



RESEARCH ARTICLE

IMPACT OF W.T.O ON INDIAN AGRICULTURE: PERFORMANCE AND PROSPECTS

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ABSTRACT

Indian is no exception to these general trends, with a few special features. During last two decades India's agricultural exports as a part of total merchandise exports have continued to decline from the preponderant position they occupied in the pre-independence. But with the achievement of self-sufficiency in food grains and some other major agricultural commodities, which used to account for large portion of import bill, overall imports of agricultural commodities have sharply declined. The outlay on agricultural imports as a proportion of earnings from agricultural exports has progressively declined, and all the balance has become progressively more favorable. Discussion on these issues has, naturally, to take into account the new trade regime as the stated objective of firstly to study the performance of India's agricultural exports under WTO regime. secondly, to analyze the competitiveness of top agri-exports of India under WTO regime. Finally, to suggest policy measures in the identified India's agricultural. In the first part of discuss briefly introduce, the developments in agricultural trade specially the agricultural exports at the world level in the recent years and discuss the performance of Indian agriculture in this respect finally shaped the shifts in this policy. Final part, I will try to spell out the ingredients of a strategy to augment agricultural exports in the changing, and more demanding, global economy.

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INTRODUCTION

Indian is no exception to these general trends, with a few special features. During last two decades India's agricultural exports as a part of total merchandise exports have continued to decline from the preponderant position they occupied in the pre-independence. Their share in the merchandise exports of the country in recent years (1991-97) ranges between 15 to 18 per cent. But with the achievement of self-sufficiency in food grains and some other major agricultural commodities, which used to account for large portion of import bill, overall imports of agricultural commodities have sharply declined. The outlay on agricultural imports as a proportion of earnings from agricultural exports has progressively declined, and all the balance has become progressively more favorable. A stylized version of the changes in agricultural trade pattern during the course of economic development will suggest that with the growth of an economy development will suggest that with the growth of an economy not only the share of agriculture in GDP declines, share of agricultural exports to the total merchandise exports also decline. As the economy gets diversified the non-agricultural commodities acquire greater importance in the product mix, and also in exports.

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Part of the explanation for the relative also lies in the rising share of processed agricultural products. On the imports side, with larger share of purchased inputs such as fertilizers, pesticides, farm machinery etc. rises. However, as the import intensify of agricultural production is low imports. Most of the developing countries maintain a favourable trade balance in agriculture. Contribution of agricultural exports to foreign exchange earnings is critical for a country such as India which faces a chronic balance of payment problem. With the growth in economy, especially with the growth of more import intensive sectors such as industry the need opportunities mean bigger markets and higher value for their output. However, while thinking about exports of agricultural commodities in a poor country like India the implication of export growth on domestic cannot be overlooked. Discussion on these issues has, naturally, to take into account the new trade regime as the stated objective of to study the performance of India's agricultural exports under WTO regime. In the first part of my presentation I will briefly introduce I will look into the developments in agricultural trade specially the agricultural exports at the world level in the recent years and discuss the performance of Indian agriculture in this respect. In the next part I will review years and account for the important factors which have shaped the shifts in this policy. Final part, I will

try to spell out the ingredients of a strategy to augment agricultural exports in the changing, and more demanding, global economy.

Objectives

1. To study the performance of India's agricultural exports under WTO regime.
2. To analyze the competitiveness of top agri-exports of India under WTO regime.
3. To suggest policy measures in the identified India's agricultural.

METHODOLOGY

The present study is based on secondary data. The annual time series data are used for the entire period from 1991 to 2006. The objective is to compare export performance under WTO regime with pre- WTO period. Sub- periods are also made for short- term comparison. Wherever it is necessary, longer period time series data are used. Data are obtained from FAO, UNCTAD, IMF, WTO, RBI, Ministry of Agriculture GOI, Ministry of Finance GOI and Tea Board of India. To examine the agriculture export performance, tools like, percentage, ratio, Compound Annual Growth Rate, Average Growth Rate, Co-efficient Variance, etc.

Brief review of literature

Nayyar and Sen (1994), it is argued, would be a more rational allocation of production resources. The alignment of internal domestic prices with border prices is likely to help in obtaining a more rational and sustainable cropping pattern and would result in the expansion in acreage under those crops which have a comparative advantage and contraction of acreage under crops like oilseeds and to some extent sugarcane which are high cost. It is obvious that Rao and Gulati have taken this position in order to strengthen their case for export of food-grains. They emphasize that the emerging scenario in respect of food balance opens up the prospects for, and indeed necessitates the export of foodgrains, specially in view of the comparative advantage that the country enjoys in respect of the production of rice and wheat (Rao and Gulati, 1994, p.4). Out estimate of the multivariate model that uses Nerloian partial adjustment frame work shows that for 1967-68 to 1990-91/1994-95 this aggregate 'net' impact is negative for the output as well as marketed surplus of food-grains which occupy two-thirds of the cropped area, while for non-foodgrains, all crops and all agricultural products output as also marketed surplus it is positive (Desai and Nambodiri, 2001a).

The extent environment

The economic environment for agricultural trade is changing in a remarkable way due to changes in the domestic policies as well as in International Trade arrangements. A number of scholars and practitioners have commented on the move towards the policies on liberalization and globalization and their implications for agriculture in our country. I will briefly touch upon the developments at the international plane and their implications for the agricultural trade. The international developments relevant to one, several groupings of the countries are emerging with the objective to forming unified

trade blocks, starting from EEC and ASEAN to more recent attempts at forming NAFTA (North American Free Trade Agreement) and SAFTA (South Asian Association of Regional Cooperation). Second, and probably more important, development is the signing of various agreements as a result of the of the Uruguay round of trade negotiations. I shall comment on the latter now more or less universal coverage in terms of the countries agreeing to its covenants. Also, because various trade blocks would, hopefully, converge on a global trading system initiated by the Uruguay round. The significance of the Uruguay round agreements could be well appreciated one it is recognized that for the first time agriculture is brought under the General Agreement on Trade and Tariff (GATT) discipline. Until the present round of trade negotiations, the contracting parties to GATT had reconciled to a waiver on agricultural trade obtained by USA which, in fact, pleaded for complete removal of all interventions in agriculture. The proposal to bring agriculture under GATT discipline evoked a responsive chord in several countries which were concerned with the rising burden of subsidies in their budgets.

After lengthy and tortuous negotiations under the Uruguay round, agreements have been reached on several important areas. These include:

1. Reduction in the farm subsidies;
2. Enhanced market access;
3. Limits on public stock holdings of grains for food security;
4. Sparing use of sanitary and phyto sanitary import barriers; and
5. Introduction of intellectual property rights.

The Uruguay Round Agreements are a milestone in the development of the international trade in agricultural commodities. The very fact that agriculture has been brought under international discipline is of great significance. However, exact outcome of various provisions of the agreements on the developing countries is difficult to foresee; partly, because of great complexities of provisions and instrumentalities in the agreements which could subject it to a variety of interpretations. The steps which are necessary not only for the short-term relief but also for equipping the developing countries, including ours, to take long-term advantage of a liberal international trade regime in agricultural commodities should, in my view, include the following:

- Macro economic reforms which discourage high tariffs and overvalued exchange rates are beneficial to agricultural trades and need to be continued.
- Adjustment of agriculture to a more liberal and global economy should be attempted carefully. A firm beginning could be made by domestic economic reforms, especially by encouraging liberalization, deregulation and debureaucratization within the country.
- Implicit taxation of agriculture through price discrimination should be avoided. International prices could be used referral for this purpose, although no sanctity need to be attached to the border prices.
- Nothing should be done to impair food security and poverty alleviation efforts in the process of economic

reforms. Adjustment in the food sector should be gradual and non-doctrinaire.

Agricultural trade policy

India like several other long countries is not an export-oriented economy. This is particularly true of agriculture. In recent years the ratio of agricultural exports to agriculture GDP has seldom exceeded 3 per cent. This is itself is not a disqualification. Nor, if the example of the African countries is an indication, a high export to GDP ratio is a blessing in itself. The importance of exports as an economic activity has to be judged by the objectives it serves. India's foreign trade regime till the reforms initiated in 1991 was primarily dictated by two important considerations, a quest for import substituting industrialization and concern for dwindling foreign exchange resources. The major instruments used to implement these policy goals comprised of quantitative restrictions, heightened tariffs, surcharge on imports, rebate on exports and phases in which these provisions were relaxed yet. The basic characteristics of an inward looking import substituting policy frame remained more or less intact. The instrumentality of element of the developmental thinking. i.e., an implicit distrust of private sector and an implicit faith in bureaucracy to achieve the stated goals of development.

All these ingredients of overall trade policy applied to agricultural trade, especially till 1966-67, i.e., the second year of serious draughts of the mid-sixties. Till then the agricultural trade was also subjected to a regime of quantitative controls and other state interventions to conserve foreign exchange. However, while in industry the policy of import substitution was designed to pursue twin objectives of food self-sufficiency and promotion of exports of the so called "commercial crops". In regard to the regulation and control, agricultural trade was no exception. The role of State Trading Corporation (STC) and the cooperative Federations was emphasized as canalizing agencies for agricultural exports. The public sector agencies were given equally important role in the imports of inputs, particularly fertilizers and chemicals. In the second phase, starting from the mid-sixties this policy was pursued more rigorously, and Food self sufficiency became the corner stone of the development strategies in agriculture. Normally, an import substitution policy leads to high unit cost of production. However, mainly because of the availability of a high yielding technology in cereals, not only the task of food self-sufficiency was accomplished, the country fill-in the gap between the demand and supply of food grains without raising the real cost of production, a fact which is generally not appreciated. In fact, along with higher yields the unit cost of production of superior cereals came down and benefits of growth in productivity could be shared by the producers (in terms of higher income) and consumers (in terms of stable prices) in an equitable manner (Vyas, 1990).

Continuation of the strategy of food self-sufficiency is challenged mainly on three grounds. Firstly, it is suggested that with the new economic regime brought in by the Uruguay round of agreements, the developed countries will also have to withdraw subsidies for agricultural products and, therefore, there will be a level playing field, and existing distortions in agricultural trade will be removed. Secondly, it is now generally accepted that food security means entitlement of

food and, therefore, if the country can earn foreign exchange, import comparatively cheaper food grains and distribute it equitably, the country as a whole as well as the poor will benefit more. Thirdly, it is suggested that unlike in the 1950's and the 1960's when the food grains surplus was mainly concentrated in USA and few other developed countries there is much more widespread distribution of tradable quantities of food grains. There is hardly any country which is in a monopolistic position. The agricultural commodities can be broadly divided into two categories, the food crops and the non-food crops. The distinction between two is not firm but under stable. There is an established policy of encouraging exports in commercial crops, and it has to continue. There are, however, several reasons why the policy of food self-sufficiency which largely for over 40 per cent of expenditure of the bottom ones-third of India's population. Any fluctuations in food grains prices will result in undue hardship for this section of population. Price elasticity with respect to prices of cereals was estimated at 0.493 for the very poor and -0.409 for the poor in rural areas. Corresponding figures for urban areas for urban areas of the now well established that the international prices are far more volatile than the domestic prices. Therefore, an opening up of the economy for food grains imports to any sizable extent will tantamount to importing price instability, the main victims of that would be the poor in the rural and the urban areas.

It is not only as the consumers; also as producers the poor have a stake in maximizing food grains production. Bults of the poor are in the rural areas. Their livelihood depends on the growth of agriculture. On the supply side, it has to be recognized that the food grain surpluses in food exporting surplus countries are not adequate to meet the demands of the measurable extent. India's food requirements by year 2000 are expected to be of the order of 210 (209.4) million metric tons. In this, the wheat requirement is estimated at 71 million tones and rice requirement is estimated at 88 million tones. Other major consideration is the availability of foreign exchange to meet food grains imports. Exportable surplus of food grains, particularly wheat is still concentrated in five developed countries, USA, France, Canada, Australia and Germany, who accounted for nearly 73 per cent of total exports of wheat in triennium ending 1995. However, food self-sufficiency is not a matter of faith. We can view the policy when the following conditions are met;

- When expenditure on food becomes a minor part of the consumers budget, especially the budget of the poor.
- When food production does not remain the main source of livelihood for the small and marginal farmers.
- When non-food exports become sufficiently buoyant to generate enough foreign exchange surplus.
- When country has enough buffer stocks to ward off any significant price fluctuations imported from external source
- When there are numerous and assured sources of supply to cope with any sizeable short fall in domestic food grains production.

Indian Agriculture and WTO

World Trade Organization was established on January 1, 1995. It replaced GATT. WTO is much wider in scope and coverage.

Table 1. Growth Rates of Area, Production and Yield

Crop	1967-68 to 1980-81			1980-81 to 1991-92		
	Area	Production	Yield	Area	Production	Yield
Rice	0.76	2.22	1.46	0.55	3.69	3.13
Wheat	2.94	5.64	2.61	0.33	3.59	3.25
Cotton	0.08	2.62	2.54	-0.63	3.24	3.89
Oilseeds	0.24	1.04	0.79	1.07	4.71	3.60
Coarse cereals	-1.03	0.62	1.67	-1.68	0.06	1.77
Pulses	0.45	-0.39	-0.83	0.08	1.42	1.34

Source: Calculated from FAO, Trade Year Book Various Issues

Table 2. India percentage share in world exports in value

Commodities	1991-95	1996-05
Milled paddy rice	12.66	17.15
Cake of Soyabeans	7.64	6.53
Tea	18.71	14.65
Cashewnuts shelled	60.35	49.18
Coffee, green	2.54	2.67
Buffalo meat	99.58	93.61
Tobacco leaves	2.28	3.04
Oil of castor beans	69.47	79.94
Cotton lint	1.89	2.49
Wheat	0.25	1.18
Sugar refined	1.13	1.91
Pepper, white/long/black	14.06	13.03
Sesame seed	14.40	23.88
Onion dry	8.16	8.91
Coffee extracts	2.82	3.68

Source: Calculated from FAO, Trade Year Book Various Issues

Table 3. India Percentage Share of Exports in Production (in Quantity)

Commodities	1991-95	1996-05
Rice milled	1.65	3.78
Tea	22.35	20.53
Coffee, green	51.29	54.88
Tobacco leaves	13.10	23.56
Cotton lint	3.88	7.24
Wheat	0.46	3.85
Sugar	0.85	4.03
Pepper,	49.31	32.83
Sesame seed	7.91	27.28
Onion dry	8.39	13.37

Source: Calculated from FAO, Trade Year Book Various Issues

Table 4. CAGR and CV of World and India's Agricultural Exports

Year	CAGR		CV	
	World	India	World	India
1976-85	4.88	4.10	17.08	15.52
1986-94	5.93	4.99	15.85	14.86
1995-04	2.00	1.80	12.90	12.79

Source: Calculated from FAO, Trade Year Book Various Issues

i. Agreement of Agriculture (AOA)

AOA of WTO recognizes free and market-oriented trading system in agriculture. It has the following main features.

ii. Tariffication

It means conversion of all non-tariff barriers on trade such as import quota into tariffs. Tariffs bindings are to be reduced under this agreement. Developed countries were to reduce their tariff bindings over a period of six years (1995-2000). Developing countries are to reduce their bindings over a period of ten years (1995-2004). Least developed countries are exempted from tariff reduction.

WTO member countries are subject to following obligations on domestic support to their agriculture. However, there are many issues under the AOA which are considered against the interests of developing countries like India. Firstly, the minimum access for import of primary goods flouts the basic rule of promoting free trade under WTO agreement. Secondly, distortions emerge from inequity in domestic subsidy discipline due to different base positions. The developed countries are heavily subsidized countries and are allowed to retain up to 80 per cent of their subsidies but developing countries can subsidize their farmers not more than 10 per cent of the total value of agricultural production. Hence, the domestic support by developed countries needs to be reduced substantially in absolute terms. Thirdly, India has argues that for low income countries, market access and domestic support discipline should be such that their food requirements are met from domestic sources. The volatile international market can get transmitted to the domestic economy and can affect the prices of food grains and food entitlement of the poor. Fourthly, developing countries face highest tariff rates which include the mayor agricultural staple foods, cereals, meat, sugar, milk, butter, cheese as well as tobacco products and cotton. The Indian proposals have, by and been well received and endorsed by most of the developing countries as well as some of the developed countries. However, it is important that steps are taken to reap benefits of a liberalized trade regime through increased efficiency arising from sanitary and phytosanitary measured. Efficiency would be greatly enhanced with increased investment and land reforms. Also, diversification of agricultural production into agro-foods, horticulture and floriculture products and farm products with international quality standards could help to increase exports from this sector.

i) Green Box Support: It is given on items which have minimal impact on trade, e.g., pest and disease Control, market intelligence, it is an exempted support.

ii) Blue box support: It is product-limiting subsidy and pertains mainly to the developed countries. It is exempted from reduction commitment under WTO.

iii) Special and differential treatment box support: It includes investment subsidy to agricultural sector for farm development work like land leveling, shallow wells etc.

EXPORT COMPETITION

WTO member countries are obliged to reduction commitments of their direct export subsidies. Developed countries are to reduce the volume of subsidized agricultural exports by 21 per cent and the value of subsidies by 36 pre cent of the average base period 1986-88 within six years. Developing countries are to reduce the same by 14 per cent and 24 per cent

respectively within ten years. The table shows the growth area, production and yield for two periods, 1967-68 to 1980-81 which may be called the first green revolution decade and 1980-81 to 1991-92, i.e., the eighties. In the case of oilseeds, there was a marked increase in the growth rates of area, production and yield during the eighties as compared to the preceding period. It was mentioned above that this crop group was favoured by the market but an even more powerful influence on the performance of oilseeds since the mid-eighties has been the Technology Mission and the market intervention operations by the public agencies. A heartening feature of the growth in oilseeds production has been that it occurred in the agriculturally backward areas of states. In comparison with oilseeds, the performance of pulses, which received little policy attention, has been quite modest though, possibly in response to the market signals, some improvement in pulses did take place in the eighties while their production and yield had actually decreased during the preceding period in the wake of the surge in the production of wheat. In the case of cotton, its area decreased in the eighties but there was a marked rise in the growth rate of its yield and production between the 'green revolution' decade and the eighties. Like oilseeds, cotton also benefited from policy interventions to help its production as well as marketing though, considering the decline in its area during the eighties, the interaction between the policy support and the favourable market has apparently been much more effective in certain selected areas and not uniformly in all cotton growing regions. As regards tariffication, there is a misconception that India is reducing import duties on agricultural products under WTO compulsions. As a matter of fact, the actual import duties on a variety of agricultural products are lower than the tariffs under WTO. This is clear from the table. From the above analysis, we may infer that it is liberal trade policy helped the exports to increase in absolute terms during post- WTO period and importantly increased their share in world exports both in terms of quantity and value. Now question arises about economic benefit of exports. In the subsequent section, economic benefit of export in post- WTO period is mainly focused. In a country's export share in world export, if quantity share is more than share in value, average export unit value of that country will be lower compared to average export unit value of the world. It shows, country exports are at lower price in international market. In the context of fears expressed in some quarters that liberalization of imports would lead to surge of agricultural imports affecting Indian farmers adversely, the Economic Survey, 2001-02 observed, "India has considerable flexibility to counter flooding of the Indian market by cheap agriculture products which provide a fair level of protection. The government, in fact, raised the import tariff for many agriculture products such as; tea, coffee, pulses and edible oils in the last Budget (2001-02). Countervailing duties can also be imposed to counter countries apart from having the opinion of acting under safeguard provisions to counter surge of imports. With export expansion of a country, if quantity export share increases more than share in export value in world export, it will lead to unfavorable terms trade for the exporting nation. To capture this on India's selected agricultural commodities exports during 1991 to 2005, we have done a simple exercise in Table have calculated ratio of export share in terms of value and quantity in world export and then multiplied by 100 (share in value/share in quantity *100). Contrary to India's expectations from

WTO AoA, the situation reversed from 1997-2002. The tempo of growth in agricultural exports of India could not be sustained after 1996. Agricultural exports of India took a downturn during 1997-2002 in absolute terms. From 2002 we find revival in India's agricultural exports.

Hypothesis: India's competitive strength in the global agricultural market over the years is declining.

CONCLUSION

The finally, Indian agricultural products by seeking a reduction in the high tariffs and subsidies prevent in developed countries. A higher growth in agriculture, thus, needs a comprehensive revamp of agricultural policy with reorientation towards rapid diversification of this sector. A progressive correction is required in the incentive structure for agriculture so that the excessively high minimum supports prices do not continue to distort resource allocation in agriculture. After come across out results Technology Mission and the market intervention operations by the public agencies. A heartening feature of the growth in oilseeds production has been that it occurred in the agriculturally backward areas of states. This suggests that there exists some scope for raising agricultural output through improvements in technical efficiency, without resort to new improved technologies. This will ensure that farmers diversification towards high value added segments of agriculture in response to the new demand structure.

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