

CHAPTER VI

One of the important aspects that need to be analysed is whether India in foreseeable future can enter the global trade in agriculture – whether as an importer or exporter of grains. This Chapter attempts to analyse the impact of India's entry into the global trade in agriculture and its impact on the global agriculture prices. Further, we need to use these vital pointers gathered in the past decade in deciding our policies for the future. What is equally important is to understand as to how various developed and developing countries have failed to adhere to the commitments made to the WTO on the AoA. The concerns of various developing countries in the context of the food security in the post WTO regime are brought about in this Chapter. This background picture is important to appreciate the tenuous nature of India's food security and the importance of the Indian subsidy regime that sustains the agricultural economy.

ANALYSING THE IMPACT OF INDIAN ENTRY INTO GLOBAL AGRICULTURE TRADE AND HOW IT WOULD AFFECT GLOBAL AGRICULTURE PRICES

We now proceed to analyse the demand supply gap in India and try to examine the cost and consequences should India become dependent on the food imports. We need to analyse this in the backdrop of the concept of food security in India. Demand for agriculture production is constantly growing. As already discussed elsewhere in this document, we are still way below the global average by approximately 50% in the consumption of food grains. Our food grains demand would rise over the years owing to two reasons: one that our population is expected to grow at approximately 2% per annum and secondly as more and more people have enough purchasing power they would spend increasingly on food and thereby increase the demand for food in India.

But as far as the supply scenario is concerned, experts have voiced their concerns over Indian farms having the requisite capacity in the current scenario to meet the demand. Further there has also been a shift from the traditional crops to what is popularly called cash crops. Yields for many food grains have been stagnating over the past years. Based on these facts various studies¹ have pointed out that India is going to be a net importer of rice in the near future. The following table² details projected the demand and production

(IN MTS)

Wheat

YEAR	PRODUCTION	DEMAND	GAP
1999-00	76	67	9

¹ Source: Bhattacharya and Pal, 1998

R K Singh of the Philippines based International Rice Research who has expressed views that India may have to import rice by 2005

² Opening of Indian Agriculture: Implications for food security by Bhattacharya, 1999

2000-01	79	70	9
2001-02	81	74	7
2002-03	84	77	7
2003-04	86	81	5
2004-05	89	84	5

Rice

YEAR	PRODUCTION	DEMAND	GAP
1999-00	87	87	-
2000-01	88	90	(2)
2001-02	90	93	(3)
2002-03	91	96	(5)
2003-04	93	100	(7)
2004-05	94	101	(7)

It may be noted that the above demand-production gap is made out on the basis of the projection as carried out by the establishment and is in no way related to the consumption norms that India needs to establish in line with the world average explained in the previous chapters.

Experts in 1998 have made these estimates. Our experience seems of the past few years seem to suggest that India does require importing Rice or wheat directly to meet any shortage. However it is feared that it may not be in too distant future that India may have to import food grains, especially Rice. To this extent we are vulnerable and our food security is susceptible. We need to understand in light of the stated facts presented elsewhere in this document that our food consumption is one of the lowest in the entire world. Even at this level if our demand falls short of the production, it doubly exposes our vulnerability on this issue. Another factor that seems to adversely affect food production in India is the stagnation in the yields of most of the food crops and the effects of the green revolution seems to have reached a plateau. The following table³ gives out the yield per Hectare of Rice and Wheat of various countries in comparison to India. As it can be seen that India is having a yield, which is well below the global average. This effectively reduces India's competitiveness in exports and India is placed at a disadvantage in the global scenario.

What needs to be done is to improve the yield of the Indian farmers in a significant manner. This alone would improve the competitiveness of the Indian farmer and place him in a situation to meet the global challenge, both in India and abroad.

Area, Production and Yield of Rice & Wheat in Various Countries during 2000

³ Source: CSO

	Area - '000 Hectares		
	Production - '000 Tonnes		
	Yield - Kg./Hectare		
Country	Area	Production	Yield
1	2	3	4
1. Rice (Paddy)			
World	153766	598852	3895
Bangladesh	10700 *	35821	3348
Brazil	3672	11168	3041
China	30503	190168 *	6234
Egypt	660 F	5997 F	9086
India	44600 *	134150 *	3008
Indonesia	11523	51000	4426
Japan	1770	11863	6702
Myanmar	6000 F	20000 F	3333
Pakistan	2312	7000 F	3027
Philippines	4037	12415	3075
Russian Federation	176 *	440 *	2503
Thailand	10048 *	23403	2329
U.S.A.	1232	8669	7037
Vietnam	7655	32554	4253
2. Wheat			
World	213600	576317	2698
Argentina	6250 *	16500 *	2640
Bangladesh	850 *	1900 *	2235
Canada	10963	26804	2445
China	26648 *	99370 *	3729
Egypt	1050 F	6564 F	6251
France	5269	37559	7128
India	26742	74251	2777
Iran	5500 *	7000 *	1273
Italy	2318	7464	3220
Pakistan	8463	21079	2491
Romania	1910	4320	2262
Russian Federation	19952 *	36000	1804
Spain	2370	7333	3094
Syria	1700 *	3105	1826
Turkey	8650 F	16500 F	1908
U.K.	2086	16700	8006
U.S.A	21460	60512	2820
Ukraine	5152	10159	1972
Australia	12073	19550	1619

What should worry policy framers in India is that the potentiality of the Indian farms is far greater and remains untapped with a slew of economic reasons working against it – both at the micro as well as the macro level. This calls for an urgent identification of these issues and immediately we need to address these issues on a concerted basis so that all the bottlenecks for the farming community are resolved so that the yields from the Indian farms improve. This is a matter that calls for close coordination between the state governments and the central governments.

INDIA'S ENTRY INTO GLOBAL AGRI TRADE WOULD ADVERSELY IMPACT THE GLOBAL FOOD GRAIN PRICES WHICH IS ALREADY VOLATILE AND INSTABLE

Contrary to the popular belief that if the Agriculture trade is completely opened up it could reduce the food grain prices in India, the fact remains that it may not. To put the matter in proper perspective one has to analyse the global price movements in Agriculture trade and analyse the global instability prevailing in the global food grain prices.

To compare the price instability between domestic and world markets, we have used an index⁴ popularly called the Instability Index. Monthly data on the Indian and world prices are used in the computation of the coefficients of instability through this index. One has to understand that higher the coefficient, higher the volatility. And we give below the following results

PRODUCTS	INDIA	WORLD
Rice	1.13	6.44
Wheat	3.66	6.00

The above table shows that the world commodity markets for basic food grains is much more volatile in the world than it has been in India. This completely demolishes the myth that the Indian food grains prices are volatile and are subject to violent fluctuations. On the contrary it is the world food grains prices that are highly volatile. It is feared that this extreme volatility would be transmitted to the Indian markets if our agriculture trade is opened up and thereby increase our wheat and rice prices. It is to be noted that volatility of food grains prices changes the risk perception and introduces, encourages and sustains speculation in food trade.

The food grains market is also oligopolistic in nature. Entry of India can adversely affect international prices of food grains. The result of the study conducted by Parik under the Basic Linked system is given hereunder capturing the impact of the estimated changes in world trade prices in Rice and Wheat, on India's entry both as an exporter as well as an Importer:

Percentage changes in the world prices due to India entry in global trade

Quantity Traded	Imports - Rice	Exports -Rice	Imports-Wheat	Exports-Wheat
0.5	4.02	- 3.69	0.57	-0.57
1.0	8.18	- 7.11	1.56	-1.14
1.5	12.47	-10.26	2.27	-1.70

⁴ Developed by Joseph D. Coppock

2.0	18.31	-11.87	2.98	-2.27
2.5	24.01	-12.94	3.55	-2.70
3.0	32.46	-14.42	4.26	-3.27
3.5	40.24	-16.16	4.97	-3.84
4.0	51.84	-17.64	5.68	-4.40
4.5	59.96	-19.05	6.53	-4.83
5.0	72.10	-20.52	7.24	-5.40

The table shows that India's entry in the world markets of Rice even to the extent of 5 MT would increase the world prices of rice in case of imports to the extent of approximately 72% and simultaneously would depress prices by about 20% should India export. The impact on wheat prices is not significant in either way. The critical point that needs to be understood is that when we want the foodgrains, there would be an increase in the prices, and when we have a surplus there would be a dumping of foodgrains at lower prices so that our markets would collapse. It is in this context, it is worthwhile to examine the experience of wheat exports in these years and test these hypotheses. The following sections of this chapter continue to answer these questions.

Similarly, a study by the National center for agricultural economics and policy research (Policy paper 19) concluded that amongst the two options viz. domestic stabilisation through buffer stock and stabilisation through trade the latter is found to be costlier than domestic stabilisation in most of the years though it also depend upon fluctuation in international price. If the relationship between domestic and international price in future remains same, as observed during the last 26 years, than policy of price stabilization through buffer stock seems to be better option than trade.

THE LESSONS OF THE URUGUAY ROUND TILL DATE AND THE FAILURE OF THE REGIME TO BE EQUITABLE

According to the statistics⁵ of foreign trade of India, issued by the ministry of commerce every month, India exported 2.5 lakh tonnes of wheat during 1987-88, followed by an import of 18 lakh tonnes in 1988-89. Then, 6.6 lakh tonnes were exported during 1991-92, followed by 13.6 lakh tonnes in 1992-93, 10-lakh tonnes in 1995-96 and 18 lakh tonnes in 1996-97. Then it had to go in for an import of 15 lakh tonnes of wheat during 1997-98. Similarly the Economic Times dated the 16th of May, 2001 had the following comment to make on the issue of Wheat exports: **“The more recent experience of Wheat export 2000-02, resulting from the bid to dispose off excessive stock with the government is yet another evidence of India's failure to get international price for wheat. In contrast to international price of around**

⁵ **Source:** Bitter Experience of Wheat Exports K Varadha Rajan in the People's democracy in the Issue dated July 15, 2001

USD 130 / ton, India is finding it difficult to sell wheat abroad at prices of USD 103 per ton. As against the economic cost of Rs 8,300 per ton to FCI and the open market price of Rs 7000 / ton, wheat has been offered for export at Rs 4,300 per ton for May 2001. This amounts to implicit subsidy or loss of Rs 4000 per ton of Wheat export”.

One can of course say that there is nothing wrong in exporting the produce when there is surplus production and in going in for import when the production is below normal. But, then, one has also to see what the country had to pay for these exports and imports. According to the government’s own data, exporting wheat in one year and importing it in the following year cost the country Rs 1062 per tonne during 1988-89, Rs 3013 during 1992-93 and Rs 854 per tonne during 1996-97. The difference between exports and import prices worked out to be Rs 588 of 1997-98. In percentage terms, the price paid for wheat import following the export in the year 1987-88, 1991-92, 1995-96 and 1996-97 exceeded the international prices by about 80, 138, 15 and 10 per cent respectively. This in turn completely substantiates the above theory of huge price differentials in the export and import prices whenever India enters global markets.

Further it is a common practice to use prices prevailing representative world market to estimate gains from and prospects of trade. However, prices actually realised in trade can turn out to be very different from the world reference prices. This is particularly true in the case of wheat exported by India, and can be seen from the data furnished hereunder. The Table show that price received by India for wheat export was always lower than the price in international market whenever exports exceeded one lakh tonne. In 1987-88, India received 8.29 per cent lower price than the international price or price earned by the other exporter i.e. USA. During 1990-91 and 1991-92, when India exported 139 and 658 thousand tonne, exports fetched 23 and 29 per cent lower price than the international price. Similarly, wheat exports of large size during 1996-97 fetched about 18 per cent lower price than world price. Ratio of Fob price received to international price reveals that except during 1993-94 and 1994-95, when export was not significant, India received 3 to 34 per cent lower price than the international price.

Domestic prices in relation to international and trade prices

Year	Difference between price received in export and world price %	Price Ratios		
		Pd/P _w	Pd/FOB price	Pd/CIF PRICE
1987-88	-8.29	1.39	1.51	0.48
1988-89	-11.79	1.14	1.30	1.00

1889-90	-34.05	0.77	1.17	NA
1990-91	-22.96	1.20	1.55	0.80
1991-92	-29.03	1.10	1.55	NA
1992-93	-37.49	0.75	1.20	0.64
1993-94	20.38	0.85	0.71	0.72
1994-95	3.98	0.86	0.83	0.57
1995-96	-3.11	0.69	0.71	0.32
1996-97	-17.66	0.79	0.96	0.89
1997-98	N.A	0.88	N.A	0.7
1998-99	N.A	1.12	N.A	0.89

NA Prices for selected grade not available

The results of this study are compelling. If India begins to import food then it has to do so at exorbitant prices and if it begins to export it would significantly depress the global prices. This disproportionate increase in the food prices should India import food grains and depression of International prices should India export food grains proves that we can neither benefit from world trade in agriculture as an importer or as an exporter. Either way we stand to lose significantly. Further, if we integrate our domestic agriculture with the global agriculture we run the risk of allowing our domestic agriculture to contact the volatility of the global market, which as demonstrated above is quite significant.

THE FAILURE OF THE AoA NOT ADEQUATELY DISCUSSED IN THE MEDIA RESULTING IN THE IMPLICIT APPROVAL OF THE AoA

Let us also draw a brief reference to the experiences of India on the implementation of the three pillar disciplines of AoA, both locally and in other member countries, which remain outside the radar of the Indian media in reporting and subject it to the national debate. This failure of the media to highlight the deficiencies of the AoA has implicitly sanctified the AoA. Consequently the pitfalls of the AoA have never been discussed and the debilitating impact of the AoA never analysed by the Indian Media. In fact thanks to this attitude of the media the common man even today is oblivious to the debilitating impact on the Indian Agriculture caused by the AoA.

Market access

A recent study by the Food and Agricultural Organisation of the United Nations (FAO) concludes that there has been hardly any change in the volume of exports of foodgrains especially from the developing countries. Very high tariffs continue to block exports from the developing countries. Developed countries have often resorted to the Sanitary and phytosanitary measures to ensure quality of the imported products, which are often not practical. The continued usage of such non-tariff barriers, despite the avowed objectives of the AoA and the WTO regime, actually continue to be a major barrier in exports from developing countries. Further as already explained in previous chapters, only 36 countries, most of them developed countries, have the right under the AoA to impose special safeguard provisions if agriculture imports distort their domestic market.

Domestic support

As already discussed in earlier chapters the subsidy regime in the developed countries continues without any respect to the commitments made under the AoA to the WTO. It has been seen that these countries have consistently resorted to manipulation of subsidy reduction commitments and this has actually increased the subsidy to their farmers. In contrast we are consistently comforted by the Media that India could raise her Aggregate Measure of Support (AMS), which being currently in the negative and consequently affords us the leeway to raise our subsidies to farmers to a much higher level of a positive 10%. In reality, India is committed to do away with agricultural subsidies under the Structural Adjustment Programme of the World Bank and the IMF. This duplicity practiced by two different multinational agencies has never been the subject matter of any significant discussion by the Indian Media.

Export subsidies

The Agriculture Ministry acknowledges that despite the rules being defined, the expected gains have eluded the developing countries. It was expected that with the removal of trade distorting measures, agricultural exports from the developing countries would increase. This did not happen. In fact, India has on the other hand seen a massive increase in the imports of agricultural commodities and products – from about Rs 50 billion in 1995 to over Rs 150 billion in 1999-2000 – a three-fold increase. In edible oils alone, the import bill has soared to Rs 90 billion. The so-called fair trading system has also not helped efficient producers in realising a higher price for their products. On the contrary, prices of most agricultural commodities are declining in the world markets.

THE MYTH OF FREE TRADE IN AGRICULTURE AND UNHINDERED MARKET ACCESS FOR THE INDIAN AGRICULTURE IN THE DEVELOPED COUNTRIES

The WTO regime and more particularly the UR commitments have great implications on the national development, more particularly on the issue of gaining market access on agricultural products. The developed countries while preaching the virtues of free trade have been resistant to bringing down peak tariffs, high specific duties and tariff escalation that affect the imports of agriculture products from the developing countries. While the developing countries are encouraged to allow market access to the goods from the developed nations, developed nations are finding new ways to protect their agriculture. In this connection Mr Kofi A Annan, Secretary General of the UN has this to comment on the attitude of the developed countries on the issues of market access on agriculture **“industrialised countries while preaching the virtues of free trade are practicing protectionist policies which actively discourage poor countries from developing their own industriesif barriers were lifted.... The minimum net gain would be USD 100 billions - more than twice the amount of annual aid flows”**.

The protectionist rates adopted by the developed countries are more pronounced for the agriculture products when compared to industrial products. It may be of great interest to note that the simple average applied tariff rates on agricultural products compared to those on industrial products have been higher by 641 per cent in Japan by 353 per cent in the European Union and by 100 per cent in the case of US. The following table gives out the post UR tariffs in quad countries on select items of exports from the developing countries.

Post UR Tariffs of certain select products from developing countries⁶

COMMODITY	EU	JAPAN	USA	CANADA
MILK(> 3%FAT)	113	220	66	241
BUTTER	69	300	63	238
CEREALS	32	70	0	1
GROUNDNETS	0	470	132	0
CANE SUGAR	71	85	77	7
GRAPE JUICE	215	30	14	10
COFFEE	8	130	27	0
TEA	0	100	91	0
TOBACCO	52	30	310	5

All these effectively put in proper perspective the possibility of the Indian Agriculture exports to the developed world. First the enormous subsidy that is given to the domestic producers effectively has brought the food grain prices to such ridiculous low levels that would render the Indian exports of food grains to such countries highly uncompetitive. Secondly by having such high rates of tariffs specifically for select

⁶ Source: World Trade and Development Report 2003-Cancun and beyond-Research and Information system for the non-aligned and other developing countries

agriculture products from these developing countries are effectively kept out from the markets of such countries. Let us now compare the bound tariffs of agricultural products with that of the imported products for certain select countries.

Attention of the reader is drawn towards the table⁷ provided hereunder relating to the USA and the EU. The standard deviation of the tariff lines relating to agriculture was 5.5 for the agriculture products as compared to 4.2 for non- agriculture products. Similarly the share of tariff lines with duties above 15% is 2.6% for agriculture as against 2% for the non-agricultural sectors. The corresponding figures for the EU are 22.1 % (Standard deviation) and 3.6% for non-agriculture products. Similarly the share of tariff lines with duties above 15% is 33.9 % for agriculture as against 0.6 % for the non-agricultural sectors. This huge difference between the tariff rates of agriculture products on one hand and the non-agricultural products on the other, the standard deviation of the tariffs for the agricultural sector as well as the non-agricultural sector, and the share of tariff lines of products above the 15% rate for both the agriculture sector and non-agriculture sector is a pointer to the extent the agriculture sector is “protected” by countries across the globe as well as the tariff peaks maintained by them.

Table III.3. Bound tariffs on imports of agricultural and industrial products. Scope of bindings, simple averages, standard deviation, and tariff peaks

	Agriculture						Industry						
	Share of bound tariff lines ^a	Share of duty free tariff lines ^a	Simple average post-UR bound rate OECD estimate	Simple average World Bank estimate	Standard deviation	Share of tariff lines with duties above 15% ^a	Share of bound tariff lines ^a	Share of duty free tariff lines ^a	Simple average post-UR bound rate OECD estimate	Simple average World Bank estimate	Standard deviation	Share of tariff lines with duties above 15% ^a	
North America													
Caraca	100	42.1	4.6	8.8	4.7	1.2	0	99.5	28.6	5.3	6.4	5.2	7.2
United States	100	27.9	5.5	9	5.5	2.6	0	99.9	37.2	3.8	4.6	4.2	2
Latin America													
Argentina	100	0.1	22.8	32.5	5.9	57.3	0	100	0	30.6	30.9	6.3	98.5
Brazil	100	2	35.3	35.2	10.1	96.4	0	100	0.3	29.7	29.5	6.9	97.3
Colombia	99.7	0	38.3	105.6	32.3	100	22.9	99.7	0	36.1	35.5	9.8	100
Mexico	100	0.1	42.9	25.1	35.2	96.2	4.9	100	0.2	34.8	34.7	3.1	99.6
Venezuela	100	0	55.4	67.7	33.3	99.4	14.5	100	0	33.8	31.3	4.2	99.4
Western Europe													
EU-15	100	26.5	19.5	20	22.1	33.9	0.9	100	22.2	4.1	4.1	3.6	0.6
Canada	99.6	21.1	48.4	72.1	35.7	88.9	8.1	93.7	42.7	10	14.4	12.1	30
Norway	100	23.4	133.7	50.4	117.6	61.1	44.2	100	44.1	3.4	4.1	5.5	0.2
Switzerland	99.1	28.2	51.1	46.9	56.1	16.5	6.9	98.7	17.3	1.9	1.2	3.4	0.3
Turkey	100	0	63.9	74.3	55.4	86.7	16.8	35	1.2	40.7	16.6	34.2	77.3
Eastern Europe													
Czech Republic	100	30.5	13.3	18.9	19.2	23.4	0.9	100	13.4	4.5	4.8	3.3	1
Hungary	91	8.4	22.2	6.7	19.1	47.5	0.6	96.7	13.4	6.8	7.4	4	1.4
Poland	97.4	2.9	52.8	38.3	44.6	74.7	8.1	96.1	2.2	10.6	5.8	5.2	12.9
Romania	100	0	58.6	130.2	34	57.5	39.6	100	0	34.4	32.7	7.1	98.9
Asia/Pacific													
Australia	99.9	32.6	3.3	2.5	4.6	3	0	95.8	18.7	10.6	13	10.8	15.9
Bangladesh	100	0	33.8		25.9	NA	6.9	100	0	33.5		23	

In effect India's with food grains trade shows that export of common wheat has not been beneficial to the country. Exports in most of the cases led to high prices in domestic market, which necessitated subsequent imports at heavy cost. Thus our

⁷ Source: Market Access- unfinished business; post UR inventory and issues – issued by the WTO

experience is that the gain from trade has turned out to be much lower. Compared to the economic cost to the FCI the recent exports have invariably ended at very high losses.

IMPACT OF THE WTO REGIME ON GLOBAL AGRICULTURE TILL DATE - SUMMARISING THE BITTER EXPERIENCES AND HIGHLIGHTING THE CONCERNS OF FOOD SECURITY AMONGST NATIONS

Several analysts had predicted that implementation of AoA would lead to increase in international prices and would improve export prospects for Indian agriculture. However, such predictions have failed to materialize and international agricultural prices witnessed a steep fall after 1997. Again a feeling emerged that decline in agricultural prices in post WTO period, which is posing threat to domestic production, is the result of implementation of WTO agreement. There is also a lot of anxiety about the future behaviour of international prices. Would they remain around the recent level or move up or move further down? Answer to this question is critical in estimating resource use efficiency, optimising resource allocation, and identifying the commodities where India is export competitive and has advantage in promoting exports.

International prices of agricultural commodities are characterised by high volatility, which is a crucial factor for the trade policy and strategy. If the shocks due to high volatility in international prices are transmitted to domestic market, they would destabilise crop pattern and supply. Such volatility would cause uncertainty in crop incomes. The vast majority of Indian farmers are either small or marginal and they do not have resources and capability to move from one kind of crop pattern to another kind year after year. The cost of such shifts in terms of crop specific farm investments, arranging seeds and other inputs, and acquiring new production and marketing skills would be prohibitive for such farmers.

Government intervention has been quite effective in insulating domestic producers from the effect of instability in international prices. There is also a clear indication that domestic prices are less volatile than international prices. This implies that unregulated and free trade would impart instability to domestic prices and there is a strong case to regulate trade to maintain domestic price stability. High volatility in international prices also underscores the need to maintain high bound tariff.

Contrary to expectations, the price situation changed dramatically after 1996, which was the first year after implementation of Uruguay Round Agreement (URA) and formation of WTO. International prices of agricultural commodities since then have plummeted, because of which domestic prices have turned higher than the international prices, and India has become an attractive market for import of most of agricultural commodities. Cheap imports are frequently hitting India's markets, causing shock waves among the producers, as has been seen in the case of wheat,

broken rice, chicken and some other commodities. Even with moderate to high tariffs, imports are giving tough time to domestic produce. After reaching a peak during 1996-97, India's exports of agricultural and allied products have experienced a decline of 3.41⁸ percent in 1997-98 and around 9 percent each in 1998-99 and 1999-2000. The momentum gained in agricultural exports, with the start of process of economic reforms, got reversed in the post WTO period, whereas imports have been rising steadily.

In some commodities the country faces a paradoxical situation. For instance, while wheat procured by government was not finding market, wheat imports flowed heavily into the domestic market in 1999 due to removal of QRs. This further depressed domestic prices creating conditions for higher loss to government from sale of wheat in the open market. Such developments are threatening agricultural production in the country causing lot of apprehensions about the implications of trade liberalisation and WTO commitments. A sense of despondency and uncertainty has started dawning among the farming community relating to future of their profession. The desperation has sometimes led to protest against WTO and even to raising question about India's membership of it.

Further, India's experience till date under the UR regime with wheat trade shows that export of common wheat has not been beneficial to the country. Exports in most of the cases led to high prices in domestic market. This necessitated subsequent imports at a heavy cost to the state exchequer. Trade has thus turned out to be a very costly proposition to maintain stability and what is inferred from international prices because wheat exports invariably fetched lower price than prevalent international prices. Compared to the domestic prices and economic cost of wheat to Food Corporation of India, recent exports are incurring a very heavy loss to the country. Such exports are avoided either through adjustments in crop pattern or by removing policy distortions in domestic prices.

The implementation of new multilateral trade agreement started in 1995 and WTO started functioning from 1st January 1995. World merchandise exports before and after the start of implementation of new international agreement, for agricultural and manufactured products are presented in Table hereunder. In order to accomplish proper comparison, all quantities are presented in terms of index, with year 1990 as the base. **Export data of agricultural products shows that their volume increased at the rate of 5.20 percent per annum between 1990 and 1995 i.e. in the pre WTO period. In the subsequent four years, volume of agriculture export increased at the rate of 3.37 per cent annually. This shows that in terms of physical quantity, agriculture export kept growing but in contrast to the export volume, value of export witnessed an annual decline of 1.44 percent after 1995 after experiencing growth of 7.80 percent in pre WTO period during the early 1990's. This data**

⁸ Source: Trade Liberalisation, WTO and Indian Agriculture- Ramesh Chand

amply demonstrates the efficacy of the WTO regime, more specifically the AoA that has not increased global agricultural trade.

Index of export quantity, value and prices for world merchandise export of agriculture and manufacture sector before and after WTO, with base 1990=100⁹

Year	Agriculture export			Manufacture export		
	Value	Price	Quantity	Value	Price	Quantity
1990	100	100	100	100	100	100
1991	101	98	103	103	100	104
1992	108	99	109	112	103	109
1993	104	94	111	111	99	112
1994	119	99	120	128	102	126
1995	139	111	126	152	111	137
1996	143	109	131	159	109	146
1997	142	103	139	167	102	163
1998	135	97	139	169	99	172
1999	131	92	143	175	96	182
Annual growth						
Before WTO 1990 to 1995	7.08	2.20	5.20	10.40	2.20	7.40
After WTO 1995 to 1999	-1.44	-4.28	3.37	3.78	-3.38	8.21

This resulted in steep decline in export prices of agriculture products, which dropped by 17 per cent between 1995-99. This shows that fall in agriculture prices in post WTO period did not seriously affect supply or availability of agricultural exports in physical terms but it led to sharp erosion in export earnings for the world as a whole.

It also important to note that during the four decades encompassing period 1960-61 to 1998-99, output of wheat as well as rice has increased about two and a half times. Global rice output during the recent triennium was 384 million tonne, and wheat production has reached around 594 million tonne. Out of this, about 24 million tonne rice and 102 million tonne wheat is traded internationally. While both output as well

⁹ Source: Trade Liberalisation, WTO and Indian Agriculture- Ramesh Chand

as trade have grown over time it would be interesting to see in which direction the proportion of trade in output has moved. Since there are large year-to-year fluctuations in percent of output traded, the trend has been examined by looking at the decadal movement, presented hereunder. The Table shows that proportion of wheat sold in the international market moved in a narrow range of 17.3 to 19.5 per cent and did not show any trend over time. Rice trade accounted for 4 to 4.3 percent of total output during the three decades following 1960-61. However, during the recent decade proportion of global rice output traded in international markets increased to 5.3 per cent. Recent data shows that since 1991-92, share of trade in rice output has been moving upward whereas that of wheat has been moving downward.

Instability in global output, trade volume and prices, and share of trade in output of rice and wheat, 1960/61 to 1999/2000

Particulars	1961 to 1970	1971 to 1980	1981 to 1990	1991 to 2000
Instability in rice:				
Global output	4.0	4.3	2.4	2.0
Trade volume	10.5	13.8	12.1	14.4
International Prices	13.6	39.6	19.4	13.0
Instability in wheat				
Global output	7.9	8.6	3.7	5.0
Trade volume	13.7	10.7	10.1	10.3
International price	6.5	28.7	13.5	16.1
Percent output traded:				
Rice	4.3	4.1	4.0	5.3
Wheat	18.3	17.3	19.5	18.7
Total rice and wheat	12.9	12.2	13.6	13.4

During 1960s about 13¹⁰ per cent of global output of rice and wheat was traded globally. This percentage has increased only marginally to reach 13.4 percent during 1990s. This has happened despite the decline in real prices of grains. One reason for no increase in share of trade in output seems to be that different countries do not want to increase their dependence for food security on trade. The attention of the reader is once again drawn towards the Saudi example discussed in the earlier chapters. Another

¹⁰ Source: Trade Liberalisation, WTO and Indian Agriculture- Ramesh Chand

reason seems to be the volatility in international grain prices. It would be seen from the above Table that except a few cases instability in output and instability in prices is higher than the instability in volume of trade.

Inter Year instability in global output of rice ranged between 2 to 4.3 per cent during last four decades whereas instability in trade volume showed 10 to 14 per cent deviation from the trend. Similarly, in the case of wheat, output instability ranged between 3.7 to 8.6 per cent but globally traded quantity varied between 10.3 to 13.7 per cent. Such difference in instability of output and trade indicates that international grain trade has been treated as a residual by most of the countries particularly to meet deficit or as an avenue for disposing surplus output. This again, stemmed from concern for food security.

Attention of the reader is also drawn to the following table¹¹, which clearly lays out the fall in the relative share of agriculture products in the global trade. What is also interesting to note is that the fall in Agriculture trade is across North America, Latin America, Western Europe including EU, Transition economies, Asia and most significantly China. The only place in the entire world that has shown improvement in the relative share of agricultural trade has been Africa and Middle East.

Also, most significantly the fall in the agricultural share in the global trade of China is most pronounced during the decade, (though it was not a member of the WTO and hence not subjected to the disciplines of the WTO-AoA regime). The share of China has dropped from 16.2% to 7.8% during the 90's. This study of the Chinese in the manner they have tried to become self-dependent and self sufficient for their domestic food requirement is compelling. The Chinese have sought to decrease their dependency on imports of foodgrains by significantly increasing their food grains production. This, while simultaneously increasing the income of their rural poor has increased their food security manifold.

¹¹ Source: Market Access- unfinished business; post UR inventory and issues – issued by the WTO

Appendix Table III.15: Share of agricultural products^a in total merchandise exports of selected regions and countries, 1990-98

(Shares)

	1990	1991	1992	1993	1994	1995	1996	1997	1998
North America	15.7	14.6	14.9	14.1	14.0	14.5	13.7	12.2	11.1
Latin America	27.2	26.6	26.0	24.8	26.2	25.9	24.4	24.4	23.8
Western Europe	8.6	9.0	9.0	8.9	8.8	8.4	8.1	8.1	7.9
European Union 15	8.6	8.8	9.1	8.8	8.7	8.3	7.9	7.9	7.6
Transition Economies ^b	12.0	13.0	13.9	13.1	14.3	13.4	13.8	12.5	11.7
Africa	15.9	16.2	16.1	16.2	18.8	19.8	17.8	17.1	19.5
Middle East	3.4	3.3	3.7	3.9	4.4	4.2	3.8	3.6	4.3
Asia	9.7	9.3	9.0	8.5	8.7	8.3	8.5	7.9	7.7
Japan	1.1	1.1	1.1	1.0	1.0	1.1	1.1	1.1	1.1
Australia/NZ	35.6	34.4	34.3	35.0	36.4	34.6	35.1	35.1	35.1
Developing Asia	12.7	12.1	11.7	10.9	10.8	10.2	9.8	8.8	8.5
NICS 4	5.4	5.4	5.1	4.8	4.7	4.4	4.1	3.5	3.2
China	16.2	15.0	13.4	12.7	12.2	10.0	9.9	8.6	7.8
Other Asia	23.3	22.0	21.0	19.2	19.1	19.1	18.0	16.5	16.2
World	11.8	11.5	11.5	11.0	11.3	11.2	10.9	10.4	10.1
Memorandum items:									
Developed countries	10.5	10.2	10.3	9.9	9.9	9.9	9.7	9.3	8.8
Developing countries	14.2	13.9	13.5	12.9	13.5	13.1	12.5	11.9	12.1
Developing countries excl. China	14.1	13.8	13.5	12.9	13.6	13.5	12.8	12.4	12.7

To summarise, contrary to the expectations and anticipations, the price situation changed dramatically after implementation of Uruguay Round Agreement. International prices of agricultural commodities have dropped to a very low level, even in Rupee terms, and domestic prices have turned higher than the international prices. This has rendered Indian market attractive for import of several agricultural commodities. Even with moderate to high tariffs, imports are giving tough time to domestic produce. On the other hand, exports have witnessed sharp decline after 1996. Such adverse developments have renewed fear and apprehensions about the implications of trade liberalisation in agriculture.

It has been more than six years for the implementation of the agreement and negotiations for review of the agreement are going on. India has been insisting that WTO should first ensure implementation of Uruguay Round agreement before taking up fresh negotiations. There is a strong feeling that developed countries like USA, Canada, members of EU and Japan, who are important players in agriculture trade, did not implement various provisions of Uruguay Round in true sense. Due to this, it is felt that anticipated benefits have not accrued to developing countries. In fact it was anticipated that due to reduction in domestic support in developed countries, cereal production would shift from developed countries to developing countries. Empirical evidence, however, shows that such a trend is not at all visible. Moreover, with such massive subsidies intact, and with the QRs being lifted, India faces the threat of subsidised food imports. This has caused lot of disillusionment to developing countries

regarding WTO, globalisation and the new multilateral trade agreement. Strong concerns have been expressed about improving market access to developed countries market, subsidies and support to agriculture in developed countries leading to uneven playing field, and food security. In the coming years it is feared that this situation would only worsen as the WTO regime does not have any solution to this.

The base level for the AMS was taken as the average annual rate during 1986-88. Reduction (24 per cent) of the AMS was to be effected on this base during 1995-2000 by the developed countries. The major developed countries have reduced the AMS and increased the level of exempted subsidy by huge amounts, resulting in very high rise in the total domestic support, i.e., including both the AMS and the exempted subsidy. In the EC, the base level of the total subsidy was nearly USD 83 billion and it increased to USD 95 billion in 1996. In the US, the corresponding level went up from USD 50 billion to USD 58 billion. There is another measure of total domestic support, which is called Producer Subsidy Equivalent (PSE). In the EC, it increased from USD 100 billion in the base period to USD 130 billion in 1998. In the US, the corresponding increase has been from USD 41 billion to USD 47 billion. For the developed countries as a whole, the corresponding increase has been from USD 247 billion to USD 274 billion. Thus very huge domestic subsidy has continued in the developed countries and it has been increasing over the years. It is in this connection we quote from the Annual Report of the WTO for the year 2003 which virtually concedes the quantum of subsidy prevalent impacting the global trade in agriculture, the size of the agricultural subsidies in proportion to the size of the Agricultural sector in their respective countries and the manner in which these subsidies continue to proliferate in these countries had the following observations to make:

Subsidization still an important trade distortion, especially in agriculture

Although there is no global accounting available on the use of subsidies (including tax relief), a number of factors, ranging from fiscal consolidation in major economies to private-sector-oriented structural reforms in developing countries, have contributed to restraining the use of subsidies in the manufacturing and services sectors.³⁸ The disciplines on trade-distorting subsidies contained in the WTO Agreement on Agriculture (AA) have also capped support to this sector; nonetheless, support for agriculture remains high, particularly in many of the major industrialized countries, and continues to have a considerable impact on agricultural markets.³⁹

Total support to agriculture by OECD countries is estimated to have decreased slightly in 2001 to US\$311 billion from US\$321 billion in the previous year.⁴⁰ Such support was the equivalent of 1.3% of GDP in the OECD area, compared with an annual average of 2.3% in the peak 1986-88 period, when the Uruguay Round negotiations were under way (Table II.4). In the Republic of Korea, Norway, and Switzerland, total support to agriculture is close to, or exceeds, the sector's contribution to GDP.

Support, as measured by the producer support estimate (PSE), granted to agricultural producers in the OECD area declined from US\$242 billion in 2000 to US\$231 billion in 2001; that is, from 32% to 31% of total farm receipts, compared with 38% in 1986-88. The largest share in the OECD area is accounted for by the European Union (40%), followed by the United States (21%), Japan (20%), the Republic of Korea (7%), and Mexico (3%). An exception to the overall drop in support in the Quad between 2000 and 2001 was the EU, whose PSE seemingly rose slightly from 34% to 35% (Chart II.3); i.e. for every euro an EU farmer earned in 2001, 35 cents came from support measures. The corresponding PSEs for Japan, the United States, and Canada were 59%, 21% and 17%. For all four Quad Members, support in 2001 was considerably higher than in 1997. Support levels in 2001 were the lowest in New Zealand (1%) and Australia (4%) and highest, along with Japan, in Iceland, Norway, and Switzerland (around or over 60%). As in 2000, the slight decrease in such support mainly reflects an increase in world prices (and hence a reduction in the gap between domestic and world prices), causing a fall in price support.⁴¹

Despite some shift away from market price support (MPS) and output payments (OP), these remain the dominant forms of support in most OECD countries, together accounting for 69% of support to producers.⁴² Although down from 82% in 1986-88, the proportion of such support remains high; it distorts production and trade, thereby contributing to over-production in the OECD area to the detriment of both those OECD Members where support is relatively low and of non-OECD countries.

It is in this connection we are quoting from the report¹² "Farmgate: The developmental impact of agricultural subsidies"

¹² ActionAid report: Agricultural subsidies lead to dumping and over-production JOHN MADELY / Financial Times (UK) 24sep02

"Rich countries are paying more than USD 300 Bn a year in subsidies to their agricultural sectors, six times more than the total amount of aid to developing countries." Government subsidies to farmers in Western countries are damaging the livelihoods of farmers in developing countries. It states that the subsidies have led to overproduction and dumping -- exporting at prices below the cost of production -- which is throwing small farmers in developing countries out of business.

"In a massive breach of faith, rather than complying with the spirit of [World Trade Organisation] agreements, and reducing levels of agricultural subsidies, rich countries have actually increased them," says the report.

At the same time, rich countries have put pressure on developing countries to reduce or eliminate subsidies. Rich countries are practising double standards, says the report - "protection for the rich and the free play of market forces for the poor". The farm subsidies of the EU and the US have encouraged overproduction, distorted trade and depressed prices; and made EU and US farm goods artificially cheap on world markets, resulting in the dumping of cheap, subsidised produce in poor countries.

But the subsidies have failed to prevent small UK farmers going out of business. The richest 20 per cent of UK farm holdings receive 80 per cent of the subsidies. Each tonne of UK [and EU] wheat sold on international markets is sold at 41 per cent below the cost of production, against 33 per cent in 1997. The EU has historically ensured that returns to its wheat farmers are artificially high by using a combination of market price support - including through intervention buying and export subsidies - and direct payments. The report includes studies from Bangladesh, Indonesia, Kenya, Nigeria, Pakistan and Swaziland to show the effect of subsidies.

Action Aid is calling for the level of agricultural support in the developed world to be reduced substantially and for a phasing out of subsidies that distort production and trade, and which lead to dumping.

It is now official. Nearly a decade after the World Trade Organisation (WTO) came into existence our experience is that the gains for India from the trade liberalisation process in agriculture is practically nil. The Ministry of Agriculture as well as the Ministry of Commerce have admitted that the gains from an international regime as defined by the AoA including that of establishing a fair and market oriented agricultural trading system have been belied.

A decadal experience is sufficient to draw a balance sheet of the gains and losses that accrued in the interregnum from the implementation of the WTO's Agreement on Agriculture. As already explained the AoA had incorporated three broad areas of commitments from member, namely market access, domestic support and export subsidies. The objective of the AoA is to correct and prevent restrictions and

distortions in world agricultural markets. A decade of experience has been established that the disciplines contained in the AoA have protected the farmers and the farming systems of the developed countries. On the other hand, the AoA has failed to benefit proportionately the farmers of the developing countries and exposing them to huge subsidized imports of agricultural commodities.