

# WTO AND INDIA'S AGRICULTURAL EXPORT PERSPECTIVES

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Indian agriculture accounts to a quarter of the country's GDP and provides employment for approximately 62 per cent of the work force. The food grain output since the 70's has been on a higher growth over the population growth by way of expansion in area; increase in yields and the market forces as well.

There have been regional variations in terms of the productivity shifts in different states endowed with fertile soils and irrigation, which ultimately made large farmers wealthier over the small farmers who lacked capital. The Govt. in trying to compensate the small farmers heavily subsidized inputs and credit to the small farmers. The subsidies shot up to 12 percent of GDP. Although the policies and the favourable monsoons complimented for faster agricultural growth, the subsidies led to a significant inefficiency which trickled to the non-agricultural users.

The government was confronted with two peculiar objectives which was to subsidise the urban population with food at a cheaper rate and; provide a remunerative price to the farmers. This led to suppressing the producer's price to below world market levels in order to supply food at a reasonable rate to the urban population.

The economic reforms which began in 1991, aimed to correct the urban bias by gradually opening up both the agriculture and industry. The lowering of the tariffs has gradually eliminated the higher protection level that was enjoyed by the industry over agriculture.

India having achieved self-sufficiency in food production is yet to exploit her potential to export agricultural goods. There is a vast potential for export given the country's comparative advantage in rice and wheat; as well as in cereals, vegetables

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and fruits. To achieve this and as well as to stimulate economic growth *per se*, there is a need to liberalise agriculture.

### **Trade Distortions**

The underlying philosophy of GATT prior to Uruguay rounds was that the free market is the most efficient institution for distributing the economic gains from trade. The original GATT was applicable to agricultural trade but it had certain drawbacks *viz.*, allowing countries to use some non-tariff measures such as import quotas and to subsidise which led to distortions in agricultural trade especially with the use of export subsidies which would not have been normally allowed for industrial products. The several exceptions included in the agriculture under GATT have contributed in wider distortions in world trade in agriculture. This depressed the agricultural prices in developing countries and created significant long-term damage to the agricultural and allied sectors particularly to the third world countries. Trade is considered to be distorted if the prices are higher or lower than normal and if the quantities produced, bought and sold are also deviating from the levels that ought to exist in a competitive market. Import barriers and domestic subsidies can raise the domestic market crop prices in a country. The higher prices can encourage over production and if the surplus is sold on world markets where prices are lower, then export subsidies are to be paid. When some countries subsidise while others do not, the result is that the subsidising countries are producing more than they normally do.

Governments normally supports and protects the farmers even if it leads to distortion of agricultural trade to,

- a) make sure that sufficient food is produced to meet the country's needs.
- b) protect farmers from the vagaries of weather and oscillations in world prices,  
and
- c) protect the rural societies.

These policies did prove to be expensive and they encouraged gluts leading to export subsidy wars. Generally the countries with less money for subsidies were the

most affected.

The world market situation wherein many agricultural products could be sold only with the export subsidies led to the exporting countries to the negotiating table and provided the framework for covering the agricultural trade also in the Uruguay round agreement.

### **Uruguay Round**

The Uruguay Round of negotiations in GATT which resulted in the establishment of WTO is the most comprehensive of international trade contacts negated to increase international trade opportunities. The provisions included in this agreement are expected to lower tariffs globally, improve services in trade worldwide, protect intellectual property rights and strengthen international trading rules. The increase in the opportunities and efficiency are estimated to add billions of dollars to the world economy by the full implementation of the above agreement.

The objective of the agricultural agreement was to reform trade in the sector and to make policies more market oriented. This tends to improve profitability and security for both the importing and exporting countries.

India being one of the founder member of the World Trade Organisation (WTO) (erstwhile GATT) since its inception in 1948, had signed the latest agreement of 1994 which has become effective from 1<sup>st</sup> January, 1995. The WTO-based in Geneva operates with the following objectives:

- ❖ Administering and implementing the multi and pluri lateral trade agreements
- ❖ Acting as a forum for multinational trade negotiations
- ❖ Resolving trade disputes
- ❖ Co-operating with other international institutions involve in global economic policymaking.

The major principles underlying the trading system are

- ❖ Trade without discrimination

- ❖ Promoting fair competition
- ❖ Trade openness.

The provisions made for Agricultural sector in this agreement are:

**1. Aggregate Measurement of Support (AMS)**

The AMS comprises of sum total of aggregates of both products and non-products subsidies provided by the member countries during the base period of 1986-88. The developed countries can pay AMS upto 5 % of the total value of their agricultural produce during the base period and have to reduce it by 20 % over a six year period (1995-2000) in excess of their permitted de-minimus level (five per cent). The developing countries are required to reduce their AMS by 13.33 per cent in excess of the permitted de-minimus level of 10 per cent over an extended period of 10 years.

**2. Export subsidy**

The developed countries over a six-year period have to reduce their exports subsidies by 36 per cent and the Quantities of subsidised exports by 21 per cent. The developing countries have to reduce by 24 per cent and 14 per cent over the 10-year period.

**3. Border Measures Quantitative Restrictions and Tariff Reductions**

All the member countries have to convert their border measures into tariffs first and then reduce these by 36 per cent over a period of six years while the developing countries are to reduce by 24 per cent over a 10-year period. However, the member countries with adverse BOP during the base period are exempted from this provision.

**4. Market Access opportunities**

The WTO provision stipulates that compulsory import by 3 per cent of the domestic consumption of agricultural commodities is to be made except for poor nations having problems of BOP. This limit will go up to 5 per cent in 5 years.

It provides to the contracting parties to apply anti dumping measures if dumped commodities cause injury to the domestic industry.

So as to facilitate the trade, uniform standard of packing, marketing, labeling etc are to be provided.

#### **5. Trade Related Intellectual Property Rights (TRIPS)**

Under the TRIPS, every member has the option of protecting its plant varieties either by patenting or by making sui-generis legislation. India has opted for the latter option.

#### **6. Sanitary and Phyto-sanitary measures**

The application of sanitary and phyto-sanitary measures necessary to protect human, animal and plant life and health are to be followed as per international specifications.

With the globalisation and economic integration of nations, the trade and agriculture would be governed by new rules of the game. The metamorphic changes taking place globally would require a paradigm shift in our approach. The concept of rule or ruin would fully apply in every sphere of economic activity including agriculture after 2004 when WTO is fully implemented / operational and all the trade barriers are demolished. The post WTO phase would open the doors for a sea of opportunities, as the same would also pose certain threats. With the free flow of trade, there would be global positioning of nations determined by their core strengths. In the WTO regime, the global competitiveness of a country will be determined by its comparative advantage.

### **India's Agricultural Export Perspectives**

Agriculture accounts for about 18.48 percent of total exports and occupies first position among all export groups in the economy. Of the 34 items identified for ex-

treme focus in exports in the Eighth Five Year Plan, 12 items belong to activities related to agriculture and allied sectors viz., aquaculture, floriculture, fresh fruits, tomato based products, mushrooms, spices, sugar, molasses, rice, tropical fruit juices, pulp and concentrates and agrochemicals. In its agricultural export sector, India has begun to diversify, partly in order to enjoy the full benefit of increased market access. For instance, fruits, nuts and vegetables have become major foreign exchange earners. But the scale is still small. Although the country is the second largest producer of fruits and vegetables in the world, only 1 percent of total production is commercially processed and exported to a limited number of markets in South Asia, the Middle East and Eastern Europe.

In order to encourage export diversification, the government invested \$236m of foreign direct investment in food processing in 1991. It granted tax exemptions to targeted sectors such as floriculture. Now, flowers are grown commercially on 50000 hectares. Agro-industry is one of the most dynamic growth sectors of the commodity trade, a trend which is likely to continue, according to WTO.

Export subsidies, import tariffs and domestic support are being cut. As a result exporters should enjoy moderately better access to trading partners' markets and they should be freed to some extent from having to compete with richer countries' export subsidies. India will enjoy lower tariffs for all kinds of nuts in Korea, Malaysia, Thailand and other markets for example. On the export side, India has begun to diversify, partly in order to enjoy the full benefits of increased market access. For instance, fruits, nuts and vegetables have become major foreign exchange earners.

In general, exports of agricultural products have exhibited an increasing trend. India's share in the world trade in the agricultural commodities is just about one percent (see Tables). There is a lot of competition due to the demand for high quality products and also the stringent legislation relating to health and safety standards of the importing country. India's agricultural exports include pulses, rice, wheat, cereals, tobacco, sugar and molasses, poultry and dairy products, 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.

It must be noted that India's share in the world production is about 10 percent for cereals and is equally large in many other commodities. However India's share is less than 1 percent of world exports in sugar and tobacco, and less than 10 percent in rice, coffee, cotton and jute. The share of fruits and vegetables, fish and meat in world exports is also very low. If trade reforms are extended to these commodities there is likely to be significant impact on world prices.

Since 1994 there is full liberalization of rice exports and imports of edible oil, cotton and sugar. Rice exports have been considered to be opportune since they coincided with an increase in net world export demand. It had been apprehended that the thin world market for rice exports means low prices if India unloaded her large rice buffer stocks into the thin world market. But 1994 saw China moving from being net exporter to net importer and together with Indonesia and Bangladesh accounted for 6 million tons of net export demand. India exported a total of 5.6 million tons of rice, which was one third of world exports of rice. Whether this market can be depended upon for a long term has to be examined. It has also been pointed that the extent of disprotection suffered by rice is considerably lower since in the event of India exporting large quantities of rice, the world price of rice would come down. Data reveals that India is emerging as a major exporter of rice in the world markets. Hitherto rice encountered stiff tariff barriers. Japan and Korea have lifted their rice import bans and are granting import quotas, which will amount to 758000 and 200000 tons respectively by early 21<sup>st</sup> century. Malaysia is binding its duty at zero and the EU and US will reduce their rice tariff by 36 percent. The US will also decrease the quantities of subsidized exports and budgetary outlays for rice by 21 and 36 percents respectively.

This has opened rice as an important agricultural export commodity for India. Already India has become a major supplier of rice to neighbouring countries like Bangladesh and Indonesia and Middle East.

In coastal states of India, fisheries have traditionally been an important source of

food supply and employment. The exports of marine products have been showing an increasing trend. There has been a steady growth of exports in fish and allied products. This sector faced many restrictions in the form of health and sanitary regulations, environmental protection regulations etc. In the absence of an acceptable international authority to resolve on the fairness of such regulations, India suffered with regard to its exports especially to Japan and US. Now WTO has been ruling against these restrictions and this has contributed to a growth in India's exports in this sector.

### ***Conclusions / Suggestions***

If India has to exploit the advantages arising out of the liberalization of agricultural trade arising out of WTO it has necessarily to take several steps. The important of these are:

**Complete decontrol of agricultural trade:** A number of controls have already been removed, but several of them remain. These include restriction on inter-state movement, quantities that can be traded at given price levels etc.

- 1. Lifting of export restrictions:** There are still a number of restrictions on the export of agricultural commodities. Many agricultural products can be exported only if there is a quota. Agricultural exports are taxed, especially by states, which is unfair when considering the fact that industrial exports are extended several concessions.
- 2. Canalizing:** The imports and exports of many agricultural products are still routed through the canalizing agencies of the governments, with the consequential delays and corruption. Their reaction to market movements is also slow and bureaucratic. All canalizing agencies for both imports as well as exports have to be abolished.
- 3. Entry of foreign capital:** Market penetration of foreign markets is possible only through joint ventures and foreign collaborations as has been amply proved by the example of floriculture. This presupposes a free entry of private foreign capital into the country. Till date there are a number of restrictions on entry of foreign capital and the setting up of joint ventures.

4. **Infrastructure:** Infrastructure in India in the sectors of transportation, power and telecommunications is inadequate and below internationally acceptable standards. For growth of exports these needs have to be taken care of.
5. **Yields:** The yields from various agricultural sub-sectors in India are below the levels of the developed countries and sometimes even below the levels of its neighbors. This calls for greater technical know how imports and collaboration agreements with western agri-tech companies. The ideal conditions to be created for this include an adherence to intellectual property rights and patent rights.
6. **Packaging:** To preserve their original form, texture and taste, agricultural products need proper packaging systems. Indian packing is still below international norms. This is an area where both government as well as exporting agencies needs to bestow sufficient attention.
7. **Health sanitation and quarantine norms:** With regards to international norms of health and sanitation, India is always a suspect. There is need for a serious effort with regard to the proper enforcement of health and sanitary norms.

From the forgoing discussions it may be observed that WTO opens up tremendous possibilities of trade in agricultural products, by offering a fairer world market for products from developing countries. These possibilities can be gainfully exploited by developing countries with potentially growing agricultural sectors like India. However it presupposes adherence to norms by the various players involved. The developed countries should go by the spirit of WTO and accept the fact that their agriculture sectors are inefficient and uneconomical and take steps to quickly implement all the WTO norms related to agriculture.

Developing countries like India should concentrate in a few extreme focus sectors and aim at building up of markets for their products. They should take care of the developed world's concerns of hygiene and sanitation. They should also ease norms for the entry of foreign capital, so that modern technology can enter agriculture sector, increasing the yields and returns.

Table 1

## INDIA'S SHARE IN THE WORLD EXPORTS FOR AGRICULTURAL AND ALLIED PRODUCTS (US \$ million)

ITEM	1990			1995			1996			1997		
	World	India	%Share	World	India	% Share	World	India	%Share	World	India	%Share
Meat and meat preparations	34118	77	0.2	47758	183	0.4	48405	195	0.4	48326	196	0.4
Fish, crustaceans & molluscs preparation	32847	521	1.6	47398	994	2.1	476876	1111	2.3	48605	1116	2.3
Cereals and cereal preparations	45314	285	0.6	59461	1576	2.7	67562	1244	1.8	60866	1250	2.1
Rice	3995	254	6.4	7332	1362	18.6	7382	894	12.1	7134	898	12.5
Vegetables and fruits	50225	400	0.8	70819	682	1	72191	666	0.9	72505	668	0.9
Sugar, sugar preparations and honey	14236	21	0.1	19389	156	0.8	19657	308	1.6	19148	309	1.6
Coffee, tea, cocoa, spices and manufactures	21131	842	4	33762	973	2.9	32964	939	2.8	35014	944	2.7
Coffee and coffee substitutes	8659	148	1.7	16092	448	2.8	13999	402	2.9	16768	404	2.4
Tea and mate	2650	585	22.1	2414	345	14.3	2499	284	11.4	2406	286	11.9
Spices	1415	109	7.7	1903	180	9.5	2026	253	12.5	2314	254	11
Feeding stuff for animals	15603	336	2.2	20537	706	3.4	24321	997	4.1	24815	1002	4
Tobacco and tobacco manufactures	17860	145	0.8	24130	113	0.5	6599	186	0.7	25908	187	0.7
Oilseeds and oleaginous fruit	10477	83	0.8	12903	158	1.2	15502	188	1.2	17379	189	1.1

Source: Economic survey, 1999-2000

Table 2

## EXPORTS FROM AGRICULTURAL AND ALLIED PRODUCTS (QTY: 000' Tonnes, Value: Rs. Crore)

PARTICULARS	1990-91		1995-96		1996-97		1997-98		1998-99	
	Qty	Rs.Cr	Qty	Rs.Cr	Qty	Rs.Cr	Qty	Rs.Cr	Qty	Rs.Cr
Coffee	85.5	252	156.1	1503	163	1426	160.3	1696	190.1	1703
Tea and mate	199.1	1070	158.7	1171	139.5	1037	193.7	18786	215.1	2302
Oil cakes	2447.5	609	4330.9	2349	4787.5	3495	4498	3435	3566.9	1912
Tobacco	87.1	263	87.1	447	117	757	144.7	1070	91.1	779
Cashew kernels	55.5	447	70.8	1237	70.4	1288	81.3	1407	76.6	1613
Spices	103.3	239	240.1	974	222.1	1202	230.5	1410	202.7	1617
Sugar and molasses	191	38	734.4	506	1716.3	1078	246.8	255	38.8	23
Raw cotton	374.4	846	33.3	204	269.5	15575	157.5	822	46.3	224
Rice	505	462	4914	4568	2152	3172	2398	3371	4940.8	6201
Fish and Fish preparations	158.9	960	310.1	3381	394.5	4078	298.2	4487	316.1	4368
Meat and meat preparations	—	140	—	627	—	709	—	<b>808</b>	—	<b>760</b>
Fruits, vegetables and pulses (excluding cashew kernels, processed fruits and juices)	—	216	—	802	—	828	—	<b>1067</b>	—	<b>912</b>
Miscellaneous processed foods (including processed fruits and juices)	—	213	—	745	—	974	—	<b>528</b>	—	<b>550</b>
Exports from agricultural and allied products		6317		21138		24239		25419		24164
Total exports		32553		106353		118817		130101		141604
Percentage of agril. Exports tom total exports		19.40		19.88		20.40		19.54		18.48

Source: Economic survey, 1999-2000