

WTO AND DOMESTIC SUBSIDIES IN INDIAN AGRICULTURE

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ABSTRACT

Domestic support in developed countries led to low international commodity prices which have forced many developing countries are low cost producers of agricultural goods they have not able to complete artificially cheap exports from developed countries

INTRODUCTION

India in its proposal to WTO has categorically pointed out that all Blue and Green Box subsidies are not as minimally trade distorting as it made out an account of the following reasons:

- The ability of farmers to take risk as well as to make farm investments substantially increase provided support in the form of assured payments including de-coupled income support is provided, since payments entail insurance and wealth effects.
- These direct payments encourage greater use of farm inputs and enhance access to technology leading to over - production, which in turn distorts agricultural markets.
- De-coupled or direct payments can be a powerful incentive to maintain or increase current production in the expectation of receiving higher levels of future support.
- De-coupled or direct payments have been found to increase land in farming rather than putting it to some other economically better use.
- De-coupled or direct payments heavily subsidize the cost of production, which enables the receivers of such support to capture a substantial share in the export markets at the cost of more efficient producers.

Table 1 also shows that the 2 percent gain in market share experienced by developing countries happened mostly because of good export performance of countries from Latin America and the Caribbean

(Mainly due to good export performance of Brazil, Argentina and Mexico).

Table 1. Share of Developing Countries in World Agricultural Exports by Region, 1990-2003(Percentage)

	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003
All Developing Countries	39	391/2	391/2	40	411/2	42	40	40	41	411/2
Of Which:										
Africa	6	51/2	51/2	5	51/2	51/2	41/2	41/2	5	5
Developing Asia	15	161/2	16	151/2	16	161/2	16	151/2	161/2	161/2
Latin America and Caribbean	16	151/2	16	171/2	18	171/2	17	171/2	171/2	171/2
Middle East	2	2	2	2	2	21/2	21/2	21/2	21/2	21/2

Calculations based on the data provided in the WTO document (TN/AG/S/19) shows that India's share in world agricultural exports over the period 1995 to 2001. India's farm exports have marginally from 1.77 percent in 1995 to 1.87 percent in 2003.

Table-2 also shows that even in nominal terms (current US Dollars), India registered a decline in agricultural exports over the period 1995 to 2001. India's farm exports have marginally recovered in the last two years reported in the WTO study.

Table 2. Agricultural Export of Twelve Developing Asian Countries 1990-2003.

	Value OF Agricultural Exports					Share in Total Agricultural Exports		
	1995	2000	2001	2002	2003	1995	2000	2003
	Million USD (Values in current US dollars)					Percentage		
China	11,483	11,951	11,950	13,514	15,974	3.81	4.11	4.52
Malaysia	6,907	5,461	5,319	7,211	8,995	2.29	1.88	2.54
Thailand	6,864	6,094	6,487	6,751	8,043	2.27	2.10	2.28
India	5,345	5,072	5,089	5,612	6,616	1.77	1.75	1.87
Indonesia	3,700	4,239	3,761	5,347	5,667	1.23	1.46	1.60
Singapore	4,371	2,849	2,597	2,740	2,608	1.45	0.98	0.74
Republic of Korea	1,669	1,596	1,673	1,706	1,935	0.55	0.55	0.55
Philippines	1,875	1,529	1,531	1,510	1,867	0.62	0.53	0.53
Pakistan	1,122	1,088	1,040	1,083	1,217	0.37	0.37	0.34
Chinese Taipei	2,927	1,019	939	939	976	0.97	0.35	0.28
Hong Kong, China	669	351	323	345	362	0.22	0.12	0.10
Macao, China	78	36	36	49	55	0.03	0.01	0.01
Total of Above	47,010	41,285	40,745	46,807	54,315	15.58	14.21	15.37
Total Developing Asia	49,783	46,499	45,985	50,735	58,322	16.5	16	16.5

From time - series data it is notable that between 1995-96 and 2003-04, India's agricultural trade surplus has shown a decline (Table 3). This again highlights the fact that like most other developing countries, the anticipated gains from the AoA have mostly eluded India. The Table also shows that India's agricultural trade virtually stagnated for most part of the part of the WTO period : only to recover marginally in the past two years (Table 3). Continued distortion of the global agricultural trade market is said to be one main reason behind this poor performance of India in the agriculture trade front

Table 3: India's Agricultural trade before and after WTO, Million \$.

YEAR	IMPORT	EXPORT	TRADE SURPLUS
1990-91	672	3352	2680
1991-92	604	3203	2599
1992-93	938	2950	2012
1993-94	742	4013	3271
1994-95	1891	4211	2320
1995-96	1761	6098	4337
1996-97	1863	6806	4943
1997-98	2364	6685	4321
1998-99	3462	6064	2602
1999-2000	3708	5842	2134
2000-01	2646	6273	3627
2001-02	3408	6234	2826
2002-03	3542	7161	3619
2003-04	4765	8029	3264

It is observed that domestic support in developed countries not only insulates the markets of countries and threatens the domestic markets of developing countries also negatively affect market access of developing countries in the third countries in the third country markets by distorting the prices in those markets. Therefore, it is imperative that this round of negotiations try to correct the prevailing problems of global agricultural trade by ensuring more effective reduction of subsidies.

Agricultural policies are disastrous. If those farmers aren't being kept out of export markets by quotas or tariffs, they are being undercut in domestic markets by heavily subsidized produce from the developed world. While some have argued that rich-world subsidies are a net boon to poor countries because they provide cheap food to the masses, in those countries the poorest are often rural farmers, whose lives would be improved by higher prices for their products.

Subsidies in developed countries have affected the trading pattern of a number of Indian agricultural products. The example of rice can be pertinent here. During the early 1990s, India removed restrictions on rice exports. Following the removal of export restrictions, India emerged as a major rice exporting country. However, just after the Asian crisis, international price of rice started declining. Low demand from some big importers of rice from Asia and Latin America was one of the reasons behind this decline. On the supply side, India and China's entry as an exporter in the international rice market and domestic policies undertaken by developed countries increased the supply - demand gap. This decline in international prices of rice was accentuated by heavy subsidization of rice farmers in USA.

It can be argued that in a free trade regime, producers of uncompetitive commodities should shift to the commodities where the country is internationally competitive. Under the current set of circumstances, this basically suggests that farmers of this country should diversify towards the cultivation of cash crops. However, this argument does not take into account the fact that for small and medium farmers of poor developing countries, it is not easy to shift from one crop to another. Low capital, inadequate rural credit which results from increased withdrawal of state and lack of information about the international commodity market conditions make it difficult for the farmers to make this transition. Also it is important to recognize the diversification is crucially dependent, it will be extremely risky for small and medium farmers to diversify into nonfood grain crops.

Opening up of the agriculture sector has also introduced a new element of risk in the system. International commodity prices are highly volatile in nature. A study by Pal (2004)¹ shows that for a large number of commodities, price volatility has actually increased in the post UR period. In a tariff only regime, the instability of international commodity prices is likely to be transmitted directly to the domestic market. High volatility of agricultural commodities alters the risk perception of farmers and introduces a speculative element in agricultural prices. This is likely to have serious implications for farmers in India. In fact, committees looking at the issue of suicide by farmers in Andhra Pradesh have found that the volatility of crop prices has been a major source of income instability and distress for farmers.

Higher returns from some export oriented cash crops like tobacco and sunflower have lured even smaller farms to undertake cash crop cultivation at the expense of traditional crops including food grains. This is risky move because these farmers are now totally dependent upon the revenue from the cash crops are even for their domestic consumption. International prices for cash crops even are volatile and fluctuate widely from year to year. Every losses for farmers. The farmers who do not maintain a cushion of self-produced food grains to support them; such losses can cushion huge food security problems. In southern part of India, there have been numerous cases of farmer suicides because of this reason

To a large extent the decline and volatility of international commodity prices can be attributable to the subsidy regime in developed countries. Findings of the WTO Dispute settlement Board (DSB) on sugar and cotton subsidies, over production of subsidized products and the consequent decline in international commodity prices. This brings the issue of interaction between domestic subsidies and market access into the picture. If rate is unlikely to be required for the protection of any commodity, protection of any commodity, to counter the threat of subsidies and market access into the picture. protection of any

commodity, to counter the threat of subsidies and artificially low international commodity prices it is important to allow for some headroom in the form of difference between bound and applied tariff rates and flexibility in tariff application. Therefore, India should be careful about its market access strategy. In this context, in the current round of negotiation developing countries should link the issue of tariff reduction with the level of subsidization in developed countries.

However it must be mentioned here that in the current round of negotiations, there are indications that a SSSG type instrument will also be made available to developing countries. Moreover, there are talks about providing additional protection to someone agricultural commodities in the form 'Special Products' and 'Sensitive Products'. If these new instruments are made available, then the need for the additional headroom in the application of tariff rates may be less.

CONCLUSION

As far as India is concerned, it appears that the WTO subsidy disciplines introduced are not going to have a constraining impact on the domestic subsidies given to the farm sector in this country. India's farm subsidy levels are well below the 'de minimis' level prescribed by the AoA and it is unlikely that India will be hitting the 'de minimis' level either in the product specific or non product specific subsidies in anytime soon

The Poor performance of India's agricultural trade in the post WTO period can be largely attributed to the distortions of the international agricultural trade market. On one hand, India wants substantial reduction in domestic subsidies in developed countries. On the other hand, it proposes that there should be sufficient flexibility in the rules to allow developing countries pursue support measures towards non-trade concerns like poverty alleviation, rural development, rural employment and diversification of agriculture.

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3. See 'Report of the Commission on Farmers Welfare', Government of Andhra Pradesh, dated April 7th 2005, available at: http://www.macrosan.net/pol/apr05/pol070405Andhra_Pradesh.htm
4. The basic argument is that continued subsidization of agriculture and the dominance of a few developed countries in world agricultural trade have not allowed other countries to join the international farm trade. As a result, the depth of international agriculture trade market has not increased. Therefore; price of agricultural goods remains as volatile as before.
5. For detailed discussion on these see 'Special Products' Options for Negotiating Modalities' by Anwarul Hoda, ICTSD, 2005. Available at <http://www.ictsd.org/dlogue/2005-06-16/Hoda.pdf>.
6. WTO Document number G/AG/NG/W/102, Proposals by India in the areas of: i. Food Security, ii. Market Access, iii. Domestic Support, and iv. Export competition: date 15/01/2001