India and the WTO's Agreement on Agriculture (A-o-A)

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Abstract

This paper examines issues related to the WTO's Agreement on Agriculture from India's point of view. Why India should work towards the success of the Doha Round is also discussed.

1. The Setting

According to the Indian Census 2001, the share of cultivators and agriculture labourers in the total labour force of India declined from 64.8 per cent in 1991 to 58.2 per cent in 2001, while the share of agriculture value added in total value added of the country dropped from 31.3 per cent to 24.5 per cent. Thus, a 6.8 per cent shift in the output from agriculture to non-agriculture resulted in a shift of just about 6.6 per cent labour from farming to non-farming sector. If this were the case, then even if the share of agriculture is completely overtaken by the other sectors, the problem of huge income inequality between rural and urban will remain daunting. The ratio of income defining the poverty line in urban and rural India has increased from 1.29 in 1983-84 to 1.4 in 1999-00. Nevertheless, the urban-rural income differential in India is much smaller than that of developed countries (Table 1). In order to bridge these inequalities, the developed countries generally tend to resort to heavy subsidies to their agricultural sector. The rural-urban divide in India is increasing steadily and it would have to face the same problem as other developed countries are facing at present (Table 1). However, India could not afford to employ the same balancing strategy as practiced by the developed countries of providing subsidy to the agricultural sector, because its rural population is very large.

Therefore, the solution to reduce the rural-urban divide in India lies in employment-generating large-scale industrialization and expansion of agriculture processing and exports, so that each percentage point shift in the share of agriculture value added to other sectors leads to at least two percentages points shift in the labour force from farm sector to non-farm sector. Maintaining this target itself will inherently lead to a comparable growth in per capita income of the farm sector.

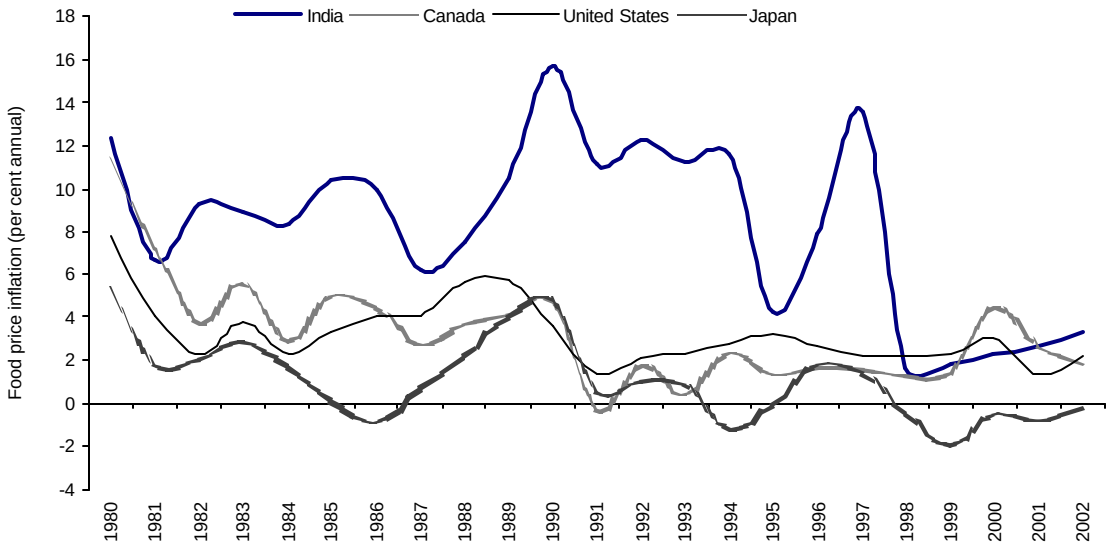
Table 1: Urban-Rural Divide and the Quantum of Subsidy

	Ratio of per capita urban income to per capita rural income			Subsidy as percentage of agriculture value added	
	1980	1990	2001	1986-88	2002
India	6	7	9	6	7
Canada	7	11	12	48	31
United States	13	17	19	38	26
Japan	8	12	20	71	84
European Monetary Union	8	10	13	77	65
High income OECD	9	11	15	67	54

Source: (Basic data WDI 2005, Agriculture Statistics 2005, Acharya (2001)): Per capita rural income = agriculture value added (current US$) to rural population; Per capita urban income = (total GDP at current US$ less agriculture value added (current US$) to urban population (basic data WDI 2005); Indian agriculture Subsidy 1986-88 from Acharya (2001); Other data on Subsidy from OECD (2004) cited in GOI (2005).

However, the food price inflation in India has been traditionally much higher than those in developed countries such as the United States, Japan or Canada making it harder to export agricultural processed products. After remaining at an average annual rate of 9 per cent during 1981-90 and almost 11 per cent during 1991-98, the food price inflation has come down to the level of these countries only recently (Figure 1). The general inflation in India during 1998-2003 has been about 4.5 per cent and a similar trend continued during the later periods of 2004-2006. Clearly, if imports were going to reduce the food prices further, it would not be increasing the welfare of farmers, unless substantial gains are made through food based manufacturing export-enhancing strategies.

Figure 1: Food price inflation in selected countries (2000 = 100)



Source (basic data): World Development Indicators 2005, the World Bank

However, with agriculture subsidies and export promotions, developed countries have dominated the world agriculture market historically. More than 67 per cent of world food exports during 2001-03 originated from the high-income countries (Table 2), while countries such as India where more than 65 per cent people survive on agriculture, contributed only 1.1 per cent of food exports.

Table 2: Food Exports: Share (%) in World Food Exports

	1971-80	1981-90	1991-00	2001-03
China			2.5	3.1
India	1.1	0.9	1.0	1.1
East Asia & Pacific			7.9	9.0
European Monetary Union		31.5	35.7	35.8
High income	60.6	64.8	69.0	67.4
Latin America & Caribbean	11.6	10.2	10.4	12.2

Source (Basic data): World Development Indicators 2005, the World Bank.

Clearly, world food exports situation indicates that the Agreements on Agriculture (A-o-A) negotiations are more important for developed countries too. Given the high stakes and conflicts in interests, the A-o-A negotiations are no doubt going to be North-North as much as North-South. The interests of

Cairns group[1], the EU and the United States, are all wide apart. United States is trying to preserve subsidy on cotton while the European Union, is trying to preserve domestic support to food products. The least developed countries are still on the periphery.

It is very clear that expecting developed countries to maintain the rural-urban divide of the extent appearing in Table 1 is self-defeating. However, the often stated reasons to provide subsidy does not include these aspects. The commonly discussed objectives include (1) to make sure that enough food is produced to meet the country's needs; (2) to shield farmers from the effects of the natural calamities and swings in world prices and (3) to preserve rural society. If this was so simple then why should developed countries work hard to produce surplus food and take pains to export even in the absence of revealed comparative advantage? Food security does not require producing surpluses, neither it requires that surpluses be diverted to meet aid obligation for the least developed countries. On the other hand, transfer of technology could make the least developed countries more self-sufficient. Often a prolonged food aid program could render a country net importer of food due to the dependency created by circumstances. With such dependency, the governments cannot afford to raise tariff on food imports in order to encourage domestic production. Once such a vicious circle is created it becomes difficult to come out of it. EU gives huge amount of aid to least developed countries in the form of food and other subsidised products. It is argued that the US grain imports and cheap EU exports of subsidized beef into Africa had destroyed the pastoral economy including small-scale cattle growers in Sub-Saharan Africa.

However, the problem of developing countries like India gets escalated, when it is asked to give agriculture market access to the developing countries by reducing tariff, particularly in a situation where India cannot afford to adopt alternative schemes like detached income, an option already existing in the developed world. India is a net exporter in the agriculture sector and therefore, it

[1] A group formed in 1986 at Cairns, Australia. The group includes major food exporters from both developed and developing countries: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, Thailand, South Africa, and Uruguay

is likely to be benefited by provisions of Agreement on Agriculture (A-o-A). However, it is important to note that the gains from agriculture exports may not outsmart the losses incurred on account of compromising the market access in industry and services. For India to take advantage of the reduction in tariff in industrial sector and conceding access to services, requires it to develop comparative advantage in these areas quickly. The development agenda of the WTO is a constructive tool in this regard and the directions of future negotiations are critical for its success.

With respect to Swiss formula concerning tariff reduction, the current proposals would translate in a reduction of the EU's average bound rates to 2.3 per cent and that of the US to 2.1 per cent (Lamy 2006). Considering the fact that these two Members absorb about 28 per cent of India's manufactured export products, such reductions could substantially affect India's total exports in a market where its goods 'already suffer hugely from the discrimination resulting from trade preferences to most of its competitors in the EU and North American markets' (Panagariya, 2004). Therefore, at the outset, it is believed that India has most to gain from a successful completion of the Doha round.

It is in this context, this paper examines issues related to India's agriculture trade, policies, and its potential strategies for negotiations with respect to agenda concerning agriculture. Rest of the paper is organised as follows. Section 2 presents an overview of the extent of agriculture trade in the World and in India. Agriculture and the World Trade Organization with particular emphasis on the Agreements on Agriculture (A-o-A) and India's standing on A-o-A are discussed in section 3. We present the readiness of India for international integration with respect to its current agriculture policy regime in section 4. Overall conclusions of this paper are drawn in Section 5.

2. Trade in agriculture thus far: World and India

Whether the WTO regime has been successful in accelerating growth in trade in general and agriculture trade in particular, remains a matter of debate and so are the possible welfare gains and likely beneficiaries of proposed trade liberalization in agriculture sector. The average import duty on international

goods in developed countries was around 40 per cent during 1948, which has been brought down to 6.4 per cent by 1990 as a result of efforts by GATT. This is reflected in high growth in world trade during 1960s and 1970s (Table 3 and Figure 2). However, the average growth of global agriculture exports during 1980s and 1990s has been just around 3.3 per cent while total exports have grown by more than six per cent (Table 3).

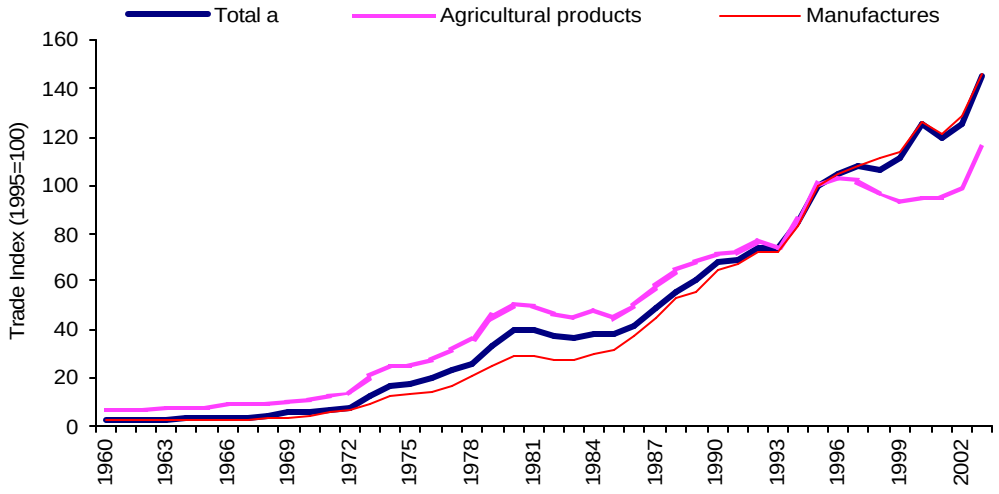
It is only during 2003 that agriculture exports recorded a double digit growth of about 16 per cent pulling up the average for 2001-03 to seven per cent. As a result of the prolonged sluggishness in agriculture exports growth, their share in total exports has reduced to almost 9.8 per cent during 2001-03 (average) as compared to almost 20 per cent during early 1970s. Such trends are observed across all segments of countries with respect to food exports and food imports (Table 4). Only the sub-Sahara Africa has recorded improvement in agriculture exports and imports growth.

Table 3: Average growth in global exports (annual per cent)

	Total	Agricultural products	Mining products	Manufactures
1961-70	7.8	4.8	10.1	10.8
1971-80	21.6	17.2	30.6	19.4
1981-90	5.7	3.6	-0.7	8.7
1991-00	6.5	3.1	6.9	7.0
2001-03	5.4	7.2	4.2	5.3

Source (basic data): WTO (2005): World Trade Statistics

Figure 2: Pattern of world trade in agriculture and other commodities



Source (basic data): WTO world trade statistics

Table 4: Food exports (% of merchandise exports) and Food imports (% of merchandise imports)

	Imports					Exports				
	1961-70	1971-80	1981-90	1991-00	2001-03	1961-70	1971-80	1981-90	1991-00	2001-03
Food exports (% of merchandise exports)										
China			8.4	4.9	3.6			14.2	8.6	4.9
India	23.0	16.5	7.7	5.1	5.8	33.8	31.5	22.2	16.5	12.2
European Monetary Union	19.3	15.0	12.0	10.4	8.8	16.6	13.2	11.6	10.2	8.9
High income	19.1	13.5	9.9	8.4	7.4	15.9	12.5	10.0	8.1	7.1
Latin America & Caribbean	9.9	11.2	11.9	8.8	7.9	46.2	38.7	25.2	20.9	18.3
Low income	20.3	17.3	12.9	11.6	9.6	38.1	30.8	23.6	19.9	21.0
Middle income		12.2	10.9	8.6	8.0			18.9	13.1	9.7
Sub-Saharan Africa		10.8	12.2	13.0	14.3			16.4	18.2	19.8
							27.2			
World	18.4	13.4	10.1	8.5	7.5	19.4	15.6	12.0	9.3	7.9

Source (basic data): World Development Indicators 2005, the World Bank

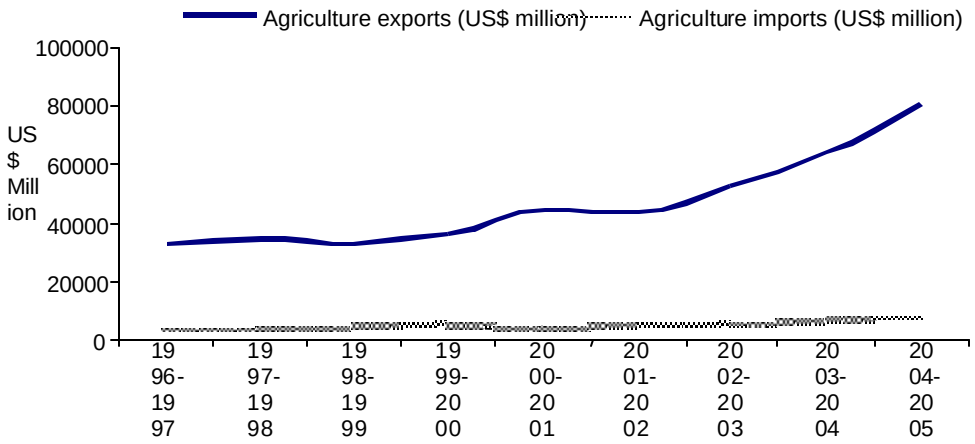
India's Comparative Advantage in Agriculture and trade related performance

At present, India is a net food exporter. In fact, its share of exports in world exports is greater for agriculture than it is for manufactured products, the total export share being less than one per cent. India's agricultural exports have continuously grown since 1999 (Figure 3). Therefore, India is likely to gain if the EU, the US, Japan and other major agriculture subsidisers significantly reduce their farm subsidies. The same can be said of the elimination of export subsidies on cotton by 2006. It is also in India's interests that other countries decrease tariffs to its farm exports on products such as cotton, basmati rice, fish or meat. India will have to tap other markets also in order to keep pace with its export growth in manufacturing. The share of Indian exports in agriculture is sliding down as compared to manufacturing (Figure 4). These labour-intensive exports are expected to grow much faster and potential areas include textiles and food processing translating into benefits across a large group of farmers and contributing to stabilising their incomes**.** India has demonstrated revealed comparative advantage (RCA) in almost all the products it exports, and even in

those products it imports (Table 5). Therefore, India enjoys a large range of products where it could successfully enhance its capacity to export.

India is the third largest producer of cotton in the world and second-largest producer of cotton yarns and textiles. On January 1, 2005, developed countries removed import quotas on textile products previously sanctioned by the 1974 Multi-fibre Arrangement (MFA). This change provides a major opportunity for India to expand production and exports of textiles and apparel to developed country markets. India, like other countries such as China have been preparing for this occasion through relaxation in investment restrictions for modernisation of plants and manufacturing processes.

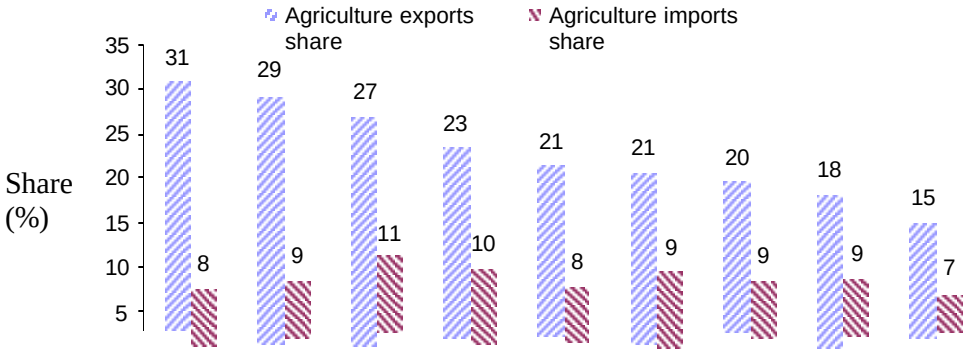
Figure 3: India's agriculture trade



Source (basic data): Monthly Statistics of Foreign Trade, Government of India (various years)

However, India has been lagging to its key competitor, China in liberalising the economy. With demonstrated comparative advantage in production of both raw cotton and textiles, it is expected that India will continue to adopt policies favourable for cotton and textiles exports.

Figure 4: India's agriculture trade: share in total trade



Source (basic data): Monthly Statistics of Foreign Trade, Government of India (various years)

Table 5: India's agriculture trade profile (average 2002/03-04/05)

HS code	Item	Share in total agriculture export	Share in total agriculture imports	Export based RCA 2003
2	MEAT AND EDIBLE MEAT OFFAL.	3	0	0.8
3	FISH AND CRUSTACEANS, MOLLUSCS AND OTHER AQUATIC INVERTABRATES.	11	0	3.2
4	DAIRY PRODUCE; BIRDS' EGGS; NATURAL HONEY; EDIBLE PROD. OF ANIMAL ORIGIN, NOT ELSEWHERE SPEC. OR INCLUDED.	1	0	0.3
7	EDIBLE VEGETABLES AND CERTAIN ROOTS AND TUBERS.	3	8	1.3
8	EDIBLE FRUIT AND NUTS; PEEL OR CITRUS FRUIT OR MELONS.	5	8	1.7
9	COFFEE, TEA, MATE AND SPICES.	6	2	6.4
10	CEREALS.	15	0	4.5
12	OIL SEEDS AND OLEA. FRUITS; MISC. GRAINS, SEEDS AND FRUIT; INDUSTRIAL OR MEDICINAL PLANTS; STRAW AND FODDER.	3	1	1.8
13	LAC; GUMS, RESINS AND OTHER VEGETABLE SAPS AND EXTRACTS.	2	1	10.2
15	ANIMAL OR VEGETABLE FATS AND OILS AND THEIR CLEAVAGE PRODUCTS; PRE. EDIBLE FATS; ANIMAL OR VEGETABLE WAXEX.	2	36	0.8
17	SUGARS AND SUGAR CONFECTIONERY.	2	2	1.9
23	RESIDUES AND WASTE FROM THE FOOD INDUSTRIES; PREPARED ANIMAL FODER.	5	1	3.3
24	TOBACCO AND MANUFACTURED TOBACCO SUBSTITUTES.	2	0	1.3
40	RUBBER AND ARTICLES THEREOF.	6	8	1.0
41	RAW HIDES AND SKINS (OTHER THAN FURSKINS) AND LEATHER	5	4	1.3
44	WOOD AND ARTICLES OF WOOD; WOOD CHARCOAL.	1	10	0.1
47	PULP OF WOOD OR OF OTHER FIBROUS CELLULOSIC MATERIAL; WASTE AND SCRAP OF PAPER OR PAPERBOARD.	0	6	0.0
51	WOOL, FINE OR COARSE ANIMAL HAIR, HORSEHAIR YARN AND WOVEN FABRIC.	1	3	-
52	COTTON.	20	6	7.8

Source (basic data): Monthly Statistics of Foreign Trade, Government of India (various years)

3. Agreement on Agriculture (A-o-A) and India

The success of the Agreement on Textiles and Clothing has given legitimate boosts and seriousness to multilateral trading system. Agreement on Textiles and Clothing, which promised to put an end to the country-by-country quotas on imports of textiles and clothing imposed by the major developed countries including the United States and European Union became a reality from January 1, 2005. On the other hand, the success of the Agreement on Agriculture in liberalizing agriculture was less than expected but it has opened the door to future liberalization and concrete results are expected in near future.

3.1. Agreement on Agriculture (A-o-A) or URAA:

The core objective of A-o-A is to establish a fair and market-oriented agricultural trading system. Its implementation period was six years for developed countries and nine for developing countries, starting with the date the agreement came into effect - January 1, 1995. These dates are now extended under a built-in provision of A-o-A of own review and renewal. That renegotiation is now underway, under the terms set at the fourth WTO ministerial conference in Doha and the Framework Decision agreed at the WTO General Council on August 1, 2004. The AoA comprises three sections referred to as three pillars of the agreement:

1. Market access,
2. Domestic support and
3. Export subsidies.

However at the outset, the agreement notes that the reform program should be made in an equitable way among all Members, having regard to non-trade concerns, including food security and the need to protect the environment; having regard to the agreement that special and differential treatment (SDT) for developing countries is an integral element of the negotiations, and taking into account the possible negative effects of the implementation of the reform program on least-developed and net food-importing developing countries. In addition, there are provisions of Special Products and Sensitive Products, which are to be exempted from stringent discipline of the above provisions of the A-o-

A. Provision of Special Products designates a certain number of products of the developing countries that would be exempt from tariff reduction requirements and other disciplines in order to protect and promote food production, livelihood security and rural development. The key issues here are associated with the mechanism to decide on country-wise crops. In the case of developed countries also, certain products, based on political, social and cultural considerations are designated as Sensitive Products, which will be treated less stringently. Here the main dispute lies between the United States, which has proposed 1 per cent of the tariff lines for such products while the EU is asking for 8 per cent of the tariff line.

These above pillars require cuts in protections against imports or promotion of exports. These cuts are summarised in Table 6 and discussed briefly in the subsequent paragraphs.

Table 6: Main provisions of the Agreement on Agriculture as derived from Uruguay Round

Negotiated Reduction	Implementation period	
	Developed countries (1995-2000)	Developing countries (1995-2004)
	Per cent	Per cent
Market access		
Average tariff cut for al agriculture products	-36	-24
Minimum tariff cut per product	-15	-10
Domestic Support		
Total cut in aggregate measure of support	-20	-13
Export subsidy		
Value cut	-36	-24
Volume cut	-21	-14

Note: Least developed countries were required to bind their tariffs but are otherwise exempted from reduction commitments.

Source: WTO secretariat at www.wto.org

Market Access:

The market access requires that tariffs fixed by individual countries be cut progressively to allow free trade. Since different countries fixed their tariffs at different levels confronting the interest of each other, several harmonizing formula such as Uruguay Round formula, Swiss formula, Girard formula, and Canadian "income tax" formula were suggested to cut tariffs in which steeper cuts are suggested on higher tariffs, so as to bring all the international tariffs closer to almost the same level. All these formula have unique coefficients with different effects. The developed countries preferred Swiss mathematical Formula in which the coefficients also determine the maximum tariff where the starting tariffs will end up. For example, if the coefficient is 20, then a very high starting tariff will end up with a national tariff of exactly 20 percent and lower starting tariffs will end up proportionately lower, close to 20 percent as well. The developing countries do not like this formula because it quickly brings them closure to the competition, a situation they are not prepared. The key arguments is that the developed countries want to deprive developing countries a facility that has been extensively used by them to achieve current state of their economy. Other formulae are more flexible. For example the formula used in the Uruguay Round for agricultural tariff reductions required that tariffs be cut by a percentage average over a number of years; in that the developed countries agreed to cut tariffs by an average of 36 percent over six years with a minimum of 15 percent on each product; some cuts could be greater than others and thus the combination of average and minimum reductions allows countries the flexibility to vary their actual tariff reductions on individual products.

Domestic support and the little boxes

The A-o-A broadly subdivides domestic support programs into three boxes with colours, green, blue and amber and two other categories namely *Development measures* and *de minimis*. Under current WTO rules, countries are free to employ subsidies under the "green" and "blue" boxes, certain *development measures*, and the *de minimis* subsidies. In addition there are some Non-trade concerns (NTCs) listed in the preamble to the A-o-A, which can be used to legitimize government programs that run contrary to the market-oriented agricultural trading system. They include food security, rural development and

environmental protection. The European Union wants to include animal welfare and eco-labeling as NTCs.

Subsidies in the Green box (A-o-A Annex 2) have no or minimal distorting effect on production and hence trade. They include measures decoupled from output such as income-support payments (decoupled income support), safety-net programs, payments under environmental programs, and agricultural research-and-development subsidies.

The Blue box (A-o-A Article 6.5) contains direct payments under production-limiting programs. They cover payments based on acreage, yield, or number of livestock in a base year. Because countries are allowed to revise the base year over time, subsidies in the blue box may have an effect on current output. Both the United States and the EU's Common Agricultural Policy rely heavily on such programs.

Development measures cover direct or indirect permitted (A-o-A article 6.2) assistance aimed at encouraging agricultural and rural development in developing countries and is allowed. They include investment subsidies generally available to agriculture such as research and development, extension programs, and soil and water conservation; and agricultural input subsidies available to low-income or resource-poor farmers such as fertilizer, water, and electricity. Under the *de minimis* provision, developed countries are allowed to use other subsidies with an aggregate value of up to 5 percent of the total value of domestic agricultural production in the case of developed countries and 10 per cent in the case of developing countries.

The Amber Box (A-o-A Article 6) contains category of domestic support that is scheduled for reduction based on a formula called the "Aggregate Measure of Support" (AMS). The AMS calculates the amount of money spent by governments on agricultural production, except for those contained in the Blue Box, Green Box and de minimis. It required member countries to report their total AMS for the period between 1986 and 1988, bind it, and reduce it according to an agreed-upon schedule. Developed countries agreed to reduce these figures by 20% over six years starting in 1995. Developing countries

agreed to make 13% cuts over 10 years. Least-developed countries do not need to make any cuts.

Export support

Export support include trade distorting programs such as Export Subsidy, State Trading Enterprises[2], Export Credits, Special and Differential Treatment, Special Products, and Sensitive Products aimed at benefiting the domestic producers against the international competition. A-o-A tends to eliminate or minimize such supports.

Export subsidies are government payments to the exporting firms directed to encourage use of inputs from the domestic resources. Accordingly, an export subsidy program will pay the difference between a more expensive domestic input and a cheaper imported alternative in order to encourage exporters to buy inputs from domestic market. Dairy products and sugar in EU continue to receive considerable export subsidies. The U.S. Step 2 program subsidizes its cotton production through U.S. exporting firms.

Export credits given by a government to underwrite the cost of doing business on commercial terms also amounts to export subsidy. Often, the United States is criticized for such policies where the United States Government gives credit to its domestic companies to deliver goods in another country but the payments are recovered from the importing countries government in long installments and cheaper interest rate making it more lucrative for the poor countries to import from the United States. This is also one of the major points of dispute between the United States and the EU and it is now agreed that such credit line will not exceed 180 days.

3.2. Doha Round: brief of the package encompassing A-o-A

The Fourth WTO Ministerial Conference was held in Doha, Qatar from 9 to 14 November 2001. In fact, the Doha Ministerial was a starting of a new round with unique feature foc used on implementation of A-o-A and "Development" of the developing countries so that they could meaningfully become part of the

[2] Article XVII of the GATT 1994 deals with state trading enterprises and their operations

multilateral global trading system. The following Fifth WTO Ministerial Conference held in Cancun, Mexico from 10 to 14 September 2003 was dedicated to stock taking of progress in negotiations and other work under the Doha Development Agenda (DDA). However, the DDA required correcting the imbalances that penalize developing countries and improve the commitment of WTO members. The modalities[3] for the Doha Round are to be completed by the end of April 2006, the draft schedule based on these modalities by 31 July 2006 and the Round is expected to conclude by the end of 2006, a date chosen carefully for the Ministerial Meeting when the term of 'Trade Promotion Authority of the United States' ends. In this round the latest Ministerial was held in Hong Kong Ministerial (Dec 13-18, 2005), which has given some hope for success as for the first time developing countries have managed to get a mention from developed countries of reduction in their subsidies otherwise most of the previous commitments have been falsified. The issues related to implementation of A-o-A dominate the Doha Round and they include:

1. High agriculture trade distorting subsidies granted by rich countries
2. Agriculture export subsidies
3. High tariffs on exports of agricultural and industrial products of interest to developing countries

However, at various Ministerial negotiations new items from other agenda have been added to make it a comprehensive round. For example, the modalities of the A-o-A are being coupled with GATS, and investment issues. Therefore, the proposals for negotiation have transformed to include among others the following (list of all items is provided in following sub-section):

1. On agriculture, 2013 as the end date for the elimination of export subsidies with an important part frontloaded by 2010
2. Agreement that the EU, US and Japan will undertake the biggest reductions on agricultural subsidies that distort trade and that these will be effective cuts, which is a serious improvement as compared to the previous round.

[3] Modalities describe the kind of commitments or targets (including numerical targets) that governments make in a trade agreement. The negotiations are all about modalities. They determine what is forbidden, what is allowed, how things should change and at what pace. Modalities are complemented by the schedules and together these complete an agreement.

3. On cotton, which is of key importance to many African countries, export subsidies on cotton to be eliminated by 2006 and cuts to domestic subsidies will be greater and faster than for the rest of products.

4. Special agriculture products and a safeguard to protect those agricultural products of developing countries with concerns about livelihood security, food security and rural development

5. On industrial products, a Swiss formula to cut tariffs, with high tariffs subject to bigger cuts, thus addressing tariffs peaks and tariff escalation in particular on products of interest for developing countries. Developing countries will for a start cut tariffs only in proportion to the cuts by developed countries.

6. A step forward towards a completely duty-free and quota-free access for the world poorest country Members of the WTO

7. On Services, the door has been opened to plurilateral negotiations

8. Countries have started tabling collective requests in the services of sectors that are of particular interest to them

9. Aid for Trade package, to help developing countries address their supply-side constraints

(Lamy 2006)

3.3. India's Ministerial Positions at Doha rounds and on A-o-A

Pascal Lamy, WTO General Secretary visited India on April 5 2006 for the second time in last six months, which is an indicator of the gravity of problems being faced by Indians in meeting the demands of developed countries. The Indian position is that the development agenda and the farmers' interest cannot be diluted and that the industrial and agriculture issues should not be mixed, while at the same time the Indian negotiators feel that no change is made in subsidy position of the developed countries, yet new elements are being introduced. Nevertheless the Indian leadership has come up to the age of globalization and is slowly shedding its defensive posture and it has been demonstrating dynamism in the WTO negotiations.

India rejected the idea of introducing new issues such as Investment, Competition, Trade Facilitation or Transparency in Government Procurement, and did not consider the basic trade principles like non-discrimination or market

access appropriate for dealing with issues like Investment and Competition. The Minister for Commerce and Industry raised the concerns that sensitive industries in developing countries including small-scale industries, which sustain a large labour force, could be destroyed. India was firmly opposed to any linkage between trade and labour standards and recalled that the Singapore Declaration had once and for all dealt with this issue and there was no need to refer to it again. Similarly, on environment, India was strongly opposed to the use of environmental measures for protectionist purposes and to imposition of unilateral trade restrictive measures and considered that the existing WTO rules were adequate to deal with all legitimate environmental concerns. In fact the Minister termed them as Trojan horses of protectionism.

Doha Ministerial was saved from failure to continue the work program. The African countries, deserted Indian hopes because they were promised the continuation of their trade preferences into the EU market for some more years. However, to the windfall pleasure of India, the round was launched with services brought into the fold of international rules through the General Agreement on Trade in Services (GATS).

At the Cancun Ministerial (10-14 September 2003), India felt that the draft Cancún Ministerial Text was grossly inadequate on implementation issues, precision, operational and effectiveness and fixing responsibility and would severely affect the interests of developing countries in agriculture, industrial tariffs and Singapore issues. There was no progress in removing barriers to export from developing countries to the developed countries.

India argued that all the time-lines set at Doha for their resolution have been breached. On certain issues even the mandate itself has been questioned. To make matters worse, the draft Ministerial text accords low priority to these issues. It does not envisage any time-frame for taking decisions for resolving outstanding issues. This is in sharp contrast to the issues of interest to developed countries for which time-lines have been provided for taking decisions.

On agriculture subsidies, India argued that the prevailing subsidies in the developed countries were not targeted to keeping small struggling family farms

in business but to provide hefty rents to large farmers or corporates. On the other hand, against equity, justice and fair play, developing countries are being asked to liberalize their agriculture.

India felt there was an urgent need to bring down the high tariffs and non-tariff barriers on products of export interest to developing countries while ensuring that special and differential treatment for developing countries and policy space to deal with sensitive products remain an integral part of all elements of negotiations. India reiterates that under no circumstances can it accept any form or harmonization of tariffs in agriculture or obligations to create and expand tariff rate quotas.

On market access negotiations on non-agricultural products (NAMA), India favored the formula mandated by the Doha Declaration, without any amendment in any aspect of the formula.

On investment, (one of the Singapore issues, others being, competition, transparency in government procurement, and trade facilitation) India felt that WTO was not the right forum, that the traditional WTO principles of non-discrimination particularly national treatment are not appropriate for a development policy-related issue like investment and that trade negotiators are not the right people to deal with movements of capital that have dynamics of their own. It may be noted that China nor Brazil do not share this sentiment.

There was failure to adopt Draft Ministerial Declaration and it was left for further work and resulting delays. India was more progressive as it offered to undertake modest liberalisation in industrial products and agreed to negotiate on two of the four so-called Singapore issues: transparency in government procurement and trade facilitation. Why did then the negotiations fail? Panagariya (2004) blames western Non Government Organizations (NGOs), their media campaign that the current trading system is unfair to the poor countries and also the role of the United States, which departed from Cairns group and joined EU, the later having too ambitious agenda on including investment and competition.

At the Hong Kong Ministerial (13 - 18 December 2005), on agriculture trade and subsidies and other non-tariff barriers, India quipped that its farmers are quite willing to deal with trade flows – but not with an avalanche of subsidy flows from developed countries. India argued that exporters from developing countries face incredible non-tariff barriers. These include the abuse of both anti-dumping measures and technical standards, often dealing with peripheral matters and extraneous considerations. India also insisted the need to finalize the proposal for duty-free and quota-free access for exports of least developed countries to developed country markets, without hedging. On development, India holds the view that no single 'harmonized' development strategy could be adopted. Each country must choose the path that best suits its own genius. Clearly, a room for negotiation has been created.

3.4 Contentious issues and on-going Debate

The main complaint about policies supporting domestic prices, subsidized production and subsidised exports is that they encourage over-production. This works as deterrent to imports and promotes low-priced dumping on world markets. However, there are also arguments in favour of subsidies, particularly in the case of net importers of agriculture products. Such countries do benefit from imports at suppressed prices, (see for example (Panagariya, 2005). Nevertheless, depending on prolonged food aid program could render a country net importer of food due to the dependency created by circumstances and could discourage domestic production. Once such a vicious circle is created it becomes difficult to come out of it.

Agriculture subsidies

About 84 percent of farmer households in India survive with less than 2.0 hectare of land with average size of their holding being 0.63 hectare, while average size of all holdings in India is just about 1.4 hectare. Survival of such farmers is at stake if they do not get alternative means of livelihood. Where will these farmers get employment if Indian markets are flooded with foreign agricultural products under the market access program?

In India the product-specific support is negative, while the non-product specific support i.e., subsidies on agricultural inputs, such as, power, irrigation, fertilisers etc., is well below the permissible level of 10 per cent of the value of agricultural output. Therefore, India is under no obligation to reduce domestic support currently extended to the agricultural sector. Yet, subsidies are wisely considered burden in India and they are being rationalized.

On the other hand, domestic subsidies in OECD countries during 2002 accounted for about US$ 226.5 billion (Table 6), which has increased to US$279.5 billion in 2004.

United States spent US$4 billion as subsidy to support its 25,000 cotton producers (US$160, 000 per producer) in 2003.[4] It is also argued that in countries such as United States, subsidies are enjoyed by a selected few, mostly producing corn, wheat, cotton, soybean, and rice, while growers of 400 other crops hardly get any such subsidy. Because of income and price support programs, the farmers in OECD countries are reported to use high levels of pesticides, fertilizers and herbicides in order to increase productivity of the land and maximize profits. But, these acts also lead to pollution of rivers and lakes. Therefore, in overall assessment, it is argued that the social benefits of subsidies may be much less and deserve to be curtailed (Cooper 2004) and also see information uploaded at www.ewg.org/farm/).

Table (6) compares 2002 values of subsidy for India and selected OECD countries. Subsidy constitutes almost 54 percent of the agriculture value added in OECD as compared to seven per cent in India. This figure will further go down when taken as percentage of value of agriculture output.

Opposition to subsidy is also from within than outside. In the case of United States six reasons are promoted to kill farm subsidy: (1) Lower Food Prices for American Families, (2) Lower Costs and increased Exports for American Companies, (3) Budget Savings and Equity for the U.S. Tax Payers, (4) More Environment friendly Land Use, (5) Lager Market for U.S. Farmers and

[4] Oxfam, “Agriculture Dumping in Africa.” July 8, 2003.

Economic Diversification for Rural America, and (6) A more Hospitable World (Griswold, Slivinsy and Preble 2006).

It is not that, the farmers in OECD countries will become jobless if subsidies are removed. The population dependency on farm is extremely thin in these countries. It is not like India, where more than 60 per cent of the population depends on farm. In OECD countries the farmers can easily switch to better options quickly as demonstrated in New Zealand, which was heavily subsidizing its sheep farmers until 1984. The sheep farm subsidy was completely removed within a span of one year after 1984 and today New Zealand is one of the least subsidized countries among OECD countries, with a subsidy incidence of just about 0.3 billion (3 per cent of total farm receipt as compared to 30 per cent in OECD)[5] in 2004.

Table 6: Rural population condition and incidence of subsidy (2002)

	Rural population (million)	Agriculture value added (US$) per capita rural population (2002 or latest available)	Agriculture value added (PPP international $) per capita rural population (2002 or latest available)	Total subsidy US$ (million)	Total subsidy: PPP based International $ (million)	Subsidy per capita rural population US$	Subsidy per capita rural population PPP based International $	Subsidy as %age of Agriculture value added
India	754	140	768	7206	39605	10	53	7
Canada	7	2340	3024	4798	6200	732	946	31
USA	64	2340	2324	39105	38844	608	604	26
Japan	27	1979	1701	44162	37968	1657	1424	84
EMU	68	2050	2450	91407	109214	1337	1598	65
OECD	188	2226	2334	226451	237431	1203	1262	54

Source (basic data): OECD 2005 cited in GOI (2005): Agriculture Statistics 2005, WDI 2005

How much agricultural production subsidy and agricultural export promotion subsidy may developed countries provide to their farmers without significant opposition from developing countries?

Drawing on the game theoretical model of Gershenson and Grossman (2000), a simple model can be formulated to answer the above question. Let us assume

[5] Agriculture policies in OECD Countries: Monitoring and Evaluation 2005, OECD, Paris, 2005.

that there are two countries – a developed country (DDC) and a developing country (DGC) – struggling to succeed with their agricultural trade policy options. The DDC will always try to be stern on its trade policy options, particularly the agricultural subsidies and agricultural export promotion measures, while the DGC will seek to eliminate DDC's agricultural subsidies, its agricultural trade restrictions on DGC's agricultural exports, and also to protect its industrial and agricultural sectors arising as a consequence of the restrictive agricultural trade policy of the DDC. We assume that both DDC and DGC maximize expected benefits they seek by engaging in A-o-A negotiations in WTO to achieve their respective trade policy options. Let B1 denote the expected payoff for the DDC should it succeed in convincing the DGC to accept its trade policy options of agricultural subsidies and agricultural export promotion measures. In quantitative terms, this is equal to the product of its probability that the DDC succeeds in retaining its agricultural subsidies and exports promotion measures (T1), and the value in socio-economic terms that DDC attaches to retaining its existing subsidy policy (V1), minus the amount that the DDC spends on subsidies and export promotion measures (S1). It chooses S1 to maximize T1, where

$$B1 = [(T1)(V1)] - S1. \qquad (1)$$

It is assumed that V1 is a positive function of economic resources (GDP1) of DDC, and $\frac{\partial V1}{\partial GDP1} > 0$. S1 is the nonnegative amount that the DDC spends on agricultural subsidies and export promotion measures.

The expected payoff for the DGC is denoted as B2. It is equal to the product of the probability (1-T1) that the DGC gains towards DDC's abolition of agricultural subsidies and opening up the DDC for the agricultural trade of DGC and the value in socio-economic terms that the DGC attaches to gaining from the removal of the DDC's subsidies to its agricultural sector and from access for its agricultural trade into the DDC (V2), minus the amount, S2 that the DGC spends on protecting its industry and agriculture sectors in a way challenging the existing trade policy option of the DDC. The DGC chooses S2 to maximize B2 in a such way that

$$B2 = (1 - T1)V2 - S2 \qquad (2)$$

It is assumed that V2 is a negative function of economic resources (GDP2) of the DGC, where $\frac{\partial V2}{\partial GDP2} < 0$. S2 is the nonnegative amount that the DGC spends on protecting its agriculture and industry sectors.

This analysis further assumes that the initial resources available to both DDC and DGC are sufficient to finance the implied amounts of spending S1 and S2. In order to focus on the implications of differences in the values that both DDC and DGC attach to their agricultural trade policies, the following two assumptions are made: (i) V1 is not necessarily equal to V2 because, the DDC may have a better alternative than the DCG in case that it is not possible to continue its agricultural trade policy of subsidies and export promotion measures; and (ii) V1 and V2 are given. To determine the probability that the DDC succeeds in retaining its subsidy policy, it is assumed that T1 depends on S1, S2, and l. Drawing on the 'contest-success function', we may write [6],

$$T1 = \frac{S1}{S1 + lS2} \qquad (3)$$

If the DGC agrees to the trade policy option of the DDC, then S2 equals zero. In equation (3), the nonnegative parameter l measures the effectiveness of lobbying for the removal of subsidies by the DGC relative to the lobbying of retaining the subsidies given by the DDC. In equation (3), T1 is an increasing function of S1 and a decreasing function of S2. Precisely, equation (3) implies that,

$$\frac{\partial T1}{\partial S1} = \frac{lS2}{(S1 + lS2)^2} \quad \text{and} \quad \frac{\partial T1}{\partial S2} = \frac{lS1}{(S1 + lS2)^2} \qquad (4)$$

How should S1 be chosen by DDC in order to receive support from the DGC for its agricultural trade policy? In order to maximise its expected payoff, B1, the DDC chooses S1 to satisfy the first order condition,

[6] A 'contest success function is a mathematical relation whose inputs are the amounts of resources devoted to conflict by each one of the contestants and whose output is the division of the contested prize between

$$\frac{\partial B1}{\partial S1} = \left[\frac{\partial T1}{\partial S1} + \frac{\partial T1}{\partial S2}\frac{\partial S2}{\partial S1}\right] V1 - 1 \tag{5}$$

$$\frac{\partial B1}{\partial S1} = \left[\frac{lS2}{(S1 + lS2)^2} + \frac{-lS1}{(S1 + lS2)^2}\left\{\frac{1}{2}\sqrt{\frac{V2}{lS1}} - \frac{1}{l}\right\}\right] V1 - 1$$

With the assumptions that S2 is equal to zero and B1 is a decreasing linear function of S1, equations (1) and (3) imply either that B1 has an interior maximum at a value of S1 that satisfies

$$\frac{\partial B1}{\partial S1} = 0 \text{ with } 0 < S1 < lV2 \tag{6}$$

or that B1 is maximised at $S1 = lV2$ with

$$\frac{\partial B1}{\partial S1} > 0 \text{ for all } S1 < lV2 \tag{7}$$

Equation (6) indicates that if the DDC chooses subsidies and export promotion measures, S1 less than l times the value that the DGC attaches to gaining in socio-economic terms from the removal of subsidies and export promotion measures (V2) of DDC, then S1 is such that there will be zero marginal increase in benefit due to the marginal increase in S1. The marginal benefit of S1 includes both a direct effect of S1 on T1 and an indirect effect of S1 on T1 via the effect of S1 on S2.

On the other hand, equation (7) states that if the DDC chooses S1 equal to $lV2$, then for all values of S1 less than $lV2$, the marginal benefit of S1 exceeds the marginal cost. Therefore, the DDC would be interested in situations in which S1 $\geq lV2$.

Now, substituting values for the terms on R.H.S. in equation (5), conditions given in equations (6) and (7), imply that

$$S1 = \frac{1}{4l}\frac{V1^2}{V2} < lV2 \quad \text{for } \frac{V1}{V2} < 2l \tag{8}$$

$$S1 = lV2 \quad \text{for } \frac{V1}{V2} \geq 2l \tag{9}$$

them, or the average expected likelihood of success for each one of the contestants. For a comprehensive analysis, see Hirshleifer (2001).

Equation (8) shows that for $\frac{V1}{V2}$ is less than $2l$ implies that the DGC spends a positive amount on protection of its sectors in response to the level of subsidies and export promotion measures used by the DDC. Thus, as long as $\frac{V1}{V2}$ is smaller than $2l$, the existing subsidy policy results not in conflict with the DGC. In this situation, $\frac{1}{4l}\frac{V1^2}{V2}$ is the amount that the DDC chooses to spend on agricultural subsidies and export promotion measures, which is less than $lV2$ and an insufficient amount to create a potential conflict with the DGC.

On the other hand, equation (9) indicates that if $\frac{V1}{V2}$ is as large as or larger than $2l$, this means that the amount of agricultural subsidies and export promotion measures spent by the DDC is sufficient to trigger strong opposition for its agricultural policy from the DGC. Though it may be difficult to measure accurately, V1, V2, and l, which is also beyond the scope of this paper, data given in Table 6 facilitate conjecturing that the ratio $\frac{V1}{V2}$ might be as large as or larger than $2l$. That could be the reason that in the Doha Round of Hong Kong Ministerial (Dec 13-18, 2005), for the first time developing countries have managed to get a mention of reduction in subsidies by developed countries.

4. India's Readiness: Agriculture Policy Regime

As a general policy of trade reforms in India, some 1,400 quantitative restrictions including those on agriculture products were replaced by the custom tariffs. While tariff rates have been declining and aimed to achieve the level of ASEAN countries, the average MFN tariff[7] is still over 20 per cent. However, almost all the tariff lines in the case of agriculture are bound[8]. The average

[7] The MFN tariff is based on "standard" rates of duty, which are statutory tariffs and may only be changed through legislation.

[8] Binding plays an important role in signaling to the business community an upper limit for possible tariff increases. As a result of the Uruguay Round negotiations, India had bound about 67 per cent of its tariff lines, while applied tariff were kept below bound rates. Subsequently, India submitted rectification and modifications of its schedule under Article XXVIII: 1 of the GATT, 1994 and increased the number of bound tariffs from 67%, to 72.4% in 2001. Bindings have been undertaken for previously unbound products, such as textiles and clothing, while India renegotiated some commitments on previously bound

applied tariff on agriculture products in 2004 was about 49 per cent while the average bound rate was 125 per cent. In addition, anti-dumping measures have become an important element in India's trade policy.

With the removal of QRs on Indiaís imports, apprehensions have been expressed that such removal may impact the domestic producers adversely and result in a surge and dumping of imports into the country. However, necessary mechanisms have been put in place to provide adequate protection and a level playing field to domestic players vis-à-vis imports. Appropriate tariffication, at peak customs duty, have been effected for these QRs. A number of agricultural and horticultural products placed on the free list of imports in earlier years have also been brought to the peak rate to ensure adequate protection to Indian farmers. Tariff binding for such products have also been renegotiated at substantially higher levels. For sensitive agricultural products, suitable enabling provision has been made to fix the statutory tariff rates at appropriate high levels. It has also been decided to amend the 1992 Foreign Trade (Development & Regulation) Act for vesting the Government with necessary powers to impose QRs as a temporary safeguard measure. EXIM Policy announced on 31.3.2001 further provides for the following measures to protect the domestic producers:

- Import of agricultural products like wheat, rice, maize, other coarse cereals, copra and coconut oil has been placed in the category of State Trading. The nominated State Trading Enterprise will conduct the imports of these commodities solely as per commercial considerations. Similarly, import of petroleum products including petrol, diesel and ATF has also been placed in the category of State Trading. Import of urea will also be done through the mechanism of State Trading.

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items, relating mainly to agriculture. India bound 100% of all agricultural lines (under the WTO definition of agriculture) and 68.2% of lines for non-agricultural products. Bindings were not made in several chapters including fish and crustacean products (HS 3) in agriculture; and leather products (HS 42), footwear (HS 64), headgear (HS 65), and base metals (HS 83) in manufacturing (Chart III.1). In general, India bound its tariff at ceiling rates ranging from 40% for non-agricultural products to 100% for most agricultural products and 300% for edible oils. As a result of India's commitments, the final average bound tariff is expected to be 50.6% in 2005, with an average of 115.7% in agriculture (HS 1-24) and 37.7% in non-agricultural products (Table III. 1)14. These averages do not include lines where different parts of the HS six-digit line were bound at different rates (WTO 2002).The rectification and modifications of India's Schedule have resulted in an increase in a number of tariffs; however, they are not yet certified because of reservations raised. India has nevertheless, pursuant to Article XXVIII(3) of the GATT 1947, applied these higher rates. As a result, although most final bound tariffs are considerably higher than their corresponding current MFN rates, MFN rates on a few tariff lines appear to be higher than the final bound rate. The products concerned include milk and cream products, wheat and muslin, alcoholic products, and some fabrics (WTO 2002)

- Imports have also been made subject to various existing domestic regulations like Food Adulteration Act and Rules there under, Meat Food Product Order, Tea Waste (Control Order) and import of textile material using the prohibited dyes has been banned.
- To ensure that import of agricultural products do not lead to unwanted infiltration of exotic diseases and pests in the country, it has been decided to subject imports of all primary products of plant and animal origin to ëBio Security & Sanitary and Phyto-Sanitary Permití. Import of foreign liquor, processed food products and tea wastes have been subjected to already existing domestic regulations concerning health and hygiene.

Export promotion

To boost exports of farm goods, quantitative restrictions on exports of agricultural items like wheat, wheat products, coarse grains, butter and non-basmati rice and packaging restrictions on exports of pulses were removed in February 2002. Export restrictions were removed on groundnut oil, agr icultural seeds, wheat and wheat products, butter, rice and pulses from April 2002. Exim policy 2002-07 has further liberalized the agriculture exports. Nevertheless, agriculture sector requires further reforms to improve its productive efficiency (Kalirajan, Mythili, and Sankar, 2001).

India's population dependency on agriculture is extremely high (Table 7), which makes agriculture all the more critical for the welfare of its people. However, despite so much of efforts, the productivity in terms of yields is still lagging seriously and there is large scope for improvement (Table 8). If India could improve its farm productivity, it can become a leading exporter of agriculture products.

Table 7: Employment in agriculture (% of total employment)

	1971-80	181-90	1991-00	2001-03
China	68.7	58.2	49.4	
India		69.1	67.1	
European Monetary Union	13.7	12.6	5.4	4.5
High income	9.0	7.7	4.6	4.0
Latin America & Caribbean		19.3	18.4	17.4
Low income		66.8	62.9	
Middle income	61.5	49.6	40.1	
World		43.3	39.9	

Source (basic data): World Development Indicators 2005, the World Bank

Table 8: Indicators of agriculture related developments

	1961-70	1971-80	181-90	1991-00	2001-03
Cereal yield (kg per hectare)					
China	1733	2532	3822	4672	4856
India	977	1220	1622	2153	2337
European Monetary Union	2436	3293	4171	5127	5307
High income	2848	3254	3806	4534	4749
Latin America & Caribbean	1375	1641	2064	2586	3020
Low income	1046	1256	1575	1867	2025
Middle income	1415	1898	2459	2924	3193
Sub-Saharan Africa	826	977	1052	1050	1071
World	1574	2019	2502	2907	3100
Food production index (1999-2001 = 100)					
China	22.6	30.7	47.4	80.2	108.5
India	34.9	44.8	63.4	87.5	101.3
European Monetary Union				95.9	97.9
High income				94.5	98.4
Latin America & Caribbean			72.3	86.7	106.6
Low income			65.9	87.2	103.1
Middle income			67.9	88.3	106.5
Sub-Saharan Africa			67.0	88.3	103.2
World				89.9	103.4

Source (basic data): World Development Indicators 2005, the World Bank

Selected Import Policies

Table 9 shows India's import policies for selected agriculture products. It is argued that some of the import policies have contributed to reduction in productive efficiency of certain crops at the farm level. For example, trade policy reforms in the mid-1990s have increased market access, and domestic price support policies have generally favored production of crops that compete with oilseeds, resulting in waning oil crop production and stagnant yields. Efficiency gains in the oilseed processing sector have also been hampered by poor infrastructure and policies restricting the scale of processing plants (Erik Dohlman, Persaud and Landes, 2003).

Table 9: Import Policy of selected Agricultural Commodities

Commodity	Bound duty (%) (As on 01.01.2004)	Duty on Import (%) (As on 29.06.2001)	Basic customs duty (%) (As on 01.03.2005	Key Aspects of Import Policy
Rice	80	Up to 80	80	• Canalized through Food Corporation of India (FCI) • *Rice with 50% or more broken is allowed freely.
Wheat	100	50	50	• Import is canalized FCI • Import by Roller Flour Mills (RFMs) was also allowed freely till recently. • STC/ MMTC/PEC are permitted to import wheat on behalf of RFMs.
Maize	70	50	50	• Import is canalized through FCI and PEC Ltd. • Import of maize for manufactures of poultry and animal feed is permitted freely on actual user condition subject to registration of import contract/ letter of credit with NAFED. • Import of maize for supply to poultry and animal feed manufactures and for starch industry up to 50,000 MT each by NAFED has been permitted.
Sorghum	80	50	80	• Import is canalized through FCI and PEC Ltd.
Barley	100	50	Free	• Import is canalized through FCI and PEC Ltd.
Jowar	70	50	70	Import is canalized through FCI and PEC Ltd.
Oilseeds (except Copra)	100	35	30	• Import is allowed freely.
Rapeseed oil	75	35	75	• Import is allowed freely.
Sunflower oil	300	35	85	• Import is allowed freely.
Crude palm oil (edible grade)	300	75	80	• Import is allowed freely.
Soybean oil	45	38.5	45	• Import is allowed freely.
Pulses	100	5	10	• Import is allowed freely.
Sugar	150	60	60+CVD	• Import is allowed freely
Vegetables (except onion)	100	15	30	• Import is allowed freely.
Onion	100	0	5	• Import is allowed freely.
Fruits				
(a) Dates	100	35	30	• Import is allowed freely.
(b) Fresh Grapes	100	25	25	
(c) Apples	50	50	50	

Source: Agriculture statistics, Government of India (Various)

The import policy of the government with respect to sugar, which is one of the internationally discussed product, and products like that are heavily influenced by the domestic treatment of the product. In the case of sugar, as stated earlier, the domestic producers are subjected to dual control. Part of the product is subjected to price control while the price of key input the sugarcane is fixed by the state governments in each of the 19 sugar producing regions of the country. Clearly, in such a situation the domestic producers cannot be subjected to third agony of matching the international price in the domestic market. Accordingly, heavy duties are imposed on the imported sugar although the import itself is under OGL with contracts registered with APEDA. The rate of duty again varies

according to the prevailing market prices because government cannot afford high fluctuation in the market price of sugar. As such, sugar is subjected to countervailing duty of Indian Rs. 850 (approximately, US$18) per tonne while customs rates have varied between zero and 100 per cent during 19990s.

Cotton is another internationally strategic commodity, particularly in the United States. For the export of cotton, the Government allocates quotas of raw cotton with the bulk going to state agencies like CCI and MCGF, and the rest going to state level marketing federations and private traders. Many a time, the state agencies contract out these quotas to private traders for a commission (Bathla 2006). Import of cotton was allowed for exporting units directly after 1994. Also, import of raw cotton was made free till 1999 (with no import duty) to ensure easy availability of cotton at competitive prices for the Indian textile industry. From March 1999, a duty of 5 per cent plus a surcharge of 1 0 per cent has been imposed.

5. Conclusions

Though India has demonstrated that there exists broad political support to its economic reform programme, as has been proved by the transition of several Governments in the last decade through the political space, agricultural trade policy reforms need to be accelerated much more than what has been done so far. The challenge is to mitigate the inefficiency that exists in the Indian agriculture to close the gap between its potential and actual performances through a proper policy framework.

India being a net exporter in agriculture products, it has more to gain from the trade reforms. It has sufficiently high bound rates on most of the products and therefore, flexibility can be ensured against unfair competition. India does not have to worry about its subsidy, as it is already below the required line and it also does not have any domestic support to recon with. All these place India in an advantageous position. Moreover, the ongoing negotiations are likely to yield enough flexibility in product choice and tariff selection. A multilateral trading system is in the interest of India, given the fact that it is placed in such a situation where no clear group fits well. Therefore, India should work towards

the success of the Doha round and in the mean time make use of the opportunity to reform its domestic market to bring in more efficiency.

The interests of India are certainly at variance from the common interest of least developed countries, which became amply clear during the Tokyo and Doha Ministerials, when the least developed countries left India alone. Many of these countries are net importers of food and the subsidy in the exporting countries makes them better off. Moreover, under the Everything But Arms (EBA) initiative of the European Union, the LDCs have quota- and duty-free access to the EU market[9], a facility that was never available to India. The services sector for India is critical to its growth and increasing the pace of industrial growth is its necessity. With favourable bound rates for agriculture onboard, the negotiating framework of India must be different from that of other developing countries. The situation is highly tenacious for India, particularly in view of the fact that the developed countries have managed to link agriculture subsidy with the market access in services and industry. If the European Union needs to do more on agricultural tariffs, and the US needs to do more on reducing agricultural subsidies, then the G-20 group of countries, where India is a key member, are also needed to do more on industrial tariffs. This is a hard ball game. Moreover, all these issues are dynamically linked to the future agenda of the WTO inter-alia in terms of substantial opening up trade in services; rules governing transparency in bilateral trade agreements, anti-dumping and subsidies; trade facilitation; trade & environment; WTO agreement on Intellectual Property Rights (TRIPS) and its relation with Convention on Bio-Diversity (CBD), and extensions to geographical indication protection (GIs); Dispute Settlement and Aid for Trade.

Traditionally, India has fallen prey to the group dynamics because its interests do not fully confirm to the least developed countries, whose cause it used to champion nor does it radically differ from those of developed countries, who it confronts. Therefore, the time has come for India to come out of ambiguity and take a rational step in the negotiation process to harness best of its own interests. Some sacrifices are worth taking in order to gain a wider market.

[9] Currently, there are three exceptions: bananas, rice and sugar where quotas exist. But the quotas are slated to end between 2006 and 2008.

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