A Comparative Study of Agricultural Exports Pre and Post WTO Regime

Dr Veer Virendra Singh¹, Ajit Singh²
¹Assistant Professor, Department of Economics, J S Hindu PG College, Amroha, UP, INDIA
²Assistant Professor, Department of Economics, K.P G College Mawana, Meerut, UP, INDIA

ABSTRACT

Export plays a significant role in the economic development of a country. It is even more important for developing country like India which needs foreign exchange for financing its ongoing as well as new projects to generate employment, achieve higher rate of growth. Implementation of poverty elevation programs, improve the standard of living of its people and stabilize the price level. Role of WTO is very important in export. The WTO was established in 1995 and when compared with the GATT, was much wider in scope, with a stronger institutional basis and with treaty status. The main aim of this paper is to analyze the agriculture export performance, pre and post implementation of WTO policies. It is clear that the implementation of WTO policies, compound annual growth rate (CAGR) of India’s agriculture export have both positive and negative growth rates.

Keywords---- WTO, Agreement on Agriculture (AOA), Agricultural Export

I. INTRODUCTION

Export plays a significant role in the economic development of a country. It is even more important for developing country like India which needs foreign exchange for financing its ongoing as well as new projects to generate employment, achieve higher rate of growth. Implementation of poverty elevation programs, improve the standard of living of its people and stabilize the price level.

The WTO was established in 1995 and when compared with the GATT, was much wider in scope, with a stronger institutional basis and with treaty status. The Final outcome substantially changes the multilateral trading environment. The Achievement of earlier round were codified, new areas of trade were brought within the rules, a new system for settling disputes was established and separate agreements on agricultural was concluded. WTO Agreements on Agricultural (AOA)

A. Market Access

Under market access commitment, all WTO member countries are required to replace all types of non-tariff barriers, a process called “tarification” to cease the introduction of any new non-tariff barriers, and to reduce the levels of tariffs within a time-bound programmed. Tariffs should be reduced by a single average of 36 percent over six years up to 2001 for developed countries and 24 percent for the developing countries over 10 years (2005) taking 1995 as a base year for the reduction.

B. Domestic Support Reduction

Besides the reduction of tariffs, the agreement also provides for a significant reduction of domestic support commitments in each member country. The member countries are committed to reduce what is described as Aggregate Measurement of Support (AMS) by 20 percent for developed countries, the base period being 1985-1988. The Aggregate Measurement of Support is the annual value of market price support plus non-exempted direct payments and other non-exempted subsidy. It was agreed that if AMS does not exceed 10 percent of the total value of agricultural commodities in case of developing countries and 5 percent in case of developed countries, the country is not required to reduce AMS. But in case, AMS exceed 10 percent and 5 percent limits, it should be reduced by 13.3 percent and 20 percent for developing and developed countries respectively of that value that does not qualify the exemption during the implementation period. The period of reduction given is 6 years for developed countries and 10 years for developing countries. The Least Developed Countries are exempted from these reductions.
C. Export Subsidies

Export subsidies have traditionally been one of the greatest impediments to the development of agriculture for Less Developed Countries. Commitments of member countries in this respect, are to be reduce direct export subsidies by 36 percent from their level in 1986-88 in case of developed countries over a period of six years and quantity of subsidized exports is to be reduced by 21 percent. On the other hand, direct export subsidies of developing countries are to be reduced by 14 percent. The reductions in case of developing countries are to be carried out over a period of 10 years as against six years for developed countries. The Least Developed Countries are exempted from those reductions. Exports subsidies subject to reductions are the direct subsidies paid which include payments in kind; subsidies given to reduce the costs marketing including internal handling, processing, international transport and freight subsidy on export shipments.

Due to the importance of subsidies in international trade, subsidies in general are identified in WTO terminology by ‘boxes’ given colors of traffic lights: green box, amber box and Blue box which donate for permitted, reduced and forbidden subsidies, respectively. Those boxes can be referred in the following:

1. The Amber Box

For agriculture, all domestic support measures considered to distort production and trade (with some exceptions) fall under amber box. The total value of these measures must be reduced. There are proposals regarding by how much further, these subsidies to be reduced and whether limits should be set for specific products than having overall aggregate limits. Around 30 WTO members, mostly developed countries, have commitments to reduce their trade-distorting domestic supports in amber box that is the total aggregate measurements of support – members without these commitments have to keep within 5 percent of the value of production for developed countries and 10 percent in case of developing countries.

2. The Green box

Qualification for the green box implies that a subsidy must not distort trade, or at most cause minimal distortion. These subsidies have to be government funded (not by charging consumers high price) and must not involve price support. Green box subsidies are allowed without limits and include research, extension, disease control, environmental protection and regional development programmers (infrastructures such as irrigation, feeder roads programmers).

3. The Blue box

The blue box is the exemption from the general rule that all subsidies linked to production must be reduced or kept within defined minimal (de minimis) levels. The blue box covers payments directly linked to acreage or animal numbers, under schemes which limit production as a result of imposing quota systems, or farmers are required to set aside part of their land. The blue box is considered important by some countries as an important tool for supporting and reforming agriculture, and for achieving certain non-trade objectives.

D. Sanitary and Phytosanitary Agreements (SPS)

The Agreement on Sanitary and Phytosanitary Agreement (SPS) prevails over the GATT Agreement 1994 and came into force with the establishment of WTO in 1995. The aim of the Agreement is to protect and improve the current humans, animal and plant health and Phytosanitary situation of all member countries and protect the members from arbitrary or unjustifiable discrimination due to different Sanitary and Phytosanitary standards.

The SPS standards commonly applied by Governments as they affect imports are: i) import ban; ii) technical specifications (process standards, product standards, technical standards); iii) information requirements (labeling requirements).

Import bans are generally applied when there is a significant and acute risk about a hazard. Technical specifications are most widely applied to ensure the compliance with pre-determined specifications, whereas information requirements are concerned with appropriately labeled imports.

Sanitary standards are particularly important for fresh food items, such as meat products, seafood, fruits, and vegetables. Such products are subjected to strict sanitary measures and consequently the SPS poses a potential constraint to expanded trade.

E. Trade Related Intellectual Property Rights (TRIPs)

The agreement establish minimum standards on almost all areas of TRIPs in terms of both the availability of rights and their experiment. Whenever the agreement comes into force, the member countries must have in place the legal procedures and the administrative and legal infrastructure necessary to actually enforce the conferred rights. Any deviation from the standards set forth by the agreement may lead to a dispute settlement procedure within the WTO. In case of violation, the affected country can apply trade retaliation against the non-complying country in any are covered by the WTO agreement.

Developing countries would like to ensure that naturally occurring materials including gene are not patentable, and to recognize some form of protection for the traditional knowledge of local and indigenous communities.

Since agriculture is the oldest occupation in history after hunting and tree fruit gathering, a substantial accumulation of traditions, innovations of knowledge, and practices has been acknowledged which assisted in crops and trees evolution over time. As a result, the possible development of some form of protection for traditional knowledge is thought through. The adoption of the Convention on Biological Diversity by WTO has given impetus to this issue by establishing the obligation to respect reserve and maintain knowledge, innovations and
practices of indigenous and local communities embodying lifestyles relevant for the conservation and sustainable use of biological diversity.

II. NEED OF STUDY

India is characterized by agrarian economies in which agriculture contributed and it’s allied, on an average by about 20 percent or more of their GDP, beside the fact that most countries are exporters of agricultural commodity as major source of foreign currency. Moreover, more than 60 percent of population in third world countries reside in rural areas and depend upon agriculture and related activities for their livelihood. Agricultural production therefore is directly linked with the economic and social development in rural areas. For the foregoing cited facts agriculture being in WTO is of much concern to most of the developing countries become of its impact in most aspects such as food security, poverty alleviation, and employment, besides economic and social development in general. Agriculture has long being regarded a one of the most important areas blocking the many to the strengthening of a liberal trade system. It is argued that agricultural production and trade are highly distorted by large scale subsidies. Direct and included agricultural related subsidies manifest themselves in distorted world prices of agricultural commodities.

In above discussion we say that WTO and agriculture is current issues of economy. There is insufficient study on WTO with reference to agriculture. So; there is a lot of improvement and development in exports of agricultural commodities.

III. REVIEW OF LITERATURE

A study done by Dholakia (1997) showed that, however, agricultural sector is said to have benefited indirectly from reforms. The most crucial impact of new economic policy reforms on agriculture is reported to be the significant reduction in the anti-agriculture bias through more degree of relative sector protection.

According to a study of Ashok Gulati (2000), the board results are in line those of Parikh et al. (1996) that agriculture liberalization per se has little impact on growth of agriculture, and there by on the overall growth of the economy, but when this liberalization is combined with liberalization of the manufacturing sector, growth in agriculture is accelerated. Indeed, about 2/3 of the impact of sector. Opening up agriculture runs another danger of raising poverty levels in the short run. This happens especially when agricultural prices rise without commensurate increases in production in the tariffs on manufacturing helps in reducing poverty levels. Form that perspectives, opening up the industrial sector first seems a logical choice.

A study done by Hoda and Gulati (2005)^23, showed that there were sweeping reforms in exchange rate policies and a marked decline in industrial protection in 1991, but it was not until later in the decade that direct reforms began in agriculture. Agricultural reforms started as the border, with the opening up of rice exports in 1994. In comparison, the reforms in the arena of domestic policy have been slow. These reforms have been to a large extent a consequence of unilateral policy initiatives rather than the results of reduction commitments required under the WTO.

Thomas etal. (2011) stated that the emerging world demand for Indian agricultural commodities offers great opportunity. Indian agricultural exports have increased manifolds. However, the contribution of agricultural export in the total export of the country has decline. This study has explored the growth performance of India’s agricultural exports from 1991-92 to 2009-10, using compound annual growth rate and percentage share in total export of India as well as Gross Domestic Product. An in depth composition and structure analysis of the agricultural export is undertaken. The study has also examined the changing dynamics of the contribution of individual group of commodities in the basket of agricultural export.

R. Rajendran et. al. (2013) has investigated that the trade volume of India is increasing slowly. At present we are in the position to view seriously the impact of increased Indian foreign trade on three important and closely related areas that are Food security, water and environment. Study on the impact of foreign trade on these areas becomes need of the hour on the following grounds: Food security is severely threaten by stagnant food production; shrinking in food production area; slow down in yield of food crops; overall slowdown in the growth of agriculture; and, increase in absolute size of population and demand for food grains. Per capita water availability is decreasing sharply in the recent years; and, widespread water conflicts occur among water using sectors.

IV. METHODOLOGY

Objective

- To examine the impact of WTO policies on agricultural exports.

Data Sources

Keeping in view the objective of the present study, the secondary data have been taken from the repudiated sources. Notable among these are:-

- Handbook on Indian Economy, Reserve bank of India 2014
- Agricultural Statistics at a glance (Various Issues, Ministry of Agriculture, GOI)
- Economic Surveys (various issues), Ministry of Finance, GOI
- Handbook on Indian Economy, RBI, 2014
• National Sample Survey
The data published in reputed Journals, book and English news papers have also been used

*Statistical Techniques*

The compound annual growth rates of the Agricultural exports have been calculated by the following formula.

\[
Y = AB^t \\
\text{Where,} \\
Y = \text{Growth rate of the given variable. I.e. production and exports} \\
T = \text{Time period} \\
A & B = \text{Coefficient} \\
\text{Then, compound annual growth rate is given below:} \\
\text{CAGR} = \frac{(b-1) \times 100}{A = \text{Intercept}} \\
b = \text{Antilog of log ‘B’}
\]

V. DATA ANALYSIS

**Performance of Indian Agricultural Exports**

| Table No.-1 | 
|---|---|
| **Impact of WTO on Exports of selected Agricultural commodities** |  
| by Compound annual growth rates (CAGR) |  
| Commodity | Before WTO 1970-71 TO1994-95 | After WTO 1995-96 TO 2012-13 | Change During Reforms |  
| Coffee | 12.9 | 6.1 | - |  
| Tea | 9.1 | 8.4 | - |  
| Tobacco | 7.4 | 13.1 | + |  
| Cashew nuts | 12.3 | 8.3 | - |  
| Spices | 11.8 | 18.3 | + |  
| Sugar & Molasses | 0.6 | 22.4 | + |  
| Fish & fish preparation | 18.3 | 8.3 | - |  
| Fruits & Vegetables | 6.5 | 18.5 | + |  
| Rice | 7.1 | 8.5 | + |  
| Wheat | 24.9 | 4.2 | - |  

*Source – Ministry of Agriculture, Government of India*

VI. CONCLUSION

From the above study we can conclude that some exports of agricultural commodities have negative compound annual growth rate after implementation of WTO policies like- wheat, coffee, tea, Cashew nuts, fish and fish preparation. However export of rise, tobacco, sugar, spices, fruits and vegetables have positive compound annual growth rate. Sugar has notable positive growth rate.

*Suggestions*

Indian agriculture faces both opportunities and challenges with liberalization of domestic and global market. There is need to develop strategy for an agriculture sector. Appropriate measures are require to move away from the subsidy based region and build a productive and internationally competitive agriculture structure, promoting more rapid agriculture growth is important not only to achieve higher economic growth but also to lift large number of households in rural areas out of the poverty and unemployment circle.

The most important suggestions is to increase public investment in a agriculture with a view to reviving growth of agriculture. Experience should teach Indian policy makers that that public investment in Rural infrastructure to be of paramount importance. It can be complimented but not fully replaced by private investment.

REFERENCES