

## IMPACT OF WTO ON AGRICULTURE

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The World Trade Organization essentially negotiates with the member countries and therefore, in a federal setup like India, we do not have specific role for the State Government to directly negotiate with WTO. In such a situation, the implications will have two layers, first layer at the State level, where the exportable originate and importable reach. Thus, the implications at the State level are the ground realities. The Central Govt, at the higher layer, which will negotiate with the WTO secretariat. As a result, the Ministry of Commerce in the Central government, will be involved in the negotiations, but the implications will be more concerned at the ground level either for the exporters, importers, consumers, producers or traders. Therefore, we chose to enlist the implications at two levels.

### **National Level Implications**

While analyzing the impact of Agreement on Agriculture (AoA) at the national level, we need to look at it from four different perspectives. First, it is well known that India has an extremely diversified agricultural sector. There are regions, which are incapable of participating in international trade and may require large investments to do so. These regions will be at the receiving end both from the point of view of attracting investments towards agriculture as well as the non-availability of plough back surplus in advancing their agriculture sector. Second, India has comparative advantages in a few commodities.

This advantage will certainly help in increasing the exports of such commodities provided we have a continued positive international demand elasticity and there is a continued advantage between the domestic and world prices. Third, there are non-traditional export commodities, which have to be watched carefully, and India had to take advantage of tapping the market for these

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commodities. Lastly, India's trade in agriculture is characterized by its non-consistent, volatile nature across markets in terms of time-series. It will be necessary to stabilize this with suitable measures.

The impact of Agreement on Agriculture (AoA) on the national economy has to be viewed from three distinct perspectives. The initial reaction comes from the alteration in the support regimes both in domestic sector as well as in the export sector. The aggregate measure of support is allowed at 13.33 per cent of the base level gross value of product with 86-88 base. As India has not crossed this barrier and is unlikely to cross this in near future, it does not cause great concern presently for us. However, in order to keep a check on the increasing budgetary deficit, it is necessary that the agriculture policy directs the support measures towards the 'Green Box' policies. Specifically speaking, the country should take advantage of providing support to the resource poor regions and designing schemes for reduction of export marketing costs as well as the domestic and international freight charges by recasting the present subsidy regime. In fact, these together will make a large difference in the value added to the exporters and can boost up the exports. In case of the commodities where we do not have advantage of lower domestic prices, the exports will become uneconomical unless support measures are put in place for a number of commodities. In such cases, in order to sustain the current export trends, the commodities which require price or export support are coffee, cotton, tea, groundnut oil, copra, sugar, wheat and maize. In respect of all these commodities, the average prices for over fourteen years in the Indian wholesale market are higher than those of the world prices. There are two likely outcomes of this: (i) the imports of these commodities may experience a sudden spurt with the removal of Quantitative Restrictions; and (ii) exports will go down significantly because of the price disadvantages. It is in this context that we have to take advantage of the commodities, which can withstand such pressure. As far as the variations in world prices and Indian wholesale prices are concerned, we find that the Indian wholesale prices fluctuate more violently as compared to the world prices. Such instability in the Indian wholesale prices may cause spurts in imports and create disincentives to the producers. It is therefore essential to watch the price

fluctuations at least in a short-term perspective. The Food and Agriculture Organization (FAO) has projected that the world trade from developing countries to the developed countries is likely to have lower growth rates as compared to the trade between developing countries. Therefore, it is necessary for us to concentrate more on trade with developing countries where the emerging market is quite strong. Following are some specific implications:

### **Implications of WTO**

While analyzing the impact of WTO provisions on Indian agriculture, we have to consider the specific situation of the agricultural sector of this country. It is a fact that about 80 per cent of our agricultural producers are holding less than 2 hectares of land, which is not sufficient to produce sizeable exportable surplus individually. In addition to this, the agricultural sector has a typical lag lead relationship between the prices and the produce. This acts as a deterrent. Whenever prices collapse, the farmers reduce the area under a particular crop and in turn, the prices increase during the next season / year. This cob web phenomenon leads to equilibrium only in a close sector assumption. But when the sector is treated as open to the other economies, it becomes necessary to adjust the welfare / income losses due to price fluctuations. It will be quite ambitious to assume a certain level of price elasticity of demand / supply, income elasticity of demand, the production growth rates, resource allocations and finally the farmers' response to the market environment. Any assumptions on these counts will lead to erroneous conclusions about the impact of WTO. The above paragraphs have indicated the probable precautions considering the likely impact due to various policies. We have also gone ahead indicating the direction of change to be followed.

1. **Market Access Tariffication:** The tariff policy should be such that the disadvantages due to price differential between domestic and international prices are converted into advantages for the country.

**Bounded tariffs:** The policy has to be carefully monitored recently, in the oil seed sector where we have the possibility of reaching 300

per cent tariff, the policy did not take advantage of this. Similarly, for arecanut we had the possibility of reaching 100 per cent, the policy did not take advantage of this

**Guaranteed access to domestic market:** Access has to be calculated on the basis of base period of 1986-88. It is not very clear if such access has to be computed on the basis of quantity or the value of the product. Either way, India being a high population density country, the market share of 3 per cent or 5 per cent of 86-88 would be quite negligible. Therefore, this may not cause any surge in imports, which is feared. Even under import surges, India should make use of the 'safeguard clause' giving exemption under traditional staple of a developing country

India should also take advantage of special safeguard measures provided against the import surges. Among the special treatment, exemption is provided for primary agriculture product, which form the predominant staple in the traditional diet of the developing country. This has been set at only 1 per cent level and further it is provided that non-tariff measures can remain on these products as well.

- 2. Export competitiveness:** The subsidies come under this section. 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; and (b) subsidies on cost of freight on export shipments of certain products like fruits, vegetables and floricultural products.

These are non-actionable subsidies. 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.

- 3. Sanitary and Phytosanitary measures:** India has to watch the stipulations set out by different export destination countries in terms of sanitary and phyto-sanitary requirements. We have been pressing for a common code based on FAO codex. If this does not come through, then India

may lose on the export orders mainly due to the stringent stipulations coming under the sanitary and phyto-sanitary measures.

4. **Multifibre Arrangements:** The Agreement on Textile and Clothing has been slated to replace the earlier Multifibre Arrangement. It is agreed that by the year 2005, the Agreement on Textile and clothing (ATC) will be totally phased out. Till then, there will be a gradual change in the quotas provided based on bi-lateral agreements. India will have to watch the welfare loss to the textile manufacturers and cotton growers. The phasing out period is given in order to adjust to the changing environment.
5. **Agreement on Technical Barriers to Trade:** India has to carefully look into the 'Code of good trade practices' for the preparation, adoption and application of standards by standardizing bodies, which should be open to the acceptance of the private sector. An information network has to be created for this purpose through state level nodal agencies.
6. **Antidumping:** There is every possibility of dumped imports causing welfare loss to the domestic producers. At every state – level, nodal agencies have to be created in order to monitor the imports of commodities for which such fear is expected.
7. **Trade Related Intellectual Property Rights (TRIPS):** Our law of patents is under review. This review process has to be completed at the earliest and specifically India should argue for "Geographical Indications" of the product being patented under international patents. We have been provided sufficient time period to react about this. It is necessary to utilize this period to strengthen the legal framework through nodal agencies.

### **Implications at the State Level**

It is expected that different states are going to participate in India's agricultural trade. Nevertheless, it is necessary to watch this sector carefully from both the import and export fronts in order to protect the interest of domestic consumers, traders, and producers. In such case, it is essential to fine-tune

the balance between domestic demand, exportable surplus, and imports. The act of such optimization, therefore, involves a large number of issues that need to be discussed threadbare. Among these issues, the trends in exportable surplus of cereals, pulses and other raw-material going in the processed food sector need to be observed carefully. Secondly, it is feared by some that the marginal and ultra-marginal agriculture practiced particularly in dry land areas is non-competitive. The cheap imports of food grains may cause immiserization of farmers, particularly in backward areas with serious adverse consequences on food security. This could seriously destabilize domestic production process. Therefore, it is necessary to look into the domestic requirement as against probable spurts in the imports. Comparative advantage of certain agricultural products may give a clue but cannot be a final answer to prevent any destabilization of production process and threat to food security. The price differentials between the domestic prices in the state, the prices prevailing in the other states and the international prices have to be analyzed carefully to protect the interest of both consumers and domestic producers. Therefore, the issues emerge in two distinct contexts, viz., (i) the national level issues regarding the country's participation as a significant player in the trade sector; and (ii) the competitiveness and vulnerability of any state in India's agricultural trade and implications of WTO for its primary producers, trades and consumers. Here again, the implications are different for food crops compared to plantation crops. There are serious inter-regional and intra-regional implications of liberalizing agricultural trade for various states. The details are as under:

- ⊛ In some states, we do not have raw material growth centres for supplying quality raw materials to processing units. It is necessary to create such centres to feed the processing units with the required quality and quantity.
- ⊛ There are a large number of infrastructure bottlenecks, which need to be attended to urgently. These include non-availability of water, consistent power supply, good quality roads, proper harvesting facilities like collection and grading centres, washing and packing facilities, refrigerated vans, pre-cooling and cold storages, intermediate cold storages, processing

units and an export house. It is necessary that all these be attended to.

- ⊛ Unorganized and weak domestic market base.
- ⊛ High interest rates for agriculture investment as well as export finance.
- ⊛ Subdivision and fragmented landholdings which makes it uneconomical for our farmers to use modern techniques of cultivation.
- ⊛ APMC cess is a bone of contention of most of exporters, which is collected in addition to the other cess. The state government can waive this cess for the exporters whose export performance exceeds certain pre decided norms. Such measure will create an added incentive for the exporter.
- ⊛ Low productivity per unit area
- ⊛ In the state we have frequent tripping – off of the power as well as the quality of the supply compels the exporters to depend on captive generation of power. This adds to the investment as well as running cost of the exporters. Steps need to be taken seriously to overcome this problem.
- ⊛ There is a large information gap between the world market and the local exporters. This happens both due to communication disabilities as well as lack of availability of information from outside. It is quite possible to disseminate the information.
- ⊛ It is essential to work on short-term, medium-term, as well as long-term plan to enhance the export performance of the State.