

Impact of WTO's AOA on India's Trade in Agriculture

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Abstract

The agreement on agriculture (AOA) forms a part of the final act of the Uruguay round of multilateral trade negotiation, which was signed by the member's countries in April 1994 at Marrakesh, Morocco and came into force on 1st January 1995. For the first time, agriculture features in a major way in the GATT round of multilateral trade negotiations. Although the original GATT- the predecessor of the World Trade Organization (WTO) applied to trade in agriculture, various expectations to the disciplines on the use of non-tariff measures and subsidy meant that it did not do so effectively. The Uruguay round agreement sought to bring order and fair competition to this highly distorted sector of world trade by establishment of a fair and market oriented agriculture trading sector. Therefore the formation of the World Trade Organization (WTO) in January 1, 1995 as a successor organization for the General Agreement of Tariff and Trade (GATT) was watershed event in the history of global trade reform.

Keywords: AOA, Export, GATT, Import, WTO

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1. Introduction

The obligation and disciplines incorporated in the agreement on agriculture (AOA), therefore related to:-

- (a) market access
- (b) domestic subsidies or domestic support
- (c) export subsidies

In this research, researcher will analyze all these important provisions of AOA related to agricultural trade and explain how these provisions of WTO has been affecting the India's trade in agriculture.

1.1 Statement of the Problem

Impact of WTO on India's trade in agriculture

1.2 Need for Study

WTO formation and its provisions related to the agricultural trade are affecting almost every sector of the economy especially agriculture sector. As we know agriculture sector is a backbone of our economy. Signing of agreement on agriculture (AOA) and allied agreement was created by great euphoria by the developing countries especially India because it was expected that the implementation of AOA would result in reduction of domestic

support of developed countries, which would in terms raise international prices of agricultural commodities and it would improve export prospects of India.

However, contrary to expectations, international agricultural prices have declined sharply in the post WTO period and agricultural export from India has declined. In this study we analyze all these facts in detail.

1.3 Objectives of the Study

- To analyze the pattern of exports and imports of agricultural commodities of India since 1995 (composition % share analysis).
- To analyze the trend of exports and imports of agricultural commodities of India since 1995 (growth analysis)
- To analyze agriculture related WTO provisions thoroughly especially Subsidy Provisions such as green box, red box, blue box etc.
- To examine the agricultural exports of India in line with the provisions recommended by different round conference of ministerial level of WTO.
- To study the export performance of sugar and wheat during the study period 1995-2005 in India.

1.4 Methodology

The research is based on comparative analysis. The study is based on secondary data for analysis purpose.

The main source of data are WTO annual report Geneva, various world bank studies, Economic survey of govt. of India, agriculture statistics at a glance published by department of agriculture and cooperation ministry of agriculture, world development report, India etc.

1.5 Meaning of Secondary Data

It is a data that is collected by researcher through indirectly by published or unpublished sources. It is one of the cheapest and easiest means of access to information

In this research the period of study is 1995-2005 because in this research, researcher wants to analyze the performance of agriculture trade of one decade after the formation Of WTO.

2. Review of Related Literature

Review means the re-examination of material previously presented or studied.

2.1 Important Review of Literature

- Ashok Gulati and G.S.Bhalla have the view that India would gain from its participation in liberalized trade in agriculture. These conclusions are largely based on the expected rise in the prices of world agricultural commodities.
- According to subramaniam's study, India stands to gain from higher world prices in the long-run as India also liberalizes agricultural trade.
- National Council of Applied Economic Research (NCAER 1997): Estimates that if one takes into account some empirical and some theoretical considerations of the Indian Agricultural Trade and the WTO agreements, the gains to Indian agriculture from agricultural trade will be severely lower than what has been anticipated.

Although there are lots of review of literature in the dissertation but these three studies are very important for this research, because this research is based on these studies (review of literature).

3. Theoretical Framework of Free Trade

In this chapter researcher explain many International Trade theories. Ex- Mercantilist view on Trade, classical theory of international trade, Heckscher Ohlin theorem of international Trade, offer curve etc. These theories have provided theoretical foundation of the research.

4. The World Trade Organization (WTO) An Overview

4.1 Introduction

The Uruguay Round of GATT negotiations concluded on April 15, 1994 at Marrakesh, Morocco. India, along with 123 ministers besides the others countries signed the final Act incorporating the Eighth round of multilateral trade negotiations. The WTO Agreement is in fact the Uruguay Round agreements whereby the original GATT is now a part of the WTO Agreement which came into force from January 1, 1995.

4.2 The WTO

The WTO is the successor to the GATT. The GATT was a forum where the member countries met from time to time to discuss and solve world trade problems. But the WTO is a properly established permanent world trade organization.

There were 77 member countries of the WTO on January 1, 1995 which had increased to 154 by 2011. India is one of the founder members.

4.3 IT'S Objectives

In the Preamble, the Agreements establishing the WTO lays down the following objectives of the WTO.

- To increase trade in goods and service
- To increase the living standard of member countries
- To utilize resources in optimum way
- To achieve sustainable development
- To protect the environment

5. WTO Provisions and Agriculture

WTO Agreement on Agriculture (AOA) (Three Pillars of the WTO Agreement on Agriculture)

The agreement on agriculture is the first serious steps in reform of international rules governing agricultural trade.

The obligation and disciplines incorporated in the agreement on agriculture, therefore related to

1. Increased market access for agricultural trade.
2. Reduce domestic subsidies or domestic support on agricultural trade.
3. Commitments to reduce export subsidies on agricultural products.

5.1 Minimum Market Access Commitment

The minimum market access commitment applies to those countries that maintain restructure of various types on agricultural

imports and are, therefore, required to convert these non tariff barriers and reduce those tariffs by 36% over the six years period. Seven countries are also required to allow minimum market access opportunities of 3% of their domestic consumption for 6 years which will rise to 5% after that period. These commitments apply only if a country is obliged to render its export countries in terms of tariffs.

In the case of developing countries, tariff on agricultural products are to be reduced by 24% over a period of few years. Least developed countries are not required to reduce their tariffs.

5.2 Export Subsidies

WTO members are required to reduce the value of direct export subsidies to a level of 36% below the 1986-88 base period levels over the six years implementation period and the quantity of subsidized export by 21% over the same period. In the case of developing countries, the reduction are 2/3rd those of developed countries over a few year period. But no reductions apply to the least developed countries.

5.3 Commitments on Domestic Subsidies

Article 7 of the agreement on agriculture comes to grips on the trade distorting aspects of domestic subsidies in the agriculture sector.

The agreement categorizes domestic subsidies by placing them in three boxes-

- An exempt Green box (permissible and non counter variable)
- An excluded blue box (permissible, countervailing if they cause injury) but not subject to reduction commitments.
- Amber box (permissible but countervailing if they cause injury, and subject to reduction commitments)

AOA provisions made clear that no member nation called promises excess domestic subsidies from the commitments levels and reduce it in time bound manner.

For developed countries that commitment is a reduction of the remaining norm exempt domestic subsidies by 20% from levels existing during 1986-88 base period in 6 equal annual installments.

Developing countries are required to make reduction of 13.3% over 10 years. Least developed countries are not obliged to make any reduction, but must bind their levels of support.

5.4 WTO Ministerial Conference

The highest decision making body of the WTO is the ministerial conference, which has to meet at least every two years. The ministerial conference can take decision on all matters under any of the multilateral trade agreements. Since the establishment of WTO in January 1995. So far six ministerial conferences have been held

- Singapore (9-13 dec 1996)
- Geneva (18-20May 1998)
- Seattle (U.S.A.) (30 Nov-3 dec 1999)
- Doha (octar) (9-14 Nov 2001)
- Cancun (Mexico) (10-14 Sep 2003)
- Hong Kong (13-18 dec 2005)

6. Indian Agricultural Trade

In this chapter researcher explain the data of research.

The biggest challenge to the developing countries agriculture in the post WTO period was pause by unprecedented and unforeseen decline in international agriculture prices.

The prices of cereals, sugar and cotton started to decline after 1996 and reached historically almost the low level during last 25 years around 2000. Though there are some recoveries in the price cycle in the recent years. Yet the current level of prices of above mentioned commodities is 15 to 44% lower than the prices prevailing in the beginning of WTO. Because of this decline in prices in the post WTO period, developing countries exports were badly hit and several countries like India were taken back by import influx of commodities, in which they thought they had strong competitive edge.

The decline in international prices happened contrary to the projection that implementation of WTO's AOA would result in reduction in subsidies and this increase in cost of production and price of commodities at international level but it is not happening due to huge subsidies & support provided by developed

Table 1. India's export of agriculture and allied product

YEAR	Total export	Agriculture import	% share in total export	Growth rate	
				Total export	Agro export
1995-96	31841	6120	19.2	20.90	44.77
2000-01	44400	6012	13.5	20.79	7.08
2004-05	83536	8001	10.2	23.9	29.5

Figures in US\$ millions.

Table 2. India's import of agriculture and allied products

Year	Total import	Agro Import	% share in total import	Growth rate	
				Total import	Agro import
1995-96	36729	1103	3.00	28.15	-12.68
2000-01	49720	1676	3.37	-0.16	-36.00
2004-05	111518	3811.1	3.5	48.5	N.A

Table 3. Export prices of primary agriculture commodities in best WTO period base 1995=100

commodities	1995	1996	2000	2005
Cereals	100	119	67	85
Fish	100	86	76	85
Sugar	100	92	66	81
cotton	100	82	60	56

countries to his farmers, DC's are protecting it's farmers by support but LDC's could not do it due to lack of resources. For More detail refer Table-1, Table-2 and Table-3.

Now researchers analyses the trend of export and import of sugar on the eve & after the formation of WTO.

6.1 Exports of Sugar

Years	1990-91	2005-06
Sugar Export	21	135
Total Agro Exports	3521	10549
Percentage	0.59%	1.28%

6.2 Imports of Sugar

Years	1994-95	2004-05
Imports of Sugar	727	2
Total Agri Imports.	1884	3811.
Percentage	38.5%	0.05%

6.3 Export Price of Sugar in Post WTO Period

Base year period 1995.				
Years.	1995	1996	2000	2005
Sugar	100	92	66	81

The prices of sugar started declining after 1996 and reached at lowest but there are some recoveries in the price cycle in the recent years. Yet it is 15 to 44% lower than the prices prevailing in the beginning of WTO because of the decline in the prices in the past WTO period, and India could not get appropriate benefit.

6.4 Wheat

Wheat is an important food grain of our country so that analysis of the impact of WTO formation on the export performance of wheat is very crucial for India.

The analysis period of wheat export in 1995-96 (years of WTO formation to 1999-2000.)

6.5 Export Growth of Wheat

Years	1995-96	1998-99	2005
Growth	109	.32	.01

6.6 Import of Wheat

Years	1994-95	1998-99	2001-02
Wheat import	0	266	1
Total Import	1103	3292	3049
Percentage share In total import.	0	8.08	0.03

Now we can say that if developed countries will reduce different type of subsidies and support and open the market of wheat of India and the international prices of wheat will increase then India will get drastic success in the export of wheat due to having comparative advantage in the production and export of wheat.

6.7 Post WTO Trade Regime: Lessons for India

Wide ranging economic reforms introduced in India during 1991 boosted the agricultural trade (Exports as well as imports) and the net trade surplus in agriculture increased form \$ 2 billion

during 1992-93 to \$ 4.33 billion during 1995-96. The trade got a fillip with WTO agreement during 1995; thereby resulting in the net trade surplus reaching \$ 6.8 billion in 1996-97. However, the problem of downward trend in exports, increase in imports, sharp year-to-year fluctuations in net trade, erosion of self-reliance etc, started soon thereafter despite further liberalization of trade. The trend raises questions about further liberalization of trade in general and specific commodities in particular, and the implications of present agreement including on going negotiations on AOA in WTO etc.

An analysis of the global trends after WTO indicates unprecedented declines in the global prices of agricultural commodities, severely hitting earning from agricultural exports of the countries. India too could not gain much from WTO and global liberalization, though India generally performs better than the other countries when the international price situation is favorable. As the exports are becoming increasingly competitive, it is not possible to promote exports without improving produce quality, efficiency and cost reduction. From the analysis of the trade scene it is evident that India is facing challenges in traditional export items the challenges is not from the developed countries, but from the developing countries, major import of vegetable oils are from the developing countries (Malaysia and Indonesia); and India has done well in export of high value product to the developed countries.

7. Conclusion

Although India started economic reform and gradually dismantling it very high tariff and other non - tariff barriers.

AOA give a big push to trade liberalization in agriculture by reducing obstacle to market access, reduce domestic support and streamline the export subsidies.

But commitment of developed countries regarding AOA has been suffering from serious limitations

- Choice of the base year period of 1986-89 when the price were extremely low
- Developed countries (DCs) adopting dirty tariffication
- Administration of tariff rate quotas by developed countries were also discriminatory
- Different boxes of subsidies ex Green box, blue box, amber box,
- Many members were also deliberately shifting expenditure away from the Amber box to those measures that are exempt from reduction commitments under the green box
- Aggregate Monetary Measures (AMS) are also ambiguous.
- Agreement on sanitary and phyto – sanitary measures deals with food safety, plants health. WTO does not set standard but it allow countries to set their own standard.

The developed countries have been using this as an instrument for denying market access to exports from developing countries.

Therefore, in a highly protective world characterized by high tariff walls, large domestic and export subsidization and strict control on factor mobility. The developed countries have been denied effective access to their agricultural markets. Their subsidies also result in depressing the international prices of many agricultural commodities.

Further, many non – tariff barriers like stringent sanitary and phyto – sanitary standard have further tended to discriminate against imports from the developing countries.

Because of declining in international prices of agricultural commodities in post WTO period due to huge subsidies and support by developed countries resulting developing countries exports are badly hits and several countries like India were taken aback by import influx of commodities in which they thought, they had strong competitive edge. Example: the actual support given to sugar by USA ranges between Rs 5 to 15 which in some years was higher than the even the international prices of the sugar. In contrast, the domestic support for sugar in India was only 0.21%.

The research of Pebisch and Singer “deterioration of terms of trade of developing countries due to low elasticity of primary product in the international market is highly applicable here”.

From the above discussion it can be concluded that the funding of Ashok Gulati and G.S. Bhalla and Subramaniam is not correct in present context because the International prices of agricultural commodities has been declining day by day due to DCs has been providing huge domestic support to his farmers. The result of declining international prices of agricultural commodities is that The total agro export in 1995 was 6120.10 US\$ millions which account 19.2% share of total exports and growth of agro export was 44.77 in 1995-96. But agro export has reached to 8001.7US\$ million in 2004-05 which accounts only 10.2% share of total exports (83536 US \$ millions) and growth rate of agro export has reduced to 29.5% in 2004-05.

On the other hand, the agro import was 1103.46US\$million in 1995-96 which account 3% share of total imports (36729.98US \$ Millions) has increased to 3811.1US\$million which accounts 3.5 % of total imports (111518US\$millions) in 2004-05: The growth rate agro-import was -12.68% in 1995-96 has increased to 64.30% in 1998-99. But it drastically reduced to -36.86 in 2001-01 again it shows increasing sign because agro import was 1676.35US\$million in 2001-01 has increased drastically to 3811.11US \$ Millions in 2004-05. Overall India is not getting true benefit of trade liberalization in agriculture. There are many factors responsible for it-

- 1) Developed countries are not implementing agreements on agriculture in effective manner.
 - 2) Developed countries have been providing huge subsidies and domestic support to his farmers through Green box, Blue box and Amber box etc. These supports are responsible for decline international prices of agricultural commodities.
 - 3) DCs are not providing minimum market access for agricultural exports of developing countries.
 - 4) DCs had imposed many types of tariff and non-tariff barriers on the agri export of the developing countries.
 - 5) DCs is not fulfilling many commitment related to AOA.
 - 6) DC has raised the issue of child labour and environmental issues to counter the demands of developing countries.
- 1) The main reason for deceleration of agricultural growth was slow down of public investment in agriculture. So the important task would be to revive the deceleration of Indian agricultural growth by pumping large public sector investment in agriculture
 - 2) To accelerate the export potential in agriculture, India would need large investment in processing, power, communication, marketing, transport and other infrastructure.
 - 3) Bringing farmer under the umbrella of an economic organization which takes care of their production and post harvesting related activities in an intergraded manner and their other social and economic needs.
 - 4) India became the leader of the developing countries in the various WTO talks, should improve their bargaining position, it should also try to improve its competitiveness in many agricultural commodities through increase in their productivity. India could have to raise their voice against the discriminatory provisions and practices in favours of the developed countries.

8. Suggestions

The above discussion has brought out the reforms fail to bring about the expected benefits to the Indian farmers: -

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