Material for Speech on Globalisation and Indian Agriculture

Inroduction

India was one of the leading developing nations pleaded for inclusion of agriculture within the purview of the General Agreement on Tariff and Trade (GATT) since the very beginning of the Uruguay Round of discussions in September 1986, since, it is felt that the developing countries have a comparative advantage in agricultural production. The principle of comparative advantage is built on the basis of the inter-country differences in costs and returns between different commodities, abstracting from taxes and subsidies influencing these costs and returns. Further, it was also hoped by the developing countries that bringing agriculture into the ambit of WTO would result in better market access to the developing countries, thereby facilitating the much celebrated trade as the engine of growth. However, the principle of comparative advantage requires that prices be determined by market forces and there are no barriers on trade.

If some rich countries because of their ability to subsidise agriculture can sell their produce at artificially lower prices and thus undercut the market for the genuinely efficient or low-cost producers, then the playing field is highly uneven, as the principle of comparative advantage is not followed. Similarly, if some countries are taxing or discriminating against agriculture by heavily protecting their industry and through overvalued exchange rates, as most developing countries have been doing till recently, then their competitiveness is eroded vis-a-vis countries which do not tax agriculture. In this case too, the principle of comparative advantage is denied free play. Moreover, the world – despite increasing interdependence and integration among countries – is highly heterogeneous with regard to the levels of development. There are countries at an advanced stage of development in regard to the levels of infrastructure and technology achieved over a period of a few centuries. On the other hand, there are several countries, which have only recently emerged from long periods of colonial rule. They have a long way to go before they can achieve a level playing field vis-a-vis developed countries in regard to infrastructure, technology and skills. Such countries may need protection for some time in certain specific areas before they can tap and realise their potential so as to be in a position to compete with the advanced countries as trading partners on an equal footing. This is akin to what is usually referred to in the literature approvingly as 'infant industry' argument. Therefore, institutional arrangements such as the WTO are essential for ensuring level playing field so that considerations of comparative advantage can have a free and fair play. Therefore, the issues of reducing subsidies so as to let the market forces determine the prices and reducing barriers to trade to enable better market access have been the key issues of WTO negotiations so far.

Debate

The measures to increase international trade are expected to result in higher welfare of the participating countries by way of increased production and optimal allocation of resources, in conformity with the neo-classical trade theory. There have been a number of studies, which tried to measure the impact of trade liberalisation. Anderson and Tyers (1993) and Anderson (2002) opine that all farmers including landless labourerers would benefit, while Subramanian (1997) forecasts that the large farmers stand to gain from the higher world prices in the long-run and the distribution of gains would be skewed against the small farmers. On the other hand, Parikh *et al* (1995) argue that only the rural poor would gain from liberalization. While there is agreement that the trade benefits the developing countries, there is no unanimity regarding the magnitude and distribution of these benefits.

In this connection, it needs to be mentioned that these studies assume that the supply response and productivity growth are price responsive and that there is going to be perfect competition in agricultural trade. However, the agricultural supply response in developing countries to changes in terms of trade is inelastic due to factors like inadequate irrigation, price interventions by the governments, etc. Moreover, the international trade in agriculture can hardly be called competitive. The international trade in agriculture is characterised by pronounced economies of scale and scope as well as irreversibility of investments, which can act as entry barriers for smaller players (Deodhar, 1999).

Negotiations on Agriculture in WTO

The Agreement on Agriculture, which was a part of the Uruguay Round of agreements negotiated during the period 1986-1993 and was signed in April 1994 at Marrakesh. It came into force on January 1, 1995. The Final Act of Uruguay Round signed by 120 countries brought in for the first time the liberalisation of world trade in agriculture. It was decided at the time of signing of the agreement in 1994 that negotiations for further progressive liberalisation and to take care of problems, issues and concerns arising from the existing agreement on agriculture should start on January 1, 2000. Accordingly, such mandated negotiations have commenced. India has submitted its comprehensive proposals in the areas of Domestic Support, Market Access, Export Competition and Food Security. The proposals keep in view the objectives of protecting India's food and livelihood security concerns by having freedom for taking all domestic policy measures for poverty alleviation, rural development and employment as also to create opportunities for expansion of agricultural exports by securing meaningful access in developed countries.

The Committee on Agriculture continued its systematic review of the implementation of WTO commitments resulting from the Uruguay Round or accession to the WTO. Since 1995, the Committee has reviewed well over 1,000 notifications submitted by Members in the areas of tariff quota administration and utilization, special safeguards, domestic support and export subsidies, as well as export restrictions. In the course of Committee's four meetings in 2002, a number of general issues relating to the implementation of commitments were also raised. In particular, several Members were concerned about the impact of the new farm legislation of the United States, the Farm Security and Rural Investment Act of 2002. Venezuela's administration of its tariff quotas was another matter of concern. The implementation of tariff quota commitments was also the main issue addressed during the Committee's first review of China's accession commitments under the Transitional review mechanism. The Committee made considerable efforts to advance the implementation of the Marrakesh Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on LDCs and Net Food-Importing Developing Countries. An Inter-agency panel of commodity and financial experts was established to explore possibilities for improving access to shortterm credit from the international financial institutions to finance food imports of these countries, and examine a proposal by the Net Food-Importing Developing Countries for the establishment of a revolving fund for food importers.

India, with a view to garner support of other developing countries also co-sponsored two proposals with other countries: one on market access and another on export credit for agricultural products. However, in WTO negotiations, the member countries differ not only in regard to the comparative advantage in producing various goods and services but also in respect of the level playing field

While the advanced countries have been heavily protecting agriculture, leading to over production, rise in costs and distortion in world trade, several developing countries have been disprotecting agriculture by discriminating against it basically through the heavy protection of domestic industry and overvalued exchange rates. This is a consequence of the pursuit of an inward-looking and import substituting development strategy which had an in-built bias against agriculture. The terms of trade were thus deliberately kept unfavourable to agriculture in keeping with the prevailing wisdom to 'extract' surpluses from this sector for promoting industrialisation. Such discrimination has led to less than optimal allocation of resources to agriculture as well as denial of avenues for its technological upgradation in a liberalised trading environment, resulting in its slower growth. Consequent to the differing levels of protection accorded to agriculture in various countries, there has been disagreement regarding the nature and implementation of the reduction commitments among the developing and developed countries.

Bone of Contention between the Developed and Developing Countries

Given the intrinsic competitive advantage of the developing countries in agriculture, as well as the dependence on agro-exports by some of the countries for bulk of their export earnings, a restrictive global trade regime in agriculture resulted, which has been one of the most effective barriers to sustained acceleration of agricultural production and export in the third world countries. A major issue of contention during the Uruguay Round negotiations was the high domestic support being provided to agriculture in the developed countries, especially the European Union in the west and Japan in the east, which led to distortion in the prices of agricultural commodities. Apart from restrictions on the imports of farm products through various tariff and non-tariff barriers, this support consisted of measures such as high support prices for farm produce and export subsidies, which are now shifted to direct measures for income support under the so-called Blue Box, such as deficiency payments in the US, and compensations to farmers in the European Union via acreage and headage premiums which are exempt from reduction commitments. As a result, the developing countries like India were finding it difficult to have access to the markets of agricultural products in the developed and developing countries.

Under the market access provisions of the AoA, members were required to convert non-tariff barriers into tariffs, and commit to reduction of tariffs by an unweighted average of 36 per cent with a minimum rate of reduction of 15 per cent for each tariff line. Moreover, the developed countries have reduced low tariffs more than the high tariffs. As a result, the average of rate of reduction was 36 per cent, but average tariff levels were reduced by less than 36 per cent. Further, the member countries are required to reduce the total Aggregate Measure of Support (AMS) by 20 per cent for the developed countries and 13.3 per cent for the developing countries so as to reach the AMS levels of base period (1986-88). However, most of the developing countries including India had net-taxed their agricultural sector during the 1980s and hence, their base AMS levels were negative. On the other hand, the AMS for most of the developed countries was high during the base period, and the current AMS levels are lower than the base levels. Hence, the commitment to both the developing countries and the developed countries regarding the reduction of AMS is negligible. This means that the levels of domestic protection accorded to agriculture in various countries is not likely to reduce much lower than the existing levels. This implies that the developing countries have to be export competitive with the existing set up rather than hoping for increasing prices due to reduction of AMS in the developed countries.

Another important issue regarding the domestic protection is the subsidies accorded to agriculture under various "Boxes" under the AoA. Support such as export subsidies, input subsidies for fertilizers, electricity, lower interest rates and market price support fall are deemed to be trade distorting by the AoA and hence are to be reduced by the members. On the other hand, support including assistance given through environment assistance programmes, services such as research, training and extension, marketing information, certain type of rural infrastructure are included under the Green Box. Subsidies under the Blue Box include direct payment given to farmers in the form of deficiency payments (i.e., the difference in the Government's minimum support price and the market price directly paid to farmers, as practiced in the USA), direct payment to farmers under the production limiting programmes, etc. In this connection it needs to the noted that the input subsidies and export subsidies in India fall under the purview of Amber Box and are required to be reduced. Only the Minimum Support Price scheme as practiced in the country seems to fall under the Blue Box, while there is hardly any support under the Green Box. On the other hand, much of the support extended to agriculture in the developed countries comes under either the Green Box or Blue Box. Hence, the domestic support in the developed countries is less likely to be reduced, implying that developing countries need to be export competitive in the existing framework.

Furthermore, the implementation of SPS and TBT provisions is likely to act as a trade barrier for the developing countries. For instance, the prescribed requirement for aflatoxin content in groundnut by the Codex Alimentarius Commission (CAC), which are the official norms for WTO stands at 15 parts per billion (ppb). However, despite the CAC guidelines, the European Union (EU) has a stricter aflatoxin level of 4ppb, as opposed to the Indian standard of 30 ppb. Thus, even if Indian production matches the CAC norms, the EU norms will act as barrier to trade for the Indian groundnut. To meet these stringent norms of EU, there is a need to invest in Hazard Analysis and Critical Control Points (HACCP) methods, as are being practiced the developed countries. Implementation of HACCP requires import of expensive technology from the developed countries. Due to the capital intensiveness of the HACCP, many small exporters may not be able to invest and would lose export competitiveness. Clearly, these stringent quality norms act as trade barriers to the developing countries.

There have also been wide differences relating to, inter alia, the formula to be adopted for negotiations. India, along with EU and at least 75 other countries, prefer the Uruguay Round (UR) formula of request-offer approach. Under this formula, where negotiations take place on requests made by member countries on either bilateral or multilateral basis and offers made in response to requests, countries could adopt a wait and watch approach and take their decisions based on the offers made by the developed countries in the area of market access. It is felt that this approach can take care of the special needs of the developing countries. The US and Cairns group, on the other hand, are backing the Swiss formula, which calls for steeper reduction commitments, the higher the existing levels of tariffs are.

Another bone of contention between the developed and developing countries has been the so-called “Singapore Issues” consisting of facilitating investment, trade and competition and transparency in government procurement. While EU has been pushing for the inclusion of these issues in the current round of WTO negotiations, India has maintained that they should be studied by working groups and hence should not be brought into the multilateral framework. Consequently, these issues were raised by the developing countries in the Doha Ministerial Conference in 2001.

Doha Ministerial

By the time of the Doha Ministerial Conference in November 2001, 121 governments had submitted a large number of negotiating proposals. In Doha, Ministers decided to establish modalities for **negotiations in agriculture** by March 31, 2003 and, based on it, schedule of commitments are to be submitted by the Fifth Ministerial Conference. Without prejudging the outcome of the negotiations, member governments commit themselves to comprehensive negotiations aimed at

- Market access: substantial reductions;
- Export subsidies: reductions of, with a view to phasing out all forms of these; and
- Domestic support: substantial reductions for support that distorts trade.

Post Doha developments

The Work Programme convened seven Special Session of the Committee on Agriculture covering the period from March 2002 to March 2003 complemented by a series of inter-sessional and other informal consultations. In the course of the work, a wide range of participants submitted many negotiating proposals and informal papers as well as other specific inputs for the negotiations. At the formal meeting of the Special Session on March 31, 2003 the Chairman had to conclude that, overall, participants remained far apart on key issues, there seems to be disagreement between the protectionist group led by the 'European Communities, including Japan, Norway, Korea, etc,' and the pro-liberalisation group led by 'Cairns Group[1] and the US' on each of these three issues of negotiations. The pro-liberalisation group is in favour of substantial reduction in tariffs and domestic support and elimination of export subsidies. The protectionist group favours the Uruguay Round-approach with gradual tariff reductions. However, the EC strongly supports incorporation of non-trade

[1] Cairns Group is a coalition of developing and industrial countries to argue for agricultural trade liberalization. This was formed during Uruguay Rounds and the countries include Argentina. Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, Thailand and Uruguay.

concerns, such as, animal welfare and food safety in the negotiations. Another group consisting of newly acceded countries like China and Croatia do not want any cuts for themselves, though, they press for substantial market access commitments from others. Among other developing countries, the net-food importing countries oppose substantial reductions in export subsidies, while small economies based on single commodity exports, such as Mauritius and the Caribbean prefer maintenance of preferential market access into major markets.

Status of Work Programme

As on March 31, 2003, WTO member governments had failed to agree on a framework of establishing “modalities” for future agriculture trade reform. These are targets (including numerical targets) for achieving the objectives of the negotiations, as well as issues related to rules. They would set parameters for the final agreement in the agriculture negotiations, for example how far import duties should be cut, and subsidies reduced or eliminated, and over what periods of time. The negotiations’ chairperson, Stuart Harbinson, prepared a first draft of the modalities in February 2003. Following comments from participants, this was revised in March 2003, but no consensus was reached since negotiators had sought to maintain their starting positions and had given the chairperson little guidance on how to narrow the wide gaps existing between them.

On July 7, 2003, Harbinson has circulated the Negotiations on Agriculture Report to the Trade Negotiations Committee, which intends to assist participants in their deliberations on agriculture in the preparatory process for the Fifth Ministerial Conference. Despite the failure by WTO member governments to agree on a framework for future agricultural trade reform, the Director General of the WTO is hopeful that progress in the global trade negotiations could still be achieved provided governments continue to redouble their efforts in agriculture and all other areas of negotiation between now and the September Ministerial Conference in Cancun, Mexico.

India's stand

Under the Uruguay Round of Agreements, India has not made any commitments regarding market access, reduction of subsidies or tariffs on balance of payments (BoP) ground. India was committed only to bind the tariffs, which have been reduced to appropriate level in certain agro-based products. India has, amongst other things, expressed concerns regarding Food Security and safeguarding rural employment, for which some flexibility under the provisions for domestic support is needed. India is questioning the extremely high subsidies and tariff walls even now being maintained by the developed countries, although they are committed to reduction of both under the Uruguay Round. Better market access for India's agricultural products is being sought. Broadly, India's approach to the review of the Agreement on Agriculture is that it would give us an opportunity to have a fresh look at this area from the development perspective and the needs of developing countries, as a number of inequities still remained in the implementation of the Agreement.

India submitted initial negotiating proposals on AoA during 2001, covering in detail all the three issues in the negotiations, viz., market access, domestic support and export competition. This also included India's stand on S&D provisions and concerns regarding food and livelihood security and rural development. India is of the view that the food security concerns can be meaningfully addressed in the current negotiations only by ensuring that disciplines, especially in the area of market access and domestic support, subserve the food security interests of developing countries. India also feels that any further market access commitments by developing countries like India must be tempered in order to enable them to safeguard food and livelihood security of their rural poor and promote rural development through adequate protection at the border. In addition, developing countries must be provided sufficient flexibility in applying safeguards to address different situations.

In the post-Doha developments, India has attached great importance to the negotiations on agriculture as it considers that to be one of the major areas where developing countries have to realise the benefits from liberalisation in agricultural trade. India played a proactive role by taking part in all negotiations for which modalities were to be firmed up before March 31, 2003 and final negotiations to be concluded by January 1, 2005. India has been stressing that greater attention needs to be devoted to issues about Sanitary and Phyto-Sanitary (SPS) standards and technical barriers to trade so as to fully realise gains in agricultural trade liberalisation. Regarding negotiations on agriculture, India attaches the highest priority to Special and Differential (S&D) provisions and wants early discussions on such crucial issues as Sanitary and Phyto-Sanitary (SPS) and Special Safeguard Measures (SSM). India has also noted the lack of balance in the progress of negotiations as well as the missed deadline of March 31, 2003 for drawing up agriculture proposals so far.

In a recently held informal trade mini-Ministerial meeting in Egypt, India has made a strong pitch for a special window under the WTO Agreement on Agriculture to provide for special and differential treatment by way of special safeguard mechanism and other such measures, which would be of paramount importance in safeguarding the interests of the 650 million Indian farmers who depend on agriculture for their livelihood. Special and Differential measures represent the fourth pillar of the ongoing negotiations on agriculture in the WTO along with the three other pillars, namely, market access, domestic support and export competition. India is of the view that, if these negotiations are to progress, the high levels of ambition in terms of market access have to be tempered and special windows in terms of effective special and differential measures have to be provided. Provision must also be made for adequate tariff cushioning as even a surge of one or two commodities can actually affect the lives of millions of farmers with serious social consequences. Category of special products and special safeguard mechanisms are extremely important for India.

Prospects for India

Given the present disagreement regarding the negotiations between the developed countries on the one hand and the developing countries on the other, the trade scenario in agriculture may not result in radical changes in the near future. Hence, India should aim at improving agricultural exports in the existing framework rather than relying on reduction of domestic support elsewhere. Despite the failure by WTO member governments to agree on a framework for future agricultural trade reform, the Director General of the WTO is hopeful that progress in the global trade negotiations could still be achieved provided governments continue to redouble their efforts in agriculture and all other areas of negotiation between now and the September Ministerial Conference in Cancun, Mexico.

As far as the Indian export potential and WTO commitments are concerned, it is recognised that domestic agricultural production requires support mainly due to the vast population dependant upon agriculture for livelihood, and the food security concerns. An analysis of international prices of rice, wheat, groundnut, cotton and sugarcane vis-a-vis domestic prices in India revealed that Indian domestic prices are higher than international prices of rice and wheat, mainly due to the increasing Minimum Support Prices of the same in the recent past. On the other hand, Indian prices of groundnut were much lower than the international prices. India is also the second larges producer of fruits and vegetables in the world. However, much of this production is wasted due to inadequate storage and processing facilities in the country. The present agricultural production pattern in India favours rice and wheat more than any other crop. This production pattern is unsustainable in the WTO regime. Hence, there is an urgent need to diversify our cropping pattern to tap the innate export competitiveness of agricultural production in India. In this backdrop, India’s export potential and competitiveness rests in managing the level and types of support provided to domestic producers.

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