growth throughout the world. The WTO agreement contained some 29 individual legal texts covering everything from agriculture to textiles and clothing and free services to Government procurements, rules of region and notwithstanding proper right. India is one of the founder members of the WTO among the 104 members. The GATT was not an organization but it was only a legal agreement. On the other hand WTO is designed to play the role of watch dog in the spheres of Trade in goods trade in services, foreign investment, and intellectual property rights etc., In order to implement the final Act of Uruguay round agreement of GATT the World Trade organization was established on January 1, 1995.

The birth of WTO has paved the way for the reduction of duties, tariffs, non-tariff barriers like quotas and controls. This phenomenon added new dynamism to the international businesses environment. WTO has enlarged the market access opportunities and provided efficient rules for undistorted competition among the world countries. These aspects would help the developing countries which have liberalized and globalised their economies to increase their exports. WTO contributes to strengthening the institutional frame work for business relations among member countries. The expanding world trade is expected to provide for the increase in productivity, economies of scale, technology transfer, diversified trade in terms of countries and products.

OBJECTIVES OF THE STUDY

The broad objectives of this research study are as follows:

- ✚ To study the various agreements of WTO on Agriculture.
- ✚ To examine the potential impact of WTO on Agriculture and to provide a brief description of the status of WTO negotiations in agriculture and the Indian stand on some of these issues.
- ✚ To study the impact of AOA on Indian economy.
- ✚ To draw summary and conclusions.

NEED FOR THE STUDY

The study becomes important as it illustrates the role of the WTO amidst the globalization in the prevailing agricultural crisis with specific reference to the Agreement on Agriculture (AoA) clause of the WTO Charter that determines the nature of agricultural trade. Many countries in the world especially, developing countries depends more on agriculture for their livelihood, when it comes to the India, agriculture is the backbone of our economy, more than 50% of our population depends on agriculture, 35% of our national income is derived from agriculture, many times we have given top priority to agricultural development in our 5 year plans. In spite of all these efforts Indian agriculture is said to be backward, hence, WTO's Agreement on Agriculture assumes importance, hence, this study. The study acquires special significance as it deals with greater responsibilities of the WTO with reference to 'fair trade' and 'free trade'. The study has more implications while it deals with the process of outcome arising out of Doha declaration with contribution to global democratization.

RESEARCH METHODOLOGY

The data needed for the study were collected mainly from the secondary sources. The secondary data sources included published literature available in the form of journals, periodicals, magazines, newspapers, books, Acts and various Reports.

The data were also collected from the Business Associates like Confederation of Indian Industry (CII), Federation of Indian Chamber of Commerce & Industry (FICCI), Association of Chamber of Commerce & Industry (ASSOCHEM) and World Chamber of Commerce & Industry and other Governmental organizations.

REVIEW OF LITERATURE

There have been a large number of studies on the probable impact of provisions under WTO and IMF-World Bank sponsored economic reforms. While many of the earlier studies had concentrated on analyzing different provisions and their possible impact on Indian agriculture, a host of studies have come up to discuss inappropriateness of the measures taken up by the IMF, the World Bank and the WTO under the name of globalization, from the perspective of development of the developing countries. Many of the studies have attempted to quantify the impact of multilateral trade reforms of agricultural sectors of the developing

countries. Filings and outcomes of dispute settlement cases at both the GATT and WTO have been of interest to a number of researchers. In particular, three primary questions have emerged in the previous literature. Obviously, the determinants of the actual policy outcomes of disputes and, in particular, the level of concessions made by the defendant, are of primary interest to many researchers. However, this research is more closely tied to two questions regarding the filing and escalation of disputes: what determines whether a country brings a complaint to the GATT/WTO dispute settlement system and why are countries able to settle some disputes while others escalate to a dispute settlement panel ruling.

A.V. Ganesan, has led to excessive production (as well as of import restrictions to keep out foreign agricultural products from their domestic markets) and its dumping in international markets. The obligations and disciplines incorporated in the agreement on agriculture relate to:

- (a) domestic subsidies;
- (b) export subsidies including volume of subsidized exports;
- (c) minimum market access commitments; and
- (d) Food stockholding/food aid operations.

Kainth Gursharan Singh¹ demanded a fresh look into the policy framework for agriculture within the WTO negotiations. According to Mitra Kanti Soumya² the present world trade in agriculture commodities is in the region of \$300 billion, and the likelihood is strong that this will further increase owing to the new trade environment ushered in by greatly vary. Narinder Pani³ concluded that major gain of Uruguay round has been the opening of markets for agricultural products as well as a reduction in export subsidies for farm products in developed countries. This opens up the possibilities' of exports of several products from low wage agriculture.

Mr. Pranab Mukherjee⁴ stated that the reduction in export subsidies on agriculture by developed countries will make Indian agricultural exports more competitive in world markets. It may be mentioned that despite their strong reservations regarding permitting the imports of rice, even countries like Japan and South Korea agreed to allow market access for rice to other exporting countries.

Manmohan Singh⁵ felt that as per the GATT agreement, the developed countries will do away with the quota system for textile imports over the next ten years and will also reduce the farm subsidies. The GATT accord will give a major boost to the Indian textile industry and agriculture. He clarified that though India had also agreement to reduce import tariffs in general, it had retained 100 percent import duty on agricultural products, 150 per cent on processed food and 130 percent on oils.

Gupta R.K.⁶ observed that with the globalization of markets general lowering of customs tariffs and the gradual removal of non-tariff barriers, the observance of fair trading practices has assumed far greater importance. Domestic industries need to protect themselves from dumped imports and exports need to safeguard their interests against undue protective measures resorted to by importing countries. Anti-dumping and countervailing law and procedures constitute the most important non-tariff barriers in these circumstances. Export Import (EXIM) Bank of India⁷ studied the likely significant beneficial impact of the WTO agreement on exports and foreign investment. It adds that benefits would not accrue immediately. The study further points out there it is in the area of non-tariff barriers that the Uruguay Round Agreement has made it more difficult for industrialized countries to initiate anti-dumping procedures, countervailing duty, investigations or safeguard measures. The Government acquired powers to levy anti-dumping duty for five years with retrospective effect under the ordinance amending the Customs Tariff Act, 1975. The ordinance provides for extension of the duty by another five years if found necessary. The new provisions have made anti-dumping laws more precise and specific and bring them in line with the Act of the Uruguay Round of Multilateral trade negotiations. The amendments also empower the government to impose countervailing duties to prevent subsidized, exports from abroad coming into India.

Dani Rodrik⁸ concludes that the so-called "development round" successfully, and farmers in poor countries will be lifted out of poverty and ensure that globalization remains alive. Biswajit Dhar⁹ emphasizes the discordance between the major participating countries on agriculture and NAMA gets concluded the Doha round. Deepak Basu¹⁰ stated that the proposal of the recently revived WTO's Doha round of negotiations suggested that developing countries will have to cut their agricultural targets by 36 per cent. Even the most important products of poor farmers would face around 19 per cent cuts. The proposal did not imply real cuts in huge farm subsidies in the US and EU. Both pretend to effect 70 per cent and 80 per cent cuts in subsidies. Actually, however, there were no real reductions.

Jordana Hunter¹¹ examines the way in which the multilateral trading system has accommodated development under the GATT. Looks at the way in which north/south issues are played out in reference to the Agreement on Agriculture. And also argues that the WTO has not lived up to its promises to developing countries. Lori Wallach and Patrick Woodall¹² argued that how TRIPs rules (and patents on seeds and plant varieties) endangers food security also criticizes, the Agreement on Agriculture, for treating food as a commodity, rather than a right and argues that rich world subsidies and food dumping causes hunger in developing countries and developing countries and the AoA is a threat to foods security and sovereignty in the developing world.

Thus, it is clear from the above review of literature that a number of studies have been conducted and different authors have held different viewpoints and thus, leaving a large scope for further studies. Notwithstanding this, studies encompassing various aspects of WTO are a very few. Hence, an attempt is made now to further study the functioning of WTO.

WTO AND ITS IMPACT ON INDIAN AGRICULTURE

Agriculture occupies a prominent position in Indian policy-making not only because of its contribution to GDP but also because of the large proportion of the population that is dependent on the sector for its livelihood.¹³

The growth in population and wealth has stimulated demand to the extent that domestic production has not always been able to keep up and there is increasing speculation that the Indian economy may be overheating leading to inflation. The downside of the increased import demand and the current commodity boom is that India's food bill would rise sharply.¹⁴

However, it is clear that India's agricultural sector has made huge strides in developing its potential. The green revolution massively increased the production of vital food grains and introduced technological innovations into agriculture. This progress is manifested in India's net trade position where once India had depended on imports to feed its people, since 1990 it is a net exporter of agri-food products. Its agriculture is large and diverse and its sheer means that even slight changes in its trade have significant effects on world agriculture markets.

India is one of the fastest growing economies of the world and is currently the focus of a great deal of international attention. It is the seventh largest country in the world in terms of its geographical size.¹⁵ India is the third largest economy in Asia after Japan and China, as measured in terms of its Gross Domestic product (GDP) and it's continuing to grow rapidly.¹⁶

The Indian economy has seen high growth rates of more than 8 per cent since 2003. In 2009 and 2010 GDP grew at a rate of over 7 per cent even in a worse recession scenario and is expected to grow at a rate of 8.3 per cent in the year 2011. Table 5.3 and figure 5.1 depicts the year on year growth rate of GDP. This is also expected to continue with growth at more than 8 per cent by 2015.¹⁷

TABLE 5.3: INDIA GDP – REAL GROWTH RATE

Year	GDP - growth rate
2000	5.50 %
2001	6.00%
2002	4.30%
2003	4.30%
2004	8.30%
2005	6.20%
2006	8.40%
2007	9.20%
2008	9.00%
2009	7.40%
2010	7.40%
2011	8.30%

Source: International Monetary Fund- 2010 World Economic Outlook

FIGURE 5.1: INDIA GDP – REAL GROWTH RATE



Source: International Monetary Fund- 2010 World Economic Outlook

The high growth rates have significantly reduced poverty in India. However, its GDP per head is still very low (estimated at US\$ 820 in 2006), so it remains classified by the World Bank as a low-income country. The World Development Report 2008 states that over one third of the population in India was living below poverty line in 2004-2005, managing with a meager income of less than \$ 1 a day.¹⁸

Despite of the India's economic development, over 70 per cent of the population still lives in rural areas.¹⁹ Agriculture is the key employment source with around 60 per cent of the labour force, down from 70 per cent in the early nineties. India's agricultural area is vast with total arable and permanent crop land of 170 million hectares in 2003-2005. It has the second largest arable area in the world after the United States.

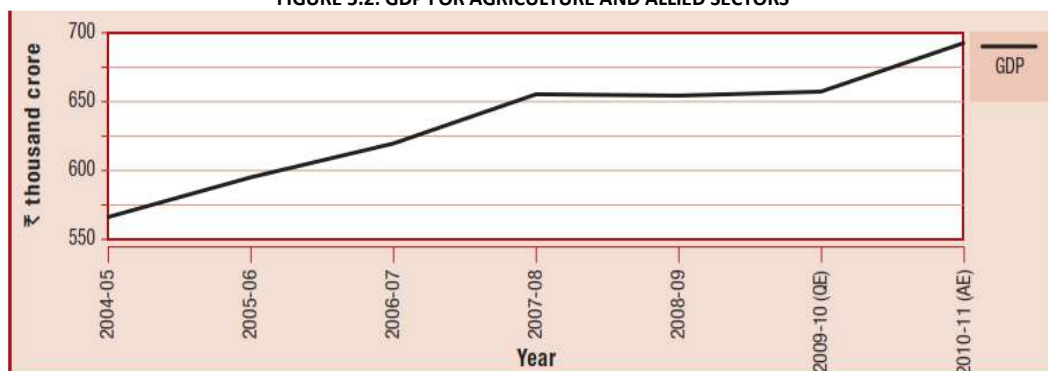
PERFORMANCE OF INDIA'S AGRICULTURE

India is the second largest producer of food in the world with more than 200 million tonnes of food grains, 150 million tonnes of fruits and vegetables, 91 million tonnes of milk, 1.6 million tonnes of poultry meat, 417 million livestock, and 6.05 million tonnes of fish and fish products.²⁰ The Indian agriculture has made great strides over the years. The food grain production has increased more than fourfold - from 51 million tonnes in 1950-51 to 212 million tonnes during 2003-04 growing at an annual average rate of more than 2.4 per cent per annum. The recent trends in performance of Indian agricultural production, however presents a dismal picture. During the 1990s, there has been a deceleration in production of all the principal crops. The growth in production of 'all principal crops' decelerated from 3.19 per cent per annum during the decade of eighties to 2.29 per cent per annum during the decade of nineties.

The growth of agriculture and allied sectors is still a critical factor in the overall performance of the Indian economy. As per the 2010-11 advance estimates released by the Central Statistics Office (CSO) on 07.02.2011, the agriculture and allied sector accounted for 14.2 per cent of the gross domestic product (GDP), at constant 2004-05 prices. During the period 2004-05 to 2007-08, the GDP for agriculture and allied sectors had increased from Rs.5, 65,426 crore to Rs.6, 55,080 crore, at constant 2004-05 prices; thereafter it stagnated at this level for two years (2008-09 to 2009-10) (figure 5.2). In 2009-10, it accounted for 14.6 per cent of the GDP compared to 15.7 per cent in 2008-09 and 19.0 per cent in 2004-05.²¹ Its share in GDP has, thus, declined rapidly in the recent past. This is explained by the fact that whereas overall GDP has grown by an average of 8.62 per cent during 2004-05 to 2010-11, agricultural sector GDP has increased by only 3.46 per cent during the same period. The role of the agriculture sector, however, remains critical as it accounts for about 58 per cent of employment in the country (as per 2001 census).²² Moreover, this sector is a supplier of food, fodder, and raw materials for a vast segment of industry. Hence, the growth of Indian agriculture can be considered a necessary condition for 'inclusive growth'. More recently, the rural sector (including agriculture) is being seen as a potential source of domestic demand, a recognition that is even shaping the marketing strategies of entrepreneurs wishing to widen the demand for goods and services. In terms of composition, out of a total share of 14.6 per cent of the GDP in 2009-10 for agriculture and allied sectors, agriculture alone accounted for 12.3 per cent followed by forestry and logging at 1.5 per cent and fisheries at 0.8 per cent (table 5.4).

The budget comes in the backdrop of an emerging global food crisis, caused partly by extreme weather events in some major food producing countries including China, and partly, by escalating petroleum price arising from the battle for democracy in the Middle East. It also comes in the wake of continuing food inflation. Fortunately, 2010-11 has been a reasonably good year in India with food grain production reaching a level of 233 million tonnes, although it falls short of the 235 million tonnes achieved during 2008-09. According to the Economic Survey (2010-11), the agriculture sector needs to grow at 8.5 per cent during 2011-12, if we are to achieve the 11th Five Year Plan target of 4% in this sector. During last year, the agriculture and allied sectors accounted for 14.2 per cent of GDP, although nearly 60 per cent of the populations still depend on this sector for employment. Public investment in farm infrastructure including grain storage facilities and post-harvest technology is still very low.²³

FIGURE 5.2: GDP FOR AGRICULTURE AND ALLIED SECTORS



Source: Economic Survey of India 2010-11

TABLE 5.4: AGRICULTURE SECTOR: KEY INDICATORS

Sl No	Item	2008-09	2009-10	2010-11 (Proj.)
1	GDP—Share and Growth (at 2004-05 prices)	-0.10%	0.40%	5.40%
	Growth in GDP in agriculture & allied sectors			
	Share in GDP—Agriculture and allied sectors	15.70%	14.60%	14.20%
2	Agriculture	13.30%	12.30%	
	Forestry and logging	1.60%	1.50%	
	Fishing	0.80%	0.80%	
	Share in Total Gross Capital Formation in the Country (at 2004-05 prices)			
	Share of Agriculture & Allied Sectors in total Gross Capital Formation	8.30%	7.70%	
3	Agriculture	7.70%	7.10%	
	Forestry and logging	0.07%	0.06%	
	Fisheries	0.56%	0.54%	
	Agricultural Imports & Exports (at current prices)			
	Agricultural imports to national imports	2.71%	4.38%	
4	Agricultural exports to national exports	10.22%	10.59%	
	Employment in the agriculture sector as share of total workers as per census 2001	58.20%		

Source: Central Statistics Office and Department of Agriculture and Cooperation, 2010-11.

The other aspect of the apprehensions relates to the policies of Government of India in regard to import of agricultural commodities and processed agricultural items. This fear can be easily offset by acting upon swiftly on import duties to a measure that discourages imports.

There are three commitments mandated in the AoA i.e., market access (ratification), domestic support and export competition.

MARKET ACCESS

Under Market Access Commitment, all member countries are required to remove quantitative restrictions (QRs) and import licensing and also reduce tariff duties with a view to improving opportunities for exports. In the area of agriculture, discussions are still taking place on the basis of the revised draft agriculture modalities text of 6 December 2008. As per this draft, developed countries would have to reduce their bound tariffs in equal annual installments over five years with an overall minimum average cut of 54 per cent. Developing countries would have to reduce their bound tariffs with a maximum overall average cut of 36 per cent, over a larger implementation period of ten years. Both developed and developing country members would have the flexibility to designate an appropriate number of tariff lines as sensitive products, on which they would undertake lower tariff cuts. Developing countries would have a special products (SP) entitlement of 12 per cent of agricultural tariff lines. An average tariff cut of 11 per cent is proposed on SPs, including 5 per cent of total tariff lines at zero cuts. There are also reductions/disciplines proposed for various categories of domestic and export subsidies.

In the case of Non-Agricultural Market Access (NAMA) negotiations, the tariff reductions are proposed through a non-linear Swiss formula with a three-tiered coefficient of 20, 22 and 25 for formula reductions linked to specific flexibilities for protecting sensitive NAMA tariff lines of developing countries and a coefficient of 8 for tariff reduction of developed countries. With regard to the Sectoral proposal of some countries, by which the tariffs in certain identified sectors are proposed to be brought to zero or near zero levels, India's negotiating position has been that participation in sectoral initiatives must be non-mandatory and on a good faith basis without pre-judging the outcome. Another important aspect of NAMA negotiations pertain to Non-Tariff Barriers (NTBs). With regard to this, India is one of the initial proponents of the Horizontal Mechanism (HM) proposal. It aims to bring in a ministerial decision on "Procedures for the facilitation of NTBs". This proposal has received the support of more than 100 WTO Member countries. Though the Doha mandate refer to NTBs in the context of 'products of export interest to developing countries', there have been some moves to utilize this increasing market access of remanufactured goods by some countries, led by United States of America. India's negotiating position on this is that since there is no agreed definition on remanufactured goods, a work programme is required in the first place for defining and distinguishing remanufactured goods in contrast to other second hand goods which might have grave implications on the environment and livelihood aspects of the developing countries. The work programme has now got support from around 17 countries.²⁴

India being one of the founder members of GATT as well as WTO, stand committed to adhere to the philosophy of removing quantitative restrictions (QRs), but it always took the recourse to the exceptions provided by GATT for maintaining such QRs owing to balance of payment situation in the country from mid of 90s; India has removed quantitative restrictions in a phased manner since April, 1996. To deal with the possible adverse consequences of elimination of QRs, India has considerable flexibility for imposing higher level of tariffs within the bound level on import of agricultural produce. This is evident from the import duties recently raised upward on several agricultural commodities to protect domestic producers. India can also resort to other GATT/WTO safeguard measures, like anti-dumping and counter-vailing duties, if subsidised imports were dumped in the country.

The provisions of Agreement on domestic support to farmers seek to discipline trade-distorting support to farmers. This preposition is popularly known as "Aggregate Measure of Support" (AMS). The agreement limits AMS within a maximum limit of 10 per cent of the total value to agricultural produce for developing countries. In case AMS exceeds 10 per cent, it has to be cut by 20 per cent over a period of 6 years by developed nations and by 13.3 per cent by developing countries.²⁵

As India was maintaining Quantitative Restrictions due to balance of payments reasons (which is a GATT consistent measure), it did not have to undertake any commitments in regard to market access. The only commitment India has undertaken is to bind its primary agricultural products at 100%; processed foods at 150% and edible oils at 300%. Of course, for some agricultural products like skimmed milk powder, maize, rice, spelt wheat, millets etc, which had been bound at

zero or at low bound rates. Negotiations under Article XXVIII of GATT were successfully completed in December 1999, and the bound rates have been raised substantially.

India does not provide any product specific support other than market price support. Since our total AMS is negative and that too by a huge magnitude, the question of our undertaking reduction commitment did not arise. As such, we have not undertaken any commitment in our schedule filed under GATT. India's aggregate AMS is below the de minimis level of 10 per cent.

NO OBLIGATION

India is under no obligation to reduce its support levels as AMS extended to agricultural sector in India is well below the maximum level of 10 per cent of the total value of agricultural products. Our product specific and non-specific product, specific AMS works out to (22.5 per cent) of the total value of agriculture output.

In fact if we examine the support level of other countries then the fear is not totally unfounded. Farming remains one of the most distorted and protected sectors of the world economy. Massive subsidizations by developed countries have continued to depress the world commodity prices. Almost all developed countries provide positive support to their cultivators, ranging from as high as 72 per cent in case of Japan to 37 per cent in case of USA.²⁶

EXPORT SUBSIDY

Export subsidies are quite common among European countries. Domestic prices rule higher than international prices in order to maintain the price level of agriculture in domestic economy and to encourage disposal of surplus in outside market, these countries are providing large export subsidies. The export subsidies of USA, Canada, and EU countries are particularly high in regard to dairy and dairy products. In USA actual level, export subsidy on butter and butter oil was Rs.2.33 per kg, but committed level of subsidy is Rs.186.81 per kg. This clearly shows that developed countries are perceiving protectionist policies while extending subsidies and support to agricultural section in one form or another, shifting from one box to another contrary to the agreement reached at Uruguay Round by WTO.²⁷

In India, exporters of agricultural commodities do not get any direct subsidy. The only subsidies available to them are in the form of (a) exemption of export profit from income tax under section 80-HHC of the Income Tax Act and this is also not one of the listed subsidies as the entire income from agriculture is exempt from Income Tax per se. (b) subsidies on cost of freight on export shipments of certain products like fruits, vegetables and floricultural products. We have, in fact, indicated in our schedule of commitments that India reserves the right to take recourse to subsidies (such as, cash compensatory support) during the implementation period.

The net effect of subsidizing agriculture in developed countries at the expense of products of the relatively poor in developing countries like India is to aggravate global income inequalities. On the other hand against equity justice and fair play India being asked to liberalize their agriculture. What the farmers in India demand is protection from distortions in the trade of agricultural commodities, created through the high level of subsidies in the developed countries. The plight of these farmers is directly linked to the level and kind of subsidies in the developed world. Hence, it would be difficult for India to agree to negotiations, which could potentially place at high risk the very livelihood of 650 million people in India, who are solely dependent on agriculture. It is only when the developed countries agree to take five step forward in the removal of trade distorting subsidies that the developing countries can take one step forward in the area of market access. The legitimate concerns of millions of farmers in India for whom agriculture means survival, and not commercial operation, cannot be sacrificed to sub-serve, agri-business profits of a few millions elsewhere sustained through \$1 billion subsidies each day in the OECD countries.²⁸

It has been stipulated under AoA to cut the value of direct export subsidies by 36 per cent and the volume of subsidized exports by 21 per cent over a period of 6 years in case of developing countries. While in case of developing countries, direct export subsidy, will have to reduce by 24 per cent and the quantity of subsidized, will have to reduce by 14 percent over a period of 10 years. As regards to commitment on export subsidy under the agreement, India has no obligation, as we are not providing export subsidies on agricultural commodities. The only subsidies available to exporters of agricultural items are in the form of:-

- a. exemption of income tax on profits from export sales, and
- b. Subsidies on costs of freight on export shipment of certain products like fruit, vegetables and floriculture products. Since these payments by developing countries are exempted from the reduction commitment, during the implementation period, they will not have any adverse impact on agricultural exports from India. All the same, in order to encourage exports of agricultural products, these subsidies can be continued for the time being.
- (i) These facts amply demonstrate that our farmers have opportunities to take advantages of trade liberalization envisaged by WTO. The reduced support levels and rationalization of trade barriers will increase production and export of various commodities in India which has comparative advantage in the production of agricultural commodities.
- (ii) Likewise the removal of import barriers will enable lowering consumer price and will generate strong demand.

Now let us revert to the basic question of reaping potential gain

- (i) Under the circumstance to obtain opportunities for meaningful expansion of our agriculture exports, it is proposed that an appropriate formula with a cap on tariff finding should be evolved to effect substantial reduction in all tariff levels including peak tariff escalation in developing countries.

Here it would be quite pertinent to address the transitional problems in an effective manner in order to minimize the adverse effects of changes. Integration of domestic economy with the global market sometimes has its share of problems. Viewed in this context problem of integration of global agricultural market is that it will face price fluctuations of the world market? Initially it was expected that the WTO would bring price stability in the world market. But something different happened. Price volatility must be arrested in any case.

Effective implementation of the AoA, prima facie, seems to be the most significant factor for ensuring a transparent trade in agriculture. However, various loopholes in the AoA provide enough space for developed countries to heavily subsidize their agricultural products. Although the AoA achieved a great deal by defining rules for international trade, its achievement in terms of immediate market opening has been limited. The anticipated gains from agricultural trade liberalization, therefore, have eluded the developing countries till now.²⁹

The discussions, agendas, proposals and arguments made by the developed countries in meetings of various committees and conferences held in the recent past reveal that developed countries, particularly, EU and US plead for better market access to their agricultural products in the developing countries like India through negotiating on tariff reduction and raising in tariff quota, but they usually avoid to negotiate on reduction of domestic support and elimination of export subsidies. Agricultural prices have substantially depressed due to heavy subsidies. As a result, the competitiveness of developing countries like India in the export of these products has adversely affected.³⁰

FINDINGS

AGRICULTURE - EMERGED AS A MULTILATERAL TRADE NEGOTIATION

The Uruguay Round marked a significant turning point in world trade in agriculture. For the first time, agriculture featured in a major way in the GATT round of multilateral trade negotiations. Although the original GATT – the predecessor of the World Trade Organisation (WTO) – applied to trade in agriculture, various exceptions to the disciplines on the use of non-tariff measures and subsidy meant that it did not do so effectively. The Uruguay Round agreement sought to bring order and fair competition to this highly distorted sector of world trade by establishment of a fair and market oriented agricultural trading sector. Agriculture is featured as a multilateral trade negotiation.

UN-SCIENTIFIC USE OF FERTILIZERS

The use of fertilizers, pesticides and other chemicals at various stages of crops is highly unscientific in India and leads to increase of chemical levels beyond internationally permissible levels. Disease and pest control should be on modern lines to produce quality products. Chains of laboratories which are internationally accredited and well equipped to deal with the requirements of local exportable produce are required to be established, creation of awareness

amongst the farmers, exporters, middle men and government departments to cater to this challenge. Overall research and development environment in agriculture sector needs to be enhanced.

MARKET ACCESS BUT NOT WITHOUT TARIFFS

No doubt the WTO kind of arrangement addresses itself strongly towards eradication of tariff and non-tariff barriers. In case of tariff reduction commitment, however, certain lags have been noticed in the study. Market access provisions under WTO are based on the principles of "tariffs only". Non-tariff restrictions like quotas have been replaced by tariffs but the bound levels of tariffs for agricultural products originating in developing countries are excessively high in developed countries. In Japan, for instance, tariff on rice is up to 1000% making it very difficult for agricultural products from developing countries to enter and compete in developed country markets. Moreover developed countries have been discouraging value addition at each step in the processing ladder by tariff escalation.

GREEN SUBSIDIES ENCOURAGED

WTO rules permeate green subsidies, all subsidies that have normal or at most minimal, trade distorting effects or effects on production and do not have the effect of providing price support to producers are treated as green subsidies and are exempt from reduction commitments.

LISTED SUBSIDIES HAVE LITTLE IMPACT ON INDIAN AGRICULTURE

None of the subsidies listed in the GATT as export subsidies, apply to Indian agriculture as these are not provided at the moment. The only export subsidy provided at the movement by India is the exemption of export profit under sections 80-111C of the Indian Income Tax Act which is not on the listed subsidies. India is, therefore, free to provide subsidies for internal and of export marketing costs. The reduction in protection levels, which are high in developed countries, should help in India's exports though major benefits are to be appropriated by the developed countries.

POSITIVE GAINS ON AGRICULTURE FRONT ARE FORECAST

The phased reduction on agricultural subsidies in developing nations, did not decrease the market in the post Uruguay Round phase for most of the commodities. One can apprehend that world price volatility will increase the domestic price instability of agricultural products in India and consequently it may become an attractive market for agriculture imports. The fear is not totally unfounded. After 1996, domestic prices have turned higher than international prices causing shock waves among farmers as has been seen in case of wheat, broken rice chicken and some other commodities.

EXPECTED GAINS ARE YET TO REACH FARMERS

It is expected that the combined effect of the reforms in the domestic policies and international trade reforms would result in a much larger integration of the Indian economy with the rest of the world, and such a scenario would bring about substantial benefits to the Indian farmers. The reforms undertaken so far have, however, failed to bring about the expected gains to Indian farmers. The process of reforms is still continuing and it is hoped that once the negotiations on reforms conclude and the envisaged reforms are implemented in letter and spirit, the gains to Indian agriculture would be positive and substantial.

EFFORTS TO REDUCE DISTORTIONS IN AGRICULTURE

The primary objective of the Agreement on Agriculture (AoA) is to reform the principles of, and disciplines on, agricultural policy as well as to reduce the distortions in agricultural trade caused by agricultural protectionism and domestic support.

POSITIVE IMPACT OF AoA

One of the aims of AoA is to reform trade in agriculture sector, and to make policies more market oriented. Under the agreement, members commit themselves to reducing import tariffs, export-promoting subsidies, and total aggregate support to agricultural producers. The agreement also takes into account the particular needs and conditions that developing countries face and allow them a more gradual course of liberalization. The agreement allows governments to support their rural economies, but preferably through policies that cause minimum distortion to trade. Developing countries are given special and differential treatment regarding reduction in subsidies, and they are given a longer transition time to complete their obligations.

UNREALIZED PART OF AOA OR SHORTFALL IN EXPECTATION

Most studies reveal that the expectations on the gains arising out of the AoA have not materialized. It was expected that AoA would result in increased access for agricultural exports from developing countries to the markets of the developed countries. In reality, exports to the EU and Japan have declined in proportionate terms in the post Uruguay Round period. It was also expected that there would be a redistribution of grains production from the highly subsidizing West to the less subsidizing South. There is no evidence to show that this shift has taken place.

A NEGATIVE IMPACT OF AOA ON FARMERS IN DEVELOPING COUNTRIES

Developing countries have been pressed to open their economies to imports under structural adjustment programmes. Increase in imported foodstuffs displaces rural farmers from domestic markets, depriving them of incomes. Cheap food imports into many developing countries takes away the livelihoods of poor people of which farmers are in the majority. Reduction of tariffs allows cheap imports of low cost agricultural produce that compete (and often dislodge) with domestic products and destroy local livelihoods. Thus agricultural production may actually increase in the US and EU while developing countries becomes net-importers.

AoA HELPED MORE THE RICH THAN THE POOR

Agricultural subsidies remain in developed countries and as a result the dumping of surpluses on world markets continues unabated. Poor farmers in developing and least developed countries, who are barely supported by their governments, have to compete in world markets against rich farmers who often receive massive subsidies from their governments. As a result, rich farmers are getting richer while the poor get poorer.

DOS AND DON'TS OF AoA

Primarily covered under Article 8 of the Agreement, these commitments are intended towards curtailing the hitherto common practices of the nations to grant subsidies to farmers, which are contingent upon export performance. Therefore, if a farmer exports a part of this production, he would be rewarded in the form of increased benefits/tax incentives or other ways as the country may provide. These benefits, so far as they have the effect of promoting exports are justified. However, if they amount to reduction in costs of production of the commodities meant for export, would subvert the mechanism of comparative advantage, which is the entire basis/rationale for international trade. Thus the Agreement requires the Members from refraining to grant export subsidies and also obliges them from reducing the levels, which they have been maintaining. Similar to domestic support, the Agreement makes provision for identification of export subsidies.

DISTORTIONARY EFFECTS OF AoA SUBSIDIES

Domestic support policies with the most distortionary effects on trade are those, which provide farmers in major producing countries of the world with incentives to produce substantially more of a particular product than they would do without such policies. This tends to generate large agricultural surpluses. The sale of these surpluses on the world market can only occur at a loss unless subsidized because the domestic price of the commodity is higher than the world price of the same. Increased volumes of domestic production can substitute for imports in domestic markets, while subsidized exports can create unfair competition for external producers.

THE POOR FARMERS IN DEVELOPING COUNTRIES ARE DISADVANTAGED A LOT

Export subsidies increase the share of the exporter in the world market at the expense of those who are not subsidized. They also tend to depress world market prices through the dumping of surpluses and may make them more unstable. A vast majority of developing countries do not or cannot subsidize exports while many developed countries like the US and the EU do. Thus, poor farmers in developing countries, who are barely supported by their governments, are competing against rich farmers who often receive support from their governments.

Agriculture and farmers have a right to benefit from international trade and be freed from the heavy hand of government intervention. Three brief arguments in support of concluding the agriculture negotiations can be made at this juncture. First, reductions in export subsidies, domestic support and import tariffs can be seen as the first step to make agriculture more open and globally traded. This requires building of trust and assuring domestic groups that vital interests of food security are not being compromised. Second, our small and marginal farmers will not be deluged by subsidized imports because the great majority will be protected under the special safeguards mechanism (SSM) that will allow about 7 per cent of agriculture tariff lines to be exempt from the agreed tariff cuts. And in any case members are entitled to impose higher duties in case of import surges. There is then no question of our 'poor farmers' having to compete against the US treasury or the European bourses. Third, the plight of our small and medium farmers has much more to do with our own domestic policy-generated

constraints than the global trading regime. Our farmers suffer more from lack of adequate electricity and new seeds, and poor access to bank credit and markets than from subsidized import surges. Agriculture ministry has to implement the necessary reforms.

There were serious differences between developing and developed countries over the level to which they were willing to open their markets under NAMA.

A well-integrated agricultural sector should enhance food security, reduce real food prices especially beneficial to the poorer communities of the nation who spend a disproportionate share of their income on food, increase employment and income, create important economic linkages in production chains, and have a positive impact on the environment. Given the chronic incidence of rural poverty and the concomitant harmful environmental practices, a development framework for agriculture must now focus on, among other things, equity and sustainability.

Trade ministers should stick to the offers already on the table and build on them and called for an inclusive approach in the way negotiations are carried out and help accentuate the progress of the Doha Round talks.

INTEGRATION OF INDIAN AGRICULTURE WITH THE GLOBAL ECONOMY

There is a strong possibility that India would emerge as a major beneficiary in the field of world of agriculture commodities. However Indian agriculture would not be able to escape fierce global competition. An appropriate policy instruments are required for gradual integration of the Indian agriculture with the global economy. Micro level research on competitiveness and other aspects of delivery system will have to be carried out by the firms involved in exports.

Amid the panorama of inequities caused by the force of certain agreements, the major developed countries are pushing for the launch of fresh negotiations that could result in new WTO rules which add to the already onerous obligations of the developing countries and further undermine their developments prospects. It is called that, developing countries to resist these pressures wholeheartedly and insist instead that the myriad asymmetries in the existing agreements be remedied. This in turn, demands that they shed their previous passive stance and forge coordinated and consolidated positions within the WTO, for only with proactive cooperation the countries of the South can advance their interests in the multi-lateral trade.

SUGGESTIONS

CREATE AWARENESS ON USE OF FERTILIZERS

Indian farmers are using fertilizers, pesticides and other chemicals to the crops in an unscientific manner. There is an immediate need to create awareness among farmers regarding use of pesticides at various stages of crops.

SAFEGUARD THE INTEREST OF THE FORMERS

There is a need to safeguard the immediate and long term interests of farmers. As it is said that Indian farmers are born in debt, live in debt and die in debt, no country can insult its own economy and agriculture from external influences.

NO INFILTRATION OF DISEASES

There is a projection that import of land and animal origin may lead to infiltration of diseases The measure should be taken in such way that India should not face these kind of problems in future.

IMPLEMENTATION OF AoA

The most significant factor to ensure transparent trade in agriculture is effective implementation of the AOA. Developed countries heavily subsidized their agricultural products. It will have negative impact on developing countries hence effective implementation of AOA is essential.

AGRICULTURAL ISSUES

India's position would continue to be guided by national interest, i.e., safeguarding agriculture – the backbone of her economy. India should not turn its back on country's legacy in the WTO and that the rights of farmers and farm produce must be strengthened. The rights of Indian farmers and farm produce must be safeguarded and the government must make all efforts to ensure this. Thus, main issue continues to be agriculture and protection of farmers, which has economic ramifications as well as larger domestic political implications.

DEVELOPED COUNTRIES OVERRIDING ON AoA

Trade distortions are more conspicuous in agriculture sector. By providing export subsidies and export credits, developed countries have been able to effectively dump their excess production in international markets causing a fall in prices of agricultural products. Resultantly developing countries exports suffer from low profits due to fall in international prices and in worst scenarios their domestic markets have been lost due to inflow of artificially cheap imports from developed countries.

CONCLUSION

Indian agriculture has gone through a serious crisis during the post-reform period. Besides domestic concerns, such as decline in productivity, high input cost, stagnated net-sown area, declining public sector investment, inadequate availability of institutional credit, depressing prices of farm products, and rising agricultural imports, Indian agriculture has also been facing external challenges under the WTO regime. In order to boldly face the challenges and avail the opportunity that may arise after successful implementation of Agreement on Agriculture (AoA), there is need to evolve a more conducive policy regime, facilitating removal of all sort of bottlenecks in procurement of inputs, credit, technology, processing, distribution, marketing and trade.

Post WTO trade liberalization helped India to achieve small increase in agricultural exports, whereas it resulted in sharp and continuous increase in imports. This has adversely affected self reliance in agriculture. The foremost reason for this adverse effect is unprecedented decline in international prices, which in turn, was caused by attempts by almost all the countries to push exports and continuation of high level of domestic support and export subsidies by OECD countries. As a net exporting country India stands to gain from increase in international prices.

The spirit and intent of the WTO AoA are noble in as far as they are meant to create a level playing field in international trade through the gradual reduction and eventual elimination of barriers to trade, domestic support measures and export subsidies. Some farmers will gain while others lose depending on their location relative to the issues at stake. However, some developing countries may not sufficiently take advantage of some formal exemptions and safeguards in WTO rules because of their complexity. As a result they may lose out where they are supposed to gain from the AoA. Supply side constraint in developing countries may also prevent farmers from realising the benefits of increased market access/lower tariffs supposed to come with the AoA. Developed countries, on the other hand, may manipulate some provisions of the AoA to their advantage at the expense of developing countries.

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