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Study of Indian agriculture challenges in WTO regime

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Abstract

In this paper, the challenges before Indian agriculture are immense. India is not where it should have been in the world market for agricultural products despite being one of the top producers. The country needs to put greater emphasis on cultivation of international varieties. Until India takes some steps in this direction, it will continue to produce more only to earn less.

Keywords: Indian agriculture, WTO

Introductions

Globalization raises many challenges and opportunities to the agricultural sector which need to be addressed effectively in the national R&D agenda. A dedicated group of experts on full time basis should work on the WTO issues to provide analytical basis for negotiations and to help in planning appropriate strategies to strengthen Indian agriculture to face increasing trade globalization. Growing indebtedness in agriculture is driving thousands of farmers to commit suicide.

The global agricultural market is influenced to a great extent by the quality of products, especially when exporting to developed nations. Indian agricultural exports have to face tough competition, which is a matter of serious concern. The right type of technology for growing and processing must be adopted so that there is good quality production at lower costs, which in turn will reduce the prices and place India in a better position to compete globally. Indian producers produce agricultural goods at competitive prices. Yet low global prices resulting from subsidies by the developed nations mainly the European Union and United States, deprives India of any advantage on the price front. The US is exporting wheat at prices 40 percent lower than production costs. In the case of soybean, the price difference has been increasing steadily over the last four years and is currently at 30 percent while for maize it is 25-30 percent. In 2001, cotton was being sold in the international markets at a price 57 percent lower than its production cost, while the price difference for rice has stabilized at 20 percent. As a result of these prices, the US is the world's largest exporter of wheat, corn, cotton and soybean, and the second largest in rice.

While agricultural trade liberalization was justified on the grounds that Northern agricultural markets would open to India, India's exports to Europe have actually declined from 13 to 6 percent. This is because the North still maintains high subsidies and trade barriers. The WTO regime has become a challenge because it has shown that agriculture trade liberalization has become a unidirectional phenomenon that opens markets in the South for Northern business corporations but closes markets in the North for trade from South. Such trade will destroy livelihood opportunities for resource-poor farming families and agricultural labour.

Global forces are now playing an important role in determination of cropping patterns, investment levels, price structures, quality of production and level of international trade. Indian farmers are facing multiple challenges. Firstly, they are being asked to provide a greater variety of better quality products at lower cost, and in a safer manner than ever demanded before. Secondly, they are being asked to produce this abundance on a shrinking natural resources base that is often subject to government regulations. As far as India is concerned there are some danger signals. Population growth rate and higher per capita income suggest that demand for food grains is growing. But there are doubts about the supply response. In terms of acreage, area under food grains has not increased. Yield growth rates of food grains are also stagnating in most parts of the country. The productivity of soil has also started declining. The underground water table in most Indian states is getting rapidly depleted. Based on these facts, various studies have pointed out that India will be a net importer of rice in the near future. In such a competitive environment,

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India should be prepared to meet the challenges that are detrimental to the interests of her people.

Implication of Indian agriculture due to WTO

The challenge to policy makers is how to protect Indian agriculture from the impending WTO threat, enhance the competitiveness of Indian farming and make farming a viable and self-sustaining enterprise to improve and ensure livelihood security by the farmers. India should prepare to take challenge of any deviation from main objective of WTO and take initiative in organizing other developing countries for the same purposes. The last Ministerial meeting to discuss and finalize modalities of WTO agreements was held from 13-18 December, 2005 in Hongkong.

However, no consensus could be reached once again, and the meeting ended up with a resolve to complete Doha Work Programmes and to conclude negotiations successfully in year 2006. But there is no sight of any progress in the negotiations. Serious differences persist between three main groups of WTO members, namely, developing countries led by G20, EU and USA on almost all the issues like reduction in domestic support and export subsidies in developed countries, formula for tariff reduction and special and differential treatment for developing countries in almost all the commitments. Therefore, there is a stalemate which implies that imbalances of Uruguay Round agreement would continue. This stalemate has given freedom to the developing countries not to further liberalise their markets. On the other hand, the delay in concluding new agreement is helping the developed countries in several ways. With postponement of negotiations, the dates for implementing fresh commitments to reduce domestic support and export subsidies are automatically getting shifted to distant future. Thus, countries like USA and EU, are free to follow trade distorting policies in the absence of fresh commitments. While it is highly desirable to eliminate export subsidies, phase out domestic support and have separate set of commitments for developed and developing countries, it is also important to recognize that the deadlock is not helping anyone to achieve these goals.

India and other developing countries need to put pressure on the developed countries to have some interim agreement to at least reduce domestic support and export subsidies as per their initial offers. Lastly, reshaping and modernizing Indian agriculture to face the pressures of the next few decades is a huge and complex task and requires a wide range of policy interventions which have already been discussed. These policy recommendations should be implemented as soon as possible to enable Indian agriculture to face challenges of the 21st century. Dr Anil Sharma of the NCAER feels that 'Indian agriculture is quite competitive and India should adopt a more aggressive stand in the negotiations'

The challenges ahead for India now lie in implementing sound domestic policies that increase competition in, and improve the contestability of, domestic markets. These challenges are, above all, domestic. However, active multilateral engagement can be incrementally helpful in facilitating domestic reform and gaining access for India's exports of goods and labor services. A strategy to address this challenge shall necessarily involve re-orientation and injection of market linked dynamism in Indian agricultural Research and Development, strengthening of supportive

institutions to serve the resource poor farmers, and steering fast the change with appropriate policies and trained human ware.

Government of India declared that Second Green Revolution was an essential prerequisite for achieving an overall economic growth of 8 percent on a sustained basis.

Decisions related to WTO are being taken and negotiations are being done by the central government. Even though the brunt of the problems emanating from such decisions are to be borne by the state governments, they are not consulted or taken into confidence. A mechanism be created so that the issues concerning WTO are discussed and differences thrashed out in order to arrive at a consensus and further, that no decision is taken without proper consultation and agreement with the state governments.

There should be a merger of several related departments like irrigation, fertilizer, food, agriculture, etc. for better coordination and synergy.

There is necessity to establish Export Processing Zones and Commodity Boards for targeted commodities. India must have greater participation at the negotiating table and must have its own explicit agenda about tariff reductions, market access and substantial reduction of domestic and export subsidies by major developed countries. Throughout the 1990s, the share of agriculture in the gross capital formation (at constant prices) has remained in single digits, which explains the slackening of its growth momentum during the past decade. This has contributed to the decline in the share of the sector in GDP from just less than a third in the early 1990s to below fourth a decade later. So I suggest that the gross capital formation should increase in large amount.

Export of high value products, horticulture products, processed products, marine products and rice should be promoted. Government should bring pro-farmers national agricultural policy. Should continue subsidy and free electricity supply to the farmers. Provide knowledge to young agriculture scientists in modern crop production technologies through modified university curricula. Appropriate domestic policies (extensive domestic market reforms, heavy investment in building and maintaining infrastructure, etc.) to improve efficiency and competitiveness of domestic produce should be devised.

The constraints of multiplicity of laws in agricultural marketing, processing and transport should be simplified. Since IPR is becoming an important issue, a clear-cut policy on IPR, its protection, maintenance, evaluation, handling of IPR infringements, etc. should receive priority attention at the Central, State and institutional levels. India needs to devise appropriate domestic policies to improve efficiency and competitiveness of domestic produce.

Blue box measures should be eliminated. And Blue box should not be included in the calculation of Final Bound Total AMS. The negotiators should calibrate the subsidy reduction formulas so that the post-cut level of trade distorting support for developed countries should not exceed 5 percent of their total value of agricultural production. To impose strong and legally tight definitions of Green box subsidies to ensure that subsidies within these boxes are not production or trade distorting. There should be a broad framework of subsidy reduction, as outlined in the July package, can be considered as a step towards the right direction but it does not guarantee significant reduction in subsidies. Along with export subsidies, export credits and

guarantees may also be suggested to be brought under reduction commitments.

Dumping of agricultural goods must come to an end: For many developing countries agriculture constitutes the basis for life for the majority of the population; often the poorest part. In the rich countries only a few percent of the population make a living by agriculture. Only when it comes to agricultural goods, it is still permitted to subsidise export, just as a number of other trade distorting subsidies are allowed. The rich countries make efficient use of these possibilities. To impose strong and legally tight definitions of Green box subsidies to ensure that subsidies within these boxes are not production or trade distorting. The WTO should emphasize greater self sufficiency of economies nationally and regionally-Domestic markets, rather than foreign markets, WTO should insist that the working documents and minutes of WTO meetings be readily available to the public.

All countries should notify their quality requirements of agricultural produce clearly on the WTO website. The tariff quota should be global and not specific to countries and ensure that all countries have the opportunity of utilising the quotas. Under the provision, which allows for tariff quota in agriculture, some developed countries have liberally provided for country specific tariff quotas. These results in other countries not getting the chance of utilising these access opportunities.

Green-Box includes measures of support that causes no or at most minimal trade-distorting effects on production. Support be provided through a publicly funded government programme not involving transfers from consumers, and shall not have the effect of providing price support to producers. E.g. General services including pest control, infra-structural services etc.; direct payments to producers (not related to production/prices); food security stocks, domestic food aid.

Indian agriculture has milestones. The green revolution transformed India from a food deficient stage to a surplus food market. Remarkable results were achieved in these fields of dairying and oil seeds through white and yellow revolutions. Agricultural trade has continued to grow since the Uruguay Round agreement, but more slowly than in earlier years, and more slowly than nonagricultural trade. Despite these major structural transformations, the agriculture sector continues to accommodate the major share of the workforce. India is yet to emerge as significant trade partner in the world agriculture market. India holds around 1% of the global trade-in agricultural commodities. With the ongoing trade negotiations under the WTO, Indian Agriculture needs to reorient its outlook and enhance competitiveness to sustain growth from a demand side.

The average annual growth of GDP in agriculture and allied sectors slowed down in the post-WTO period when compared to the preceding decade, while the growth of crop output, especially food grains output, decelerated. The experience of the 1990s clearly demonstrates that far from trade liberalisation dampening the performance of agriculture, the failure of public investment and effort is responsible for the inability to benefit from trade liberalisation by step-ping up and diversifying agricultural out-put in a cost effective way. On the trade front, there is a need for extreme vigilance so as to be able to take timely measures, within the existing tariff bindings, to arrest heavy import of certain commodities. Also, since the philosophy

behind trade liberalisation is the maximisation of global welfare through efficiency gains, mapping out comparative advantages across countries for different commodities in a dynamic setting is necessary as a basis for meaningful negotiations in the WTO. The developed countries are very well equipped with technical and legal expertise, even though these capabilities are used for advancing their case towards perpetuation of domestic support to agriculture and restriction of market access, that are quite untenable. On the other hand, the capabilities of developing countries, including India, are poor in this respect. Despite their approach and line of action on matters relating to agricultural trade being justifiable on theoretical as well as practical grounds.

Therefore, there is a need to give a high priority to the development of these skills in the country. The private sector should be allowed a free play for the rest of operations so as to make food grains affordable to the consumers and competitive in the export market. But the major effort on the domestic front for ensuring the viability of Indian agriculture has to be focused on raising productivity by stepping up public investment, by accelerating the evolution and adoption of cost-reducing technologies, and by removing restrictions on agricultural trade, marketing and processing within the country. All this requires to be achieved through major reforms in governance and institutions, particularly at the state level.

With the globalization of agriculture, major emphasis should laid on increasing the productivity, improving the quality standards of products, judicious use of production input, processing of farm produce, recycling of farm waste, value addition, and marketing of the products. Every measure should be taken to safeguard the livelihood security of the farmers, the vast majority of whom are resource-poor operating small and marginal holdings. We need a vision of the directions in which we should move. Centerpiece of that vision is that we build a strong Indian agriculture, mainly driven by a growing and diversifying domestic market and larger trade volumes in the external market. While doing so, the livelihood security of the dependent population is not only safeguarded but enhanced taking globalization as an uncommon opportunity. For its further growth, Indian agriculture is in need of substantial public investments in irrigation, power, roads, and agricultural research and extension, rather than subsidies on inputs. Indeed, there is a consensus now among planners and policy-makers that the declining investment in agriculture is basically attributable to the mounting subsidies on irrigation, power and fertilizers.

India needs to carefully consider its own agricultural policies. For years we have discriminated against agriculture, and although the most obvious macro-economic biases may be gone, we still do not invest enough in agriculture and rural development. The best approach is to eliminate biases against the agricultural sector in the general policy framework and to maintain a neutral trade policy that reduces protection over time.

A country like India needs, therefore, to prepare itself for competing with low-cost farm products rather than expecting a significant rise in their prices via reform-induced reduction in the export surpluses from the developed countries. Incidentally, this scenario should serve to dispel fears that those of the least developed countries which are net importers of food stand to lose heavily on

account of the rise in the prices of food following the reduction of farm support in the developed countries.

India should carefully identify the issues of its interest in the global trade and strongly push this agenda in the forthcoming negotiations of WTO besides implementing appropriate domestic policies and strategies that improve competitiveness of Indian agriculture.

Conclusion

India's agri-exports face certain constraints that arise from conflicting domestic policies relating to production, storage, distribution, food security; pricing concerns etc. unwillingness to decide makes Indian supply sources unreliable. Higher domestic prices in comparison to international prices of products of bulk exports commercially less comparative. Market intelligence and creating awareness in international market about quality of products need to be strengthened to boost agricultural exports. Public capital formation in agriculture continued to fall, and the growth of public expenditure on research and extension slowed down. The most significant positive aspect of our agricultural exports is that a majority of the items in the agriculture export basket are net foreign exchange earners, with negligible import content unlike high import content in many manufactured products. Over the period of economic reform and WTO period, agricultural growth rates slowed down significantly. Most importantly, the rate of growth of food grain production slowed down, and fell behind the population growth rates for the first time after independence.

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