CHAPTER VII

THE IMPLICATION OF TRADE POLICY REFORMS ON INDIA’S AGRICULTURAL EXPORTS

7.1 INTRODUCTION

The analysis of Chapter V revealed that the competitiveness of exports of South Asian countries may be improved by increasing the share of agricultural exports in total exports of these countries. The analysis of Chapter VI (a case study of India), however revealed that the performance of India’s agricultural exports has been quite poor (a) as per India’s sectoral output and (b) as per world scenario. It was further inferred (Chapter VI) that the explanation for this paradoxical situation lies in (a) lack of policy initiatives in the field of agricultural exports and (b) slow growth of agricultural production due to low yields, wastes and inefficiency in resource management. Thus, the basic push, as per the proposed strategy of agricultural exports (Chapter VI) may come through (a) conscious export promotion efforts i.e. policy initiatives in the agricultural sector and (b) supply management by improvement in yields, reduction in wastes and efficiency in resource management.

The common belief, at present, is that trade related reforms introduced since July 1991, mainly during annual budgetary sessions, have begun removing major impediments by reversing India’s past inward-looking policies and integrating India more fully into the world economy. Its already high profile and interest in the multilateral trading system has also been strengthened. The trade reforms, if supported by appropriate macro-economic policies, should lead to improved resource
efficiency and help increase India’s international competitiveness on both domestic and export markets. Macro-economic stabilization and structural policies, along with sector specific policies have an important bearing on exports and efficient growth of the economy. Sustained macro and micro economic reforms should also assist in stabilizing the Balance of Payments situation. The agricultural sector, which until now has retained self-sufficiency as a goal, could on balance, also be a major beneficiary of more liberal trading measures. The implications and consequences of trade policy reform, however, are contingent on the maintenance of an open, stable and predictable global trading regime that can successfully combat protectionist pressures in major export markets. The multilateral liberalization of trade in agriculture and the introduction of an international regime of discipline for domestic support to agriculture (in the Uruguay Round of GATT negotiations) would obviously influence the output of and trade in agricultural commodities in the world economy. This in turn is bound to have significant implications and consequences for the agricultural sector. The long-term impact on India’s agriculture and agricultural exports would be determined by an interaction of the changes in national trade policy and international trade policy. Thus, the objective of this chapter is to analyse the impact of trade policy reforms in the national context and multilateral trade policy changes in the international context on India’s agricultural exports.

Trade policy vis-a-vis the industrial sector has implications for the agricultural sector. The policy of import substitution associated with over valued exchange rate may discriminate not only against exports but also against agricultural sector. Also the regime of export incentives confined mostly to manufactured exports may increase
relative profitability of producing tradeable in manufacturing sector as compared to the agricultural sector. This implicit bias against agriculture may lead to a misallocation of resources. Thus, in the following section (Section 7.2) an attempt is made to analyse as to what extent the trade policy of India till the Seventh Plan period was conducive to increasing agricultural exports. If not, was there any improvement in this regard due to the trade policy reforms introduced in 1991-92 and 1992-93 budgets and operationalized in the export-import policy (EXIM policy) for the eighth plan period? However, as the external environment has also important implication for the agricultural sector, an attempt would be made in Section 7.3 to analyse the likely impact of agreement on agriculture under the Uruguay Round of GATT negotiations.

7.2 TRADE POLICY: INDIA

7.2.1 Trade Policy Till the Fifth Five Year Plan

The present trade policy has to be seen in the perspective that the concomitant desire for economic independence, with the inception of national planning, led to a development strategy of rapid industrialization in India. Industrialization and economic development became virtually synonymous for political leaders and economic planners. Insufficient attention was paid to agricultural development as a means to promote overall economic growth. Trade in agriculture was excluded from trade policy regime and it was implicitly assumed that instead of exporting agricultural products the country would export value added manufactured goods. Thus the overriding objective of India's trade policy of import substitution and self-sufficiency at least till the fifth five year plan. The domestic market was there for
taking while export prospects looked bleak. Import competing industries were promoted behind high tariff walls and/or quantitative restrictions. Imports were regulated through a set of restrictions covering investments, foreign exchange transactions and international trade. This strategy achieved limited success but at a high cost due to the fact that - as domestic production expanded, there was a growing requirement of raw materials, components and capital goods which could not be met indigenously. The requirement of petroleum and fertilizers, indigenous production of which was limited, was also increasing. This resulted in a significant pressure on the need for imports. And with exports growing at a much smaller rate than imports, the needed foreign exchange for imports was made available by government at highly favourable terms to these industries. The result was imbalances in India's Balance of payments and heavy international debts.

From the middle of 1970s, it was recognised that an import substitution policy by itself could not bring about a viable balance of payment situation and there was a need for vigorous export promotion policy. The import policy was gradually relaxed for import of raw materials and components for domestic production. Simplified procedures were introduced for importing technology, raw materials and capital goods needed for export production. Export processing zones were established and agencies set up to promote exports. An important change in the policy was introduced in 1978-79 when all items not specifically restricted or banned were listed under the open general license. It may, however, be mentioned that all these measures were to promote exports in the manufacturing sector. It was implicitly assumed that the country should export value added goods and manufactured goods. Trade in
agricultural products was excluded from trade policy regime whether we consider its rationale or structure.

7.2.2 Trade Policy during the Sixth Five Year Plan

Liberalization in trade policy has been pursued during the eighties to promote technological upgradation in the industrial sector. Periodic currency adjustments were carried out in exchange rate management to facilitate export growth. The basic goal of trade policy from the beginning of sixth five year plan was of stimulating export led growth by increasing the share of international trade in GDP. Self-sufficiency - though still an important policy objective - was redefined during this plan. The plan envisaged promotion of exports and invisible earnings in an effort to secure self-reliance. It was only during the sixth five year plan that the government policy, while emphasizing stable policy environment for exports and production in general, emphasized the importance of agricultural products also. A shift from an inward to a more outward-oriented policy and inclusion of agricultural commodities in trade policy regime in the sixth five year plan is clear from the following abstracts from sixth five year plan.¹

"A major task facing the country is to reduce its dependence on imported energy and generally to promote exports and invisible earnings in an effort to secure self-reliance. It should be obvious, but often is not, that self-reliance does not mean self-sufficiency in all sectors of the economy. So long as the country is able to pay its way it cannot be said to be dependent on others. The choice of the outputs to be produced domestically and those to be imported should then depend broadly on economic calculus and the long-term comparative advantage which the economy enjoys" ..... "A Sustained increase in exports over a period of years cannot be achieved in the absence of a stable policy environment governing exports as well as production for

¹ Sixth Five Year Plan : Govt. of India.
export and production generally. Frequent changes in policies create uncertainty which is detrimental to the establishment of a stable market abroad and to risk taking inherent in investment decisions. The environment for production also has to be such as to enable enterprising individuals, agencies and corporations to exploit the available opportunities to the full. Except in very special cases, any conflict between objectives must therefore be resolved in favour of exports" ......(ch.7 P.84).

"The success in the export effort of the country on the scale visualized in the plan will also depend to a great extent on augmenting agricultural production"........."All available instruments of policy will have to be geared to the promotion of the proposed increase in agricultural production"....."An important task of policy is to ensure that the gains of the technology and publicly supported programmes accrue increasingly to small and marginal farmers and are reflected in the adequacy of remuneration for agricultural labour"......

"Agriculture is increasingly becoming science based, and future advances in application of science to agriculture will need to concentrate on improving productivity in agriculture consistent with the need to conserve non-renewable sources of energy" ......(ch.7 p.85).

"The agricultural growth pattern during the sixth plan period has to take into account the immediate as well as the long-term needs of agricultural commodities both for domestic consumption and for exports. The highest priority will be accorded to bridging the gap prevailing between actual and potential farm yields even at current levels of technology through the removal of the constraints responsible for this gap. The untapped yield reservoir is quite high in most of the farming systems in the country and thereby serves as a source of optimum for achieving accelerated growth. Both agriculture and fisheries will have to receive concurrent attention through the development of appropriate packages of technology, services and public policies, which can help to enhance production from the soil as well as the sea and thereby improve the income of farmers and fishermen. For achieving greater efficiency of farm management, attention to non-monetary inputs is as essential as to cash inputs"...

(ch.9 p.97).

7.2.3 Trade Policy : Seventh Five Year Plan

The objective of a breakthrough in exports was considered to be a key element of the foreign trade and payments strategy during the seventh five year plan.
However, a clear distinction was made between the agricultural sector and industrial sector. Trade in agriculture (like the trade policy regime of first five year plan to fifth five year plan and unlike the trade polciy regime of sixth five year plan) was excluded from trade policy regime of Seventh Five Year Plan. It was stated in the plan that, even in the long run, export growth will have to rely on manufactures and more important still on an increasingly wider spectrum of products. The plan assumed that unlike in the case of agricultural commodities, output growth of manufactures is not constrained by the availability of land, while shortage of raw materials and other inputs can be overcome through recourse to imports. It also presumed that market penetration becomes easier because of their exceedingly small share at present in the world trade in manufactures. A sizeable contribution of increase in exports (envisaged at 6.8 percent per annum in volume terms) was targeted to be attained by industrial exports during the plan. The objective of the agricultural sector was to achieve self-sufficiency in foodgrains and removal of poverty and unemployment in the rural sector. The plan states:

"The agricultural sector is expected to grow at an annual rate of 4.0 percent in gross output and 2.5 percent in terms of value added. This high growth rate is justified on the basis of likely demand generation and of maintaining self-sufficiency in foodgrains"..... "The growth in agricultural production if properly directed, can reinforce the attack on poverty and unemployment". (Vol. 1 ch. 2)

"A breakthrough in exports leading to a substantial step up in real growth of export earnings is a key element of the foreign trade and payments strategy retained in the seventh plan". ..... "Industrial products will contribute sizeably to the attainment of the target set for exports. In fact, even in the longer run export growth will have to rely on manufactures and more important still, on an increasingly wider spectrum of products". (ch. 5 p. 63).
"The projected volume growth for another class of commodities which include, among others, tea, spices, cotton textiles, leather and leather manufactures and marine products will not, however, keep pace with the growth of GCP. Such exports are beginning to encounter supply constraints because of increasing domestic demand or inadequate output growth, or both. Export targets set for them are rather modest based as they are, on realistic assumptions about feasible expansion of production in medium term through measures to improve productivity, for the full effect of investment to strengthen the production base may be felt only after a period of time. Comparatively modest targets have also been retained in the case of jute manufactures, cotton textiles, iron ore and unmanufacturing tobacco, where the limits to export growth are set primarily by world demand". (Seventh Five Year Plan p.64).

Foreign trade and payments strategy of a break-through in exports during the seventh plan period could not help in easing the balance of payment situation which had been continuously under strain for the past several years. The current account deficit increased to Rs. 8457 crores per annum during the seventh plan period as against an average of Rs.2616 crores during the sixth plan period. Though the robust growth in exports in the last three years of the seventh plan did lead to some improvement in balance of payment position in 1989-90, but it deteriorated again in 1990-91. The current account deficit during 1990-91 was estimated to be Rs.13942 crores. The worsening in the current account deficit in 1990-91 was partly on account of a trade deficit (due to Gulf War) which was marginally worse than the previous years but mainly on account of deterioration in the invisibles account because of adverse developments in the capital account. The political uncertainty at home, coupled with rising inflation and widening fiscal deficits led to erosion of international confidence in India. This resulted in higher interest payments, decline in commercial

---

2 Seventh five Year Plan : Govt. of India.
borrowings and outflow of NRI deposits. By June 1991, the BOP crisis had become overwhelmingly a crisis of confidence in the governments’ ability to manage it. A default of Payment had become a serious possibility.

7.2.4 Economic Reforms: 1991-92

Given the large current account deficit and the consequent need to finance it through large scale external borrowing, it became essential to restore international confidence. This required the management of the BOP and the budget in a manner which ensured viability of BOP and strengthened the debt servicing ability of the economy. To this end, a series of economic reforms were introduced in 1991-92.

A strategy of economic reform introduced in 1991-92 was based on a combination of measures aimed at economic stabilization as well as structural reform. The macro-economic measures undertaken in 1991 and 1992 to stabilize the economy included steps to reduce the fiscal deficit, tighter monetary policy and the introduction of a unified market determined exchange rate. The exchange rate of rupee was adjusted downward by about 18 percent in two steps on July 1 and 3, 1991 followed by the abolition of cash export subsidies designed to improve export incentives and make them more uniform. Fiscal deficit was reduced by about two percentage points from around 8.4 percent of GDP to 6.5 percent of GDP in 1991-92 to be followed by continued fiscal consolidation. Simultaneously the government negotiated access to external finance from multilateral financial institutions - the IMF, the World Bank and the Asian Development Bank (ADB) - as well as bilateral donors to support the BOP over the next 2 or 3 years. In May 1991, the government leased 20 tonnes of gold out of its stock to the State Bank of India to enable it to sell the
gold abroad with an option to repurchase it at the end of six months. In addition, the government allowed the Reserve Bank of India to ship 47 tonnes of gold to the Bank of England in July. This helped to raise about $ 600 million.

The macro-economic measures were accompanied at an early stage by a paradigm shift in trade and industrial policies (since June 1991) with a view to integrating the Indian economy better with the rest of the world. The important features of the new trade policy - announced in July 1991 - include greater reliance on exchange rate management, elimination of product specific export incentives, reduction in tariffs and substantial elimination of licencing as well as other restrictions. One of the important measures undertaken as per this policy was that the value of the rupee was adjusted downward by about 20 percent in July 1991. This was followed by a liberalization of the foreign trade regime through some reduction in the quantitative restrictions. The import policy regime was revamped by shifting a significant number of items outside the purview of import licencing. Exporters were given entitlements equal to 30 to 40 percent of their export earnings in the form of EXIM scrips against which even restricted items were allowed to be imported. Along with these, the government dispensed with a number of export incentives including the cash compensatory support to exports. As a first step towards a gradual reduction in the tariffs, the Union Budget for 1991-92 reduced the maximum rate of import duty from more than 300 percent to 150 percent.

---

3 EXIM scrips were freely tradeable and could be used to import any item in the limited permissible list, the non-sensitive canalised list, OGL items for actual users and non-OGL capital goods which were not in the restricted list.
Within eight months of introducing these trade policy changes, the government initiated another set of policy changes in the areas of trade and trans border capital flows coinciding with the Union Budget for 1992-93. The maximum tariff rate was further lowered to 110 percent. The EXIM scrip scheme was replaced by a system of partial convertibility of the rupee on the current account of the Balance of Payments. Under the new system, all foreign exchange remittances, whether earned through exports of goods and services or remittances, can be converted into rupees in the following manner: 40 percent of the foreign exchange remitted could be converted at the official exchange rate while the remaining 60 percent at market determined rate. The foreign exchange surrendered at the official exchange rate will be available to meet the foreign exchange requirements of essential imports such as petroleum and oil products, fertilizers, defence and life saving drugs. All other imports, except for a "negative" list are freely importable provided the foreign exchange for these imports were obtained from the market. Similarly, the foreign exchange required for other payments on private account including travel, debt service payments, dividends, royalties and other remittances were required to be obtained at the market rate. In another significant step, to arrest the diversion of foreign exchange to illegal channels, the government has legalised the import of gold and has introduced a Gold Bond Scheme, with a view to help mobilise the idle private gold reserves of the country to supplement official reserves. The important measures undertaken as per new industrial policy - announced in July 1991 - has abolished industrial licencing for all but 18 product categories such as defence equipments, industrial explosives, electronic aero space, coal, petroleum, alcohol, hazardous
chemicals, pharmaceuticals and drugs, and certain consumer goods such as sugar, edible oils, refrigerators, motor cars and consumer electronics. The maximum asset limit on the size of the companies which had hitherto been enforced under the Monopolies and Restrictive Trade practices Act, has been scrapped. As a result, firms will be able to grow to optimum size and reap the benefits of economies of scale. The government has also abolished the phased manufacturing programme under which domestic manufacturers were hitherto required to increase the domestic input-content of their products in a specified time period. Areas reserved for the public sector were narrowed down from 17 to 8 and greater participation by private sector was permitted in core and basic industries. Along with a reform of industrial policies, steps were taken to facilitate the inflow of direct private investment. The limit of foreign equity holdings was raised from 40 to 51 percent. Technology imports for priority industries are automatically approved for royalty payments up to 5 percent of domestic sales and 8 percent of export sales or for lumpsum payment of Rs. 1 crore. To enable the public sector to work efficiently, the public sector units have to be given the greatest autonomy in their operations. A system of full responsibility and complete accountability will have to be enforced on public sector managements.

The result of the above policy reforms and successful mobilization of exceptional financing was a marked improvement in the build up of foreign exchange reserves by an additional amount of US $ 3.57 billion during 1991-92 from US $ 1.1 billion in June 1991. The increase in reserves combined with stabilization and structural reforms restored international confidence and also provided the basis for further liberalization of trade, tariff, export credit and foreign investment policies.
during 1992-93. The year 1991-92 closed with important changes in trade and exchange rate policies.

7.2.5 Export-Import Policy (EXIM Policy) for the Eighth Plan Period (1992-93 to 1996-97)

The Export-Import policy contains, apart from the negative list of imports and exports, all measures in force for augmenting export production and exports, the prescribed procedures or conditions (where applicable) for exports and imports and the performance requirements for duty free or reduced duty imports for export production. The export-import policy (EXIM policy) for the Eighth plan period, announced subsequent to the Union Budget 1992-93, has operationalized many of the trade policy changes announced in the budget and has given a further push to liberalization.

7.2.5.1 Objective of New Trade Policy

The general trade policy objective is to make Indian industry competitive and efficient by exposing it to greater competition, and to integrate it with the global economy. Its principle objectives are: (a) to establish the framework for globalisation of India's foreign trade; (b) to promote the productivity, modernisation and competitiveness of Indian industry and thereby to enhance its export capabilities; (c) to encourage the attainment of high and internationally accepted standards of quality and thereby enhance the image of India's products abroad; (d) to augment India's exports by facilitating access to raw materials, intermediates, components, consumables and capital goods from the international market; (e) to promote efficient and internationally competitive import substitution and self-reliance under a
deregulated framework for foreign trade; (f) to eliminate or minimise quantitative, licensing and other discretionary controls in the framework of India's foreign trade; (g) to foster the country's Research and Development (R&D) and technological capabilities; and (h) to simplify and streamline the procedures governing exports and imports.

7.2.5.2 Trade Policy Measures

The new EXIM policy has now specified the "negative" list of imports, the import of which is either banned, canalised or subject to import licence. Similarly, the EXIM policy has specified a "negative" list of exports, the exports of which is either banned, canalised or subject to export licence. In addition to specifying the negative lists of imports and exports, the EXIM policy has announced a set of incentives for exports and deemed exports.

The negative lists of imports and exports were pruned. The lists of prohibited items, restricted items and canalised items for both exports and imports were narrowed.

The maximum tariff rate was further reduced to 85 percent in 1993-94 from 110 percent in 1992-93, 150 percent in 1991-92 and 300 percent before 1991-92.

The procedure for import of capital goods (CG) has been simplified. Except for the negative list of imports, all items (capital goods, raw materials, components, spares etc.) are freely importable provided this import is fully covered by equity or is upto 25 percent of the value of plant and machinery, subject to a maximum of Rs.2 crores. The requirement of licence for import of capital goods under the scheme of direct foreign investment upto 51 percent foreign equity in high priority industries has
been done away with. Actual user requirements for the import of capital goods, raw materials and components under OGL was removed.

The advance licencing system for exports was simplified (by various changes in the trade policy like simplifying and speeding up the process of issuing licences) to provide exporters with better access to imported inputs at duty free rates.

Several measures were adopted to strengthen the development of export houses and trading houses and instrument of promoting exports. They will now be allowed to install not only their own machinery but also machinery taken on lease. These units have now been allowed to take up new activities in agriculture, horticulture, aquaculture, poultry and animal husbandry. Setting up of trading houses with 51 percent of foreign equity has been permitted for the purpose of promoting exports. Such trading houses would be eligible for all benefits available to domestic export and trading houses.

A salient feature of the EXIM policy 1992-97 is its fundamental departure from the erstwhile trade policy regime for agriculture. Some policy decisions as per the comprehensive amendments to the EXIM policy announced on 31st March 1993 - have been taken to promote exports in the agriculture and allied sectors. It was therefore decided that units engaged in agriculture, aquaculture, animal husbandry, floriculture, pisciculture, poultry and sericulture can avail of the benefits of duty free imports under the EOU/EPZ scheme even if they export 50 percent of their production; they can sell the remaining 50 percent in the domestic market, against the

---

4 The trade policy regime in India, over the past four decades, has made a clear distinction between agricultural sector and the industrial sector whether we consider its rationale or its structure (Deepak Nayyar, FAO Seminar, 1994).
limit of 25 percent, permitted for non-agricultural sector.

The definition of capital goods under the policy has also been widened to cover capital goods used in agriculture and allied activities so that units engaged in this sector can avail of EPCG scheme for importing their equipment at concessional duty.

In addition, certain inputs and materials required by the agricultural sector such as prawn, shrimp and poultry feed; edible wax for waxing fresh fruits and vegetables; grape guard paper; dipping oil for treatment of grapes; wheat gluten; fish meal in powdered form; and grand parent stock (poultry) have been removed from the negative list of imports - they are now freely importable.

India's trade and sectoral policies are set in the framework of indicative five year plans and subsidiary policy documents. The EXIM policy (the new trade policy) announced subsequent to the Union Budget 1992-93 is co-terminus with the eighth plan. The eighth plan envisages, synonymous to the new trade policy, that a policy regime with fewer barriers to trade, both tariff and non-tariff, and which provides equal incentives for exports as well as production for the domestic market enables the countries to achieve not only impressive export growth, but also rapid and sustainable economic growth. A key objective during the eighth plan, therefore, is to move our trade policy regime towards greater liberalization for improved resource efficiency and increased international competitiveness. The agricultural sector, which until now (except sixth five year plan) retained self-sufficiency as a goal, could on balance, also be a major beneficiary of more liberal trading measures. The strategy for agricultural

---

5 EPCG - Export Promotion Capital Goods Scheme.
development in the eighth plan, thus, is envisaged to be aimed at not only achieving self-sufficiency in food but also generating surpluses of specific agricultural commodities for export. The total growth in exports, envisaged to be 13.6 percent per annum during the 8th five year plan, is to be achieved (unlike the seventh five year plan) by 15 percent growth in exports of manufactured products and 9.4 percent growth in exports of agricultural products. Thus the major tasks during the eight plan period, as is evident from the following abstracts from the eighth plan document are (a) to operationalise the trade policy changes announced in the budget, (b) to carry out further trade policy reforms for better integration of the Indian economy with the rest of the world, and (c) to promote exports in the agricultural sector for better performance of exports and better allocation of resources. The Draft, Eighth Five Year Plan states:

"A key task during the eighth plan is to move our trade policy regime towards greater openness and to reap the full benefits of international trade"..."The process of reforms initiated recently represents only a beginning. We have to carry it further if we want to reap the full benefits of these reforms. Therefore, sustaining the pace of economic reforms will be the major challenge during the eighth plan period. While both macro-economic stabilization and structural policies are important to ensure an economic environment which is conducive to efficient growth of the economy, a whole set of sector specific policies also has an important bearing on efficiency and growth". (8th five year plan ch4, p.84).

"The eighth plan will aim at consolidating the gains from the base built over the years in agricultural production, sustaining the improvements in productivity and production to meet the increasing demands of the growing population; enlarging the incomes of farmers, and realising the country's potential by stepping up agricultural exports" (8th five year plan ch. 1 p. 10)
"As the country increases production beyond its own requirements, or where the country has comparative economic advantage in the light of technological gains, or to promote diversification, the marketing of agricultural produce within and outside the country assumes greater importance". (8th five year plan ch. 4 p.85)

"Recent changes in the industrial policy with deregulation and lesser direction by the state, have thrown open opportunities for a rapid phase of expansion of the agro-based industries, particularly the processing units. Induction of the latest technologies in processing and better packaging can help Indian processed food products compete in the international markets, besides catering to the growing market within the country. Special efforts would have to be mounted to give a fillip to the production of fruits, vegetables, milk and meat for being processed in units established including those in the rural areas".

...."The changes in the trade policies have vastly improved the prospects for realising the full potential of the country with its varied agro-climatic conditions from tropical to temperate regions, in producing commodities for exports. Apart from maximising the production of the traditional export commodities, the new seed policy has created a climate for producing non traditional commodities like flowers and different types of vegetables for exports. Systematic efforts to overcome such constraints as may exist in the development of markets abroad will have to be launched and sustained in the coming years". (8th five year plan ch 1 p. 11)

"During the Eight Plan period, further trade policy reforms are needed to be carried out so that the economy is better integrated with the rest of the world. The key objectives of these reforms should be two-fold; (i) a further pruning of the "negative" lists of imports and exports, and (ii) a gradual reduction in both the level and dispersion of tariff rates". (8th Five Year Plan ch.4 p.86).

7.3 GATT AGREEMENT ON AGRICULTURE (URUGUAY ROUND)

7.3.1 Introduction

The General Agreement on Tariffs and Trade (GATT) is a multilateral treaty encompassing rules and disciplines for an orderly world trading system. One of the major activities of the GATT, since its inception in 1947, has been launching of a series of Rounds of negotiations, to begin with for tariff reductions and later
reduction of tariff and non-tariff barriers. The first round of GATT was held in Bawana in 1947 which produced a charter for the international Trade organisation (ITO). Since then seven more rounds have taken place. The recently concluded eighth round, commonly known as "Uruguay Round" was initiated in September 1986, at Punta deleste, Uruguay, concluded in Geneva on Dec. 15, 1993 and finally signed on April 15, 1994. The trade negotiations involved 115 countries covering more than 90 percent of world trade.\(^7\) The major objective of this round was to halt and reverse protectionism and to remove distortions in trade". Other objectives include: (a) accelerated economic growth of the developing countries through trade liberalization; (b) achievement of substantial trade liberalization; (c) elimination of unilateral actions outside the legal framework of the GATT system; and (d) strengthening of the GATT itself. The Uruguay Round negotiations were most ambitious and complex one as along with the traditional GATT issues (tariff and non-tariff barriers etc.) new areas like Trade Related Intellectual Property Rights (TRIPs), Trade Related Investment Measures (TRIMs), Trade in Services (GATS), Agriculture and Textiles were also covered in these negotiations.

7.3.2 Agreement on Agriculture

Agriculture was assiduously kept outside the domain of GATT for the seven rounds preceding the Uruguay Round. The trade distorting agricultural policies were ignored by GATT for all these years. Both developed and developing economies have practiced policies which led to a highly distorted international trade in agriculture. While the developed countries protected their agriculture through rigorous controls

---

\(^7\) GATT (1994) : Country Studies : India.
and subsidy system, the developing countries did the reverse - promote industrialization at the cost of agriculture. The extent of protection had been high uniformly both across products and countries. The Uruguay Round Agreement on Agriculture is an attempt to correct these distortions. The agreement establishes a basis for initiation process of reform of trade in agriculture with the long-term objective of establishing a fair and market oriented agricultural trading system. The reform processes are to be initiated by negotiations of the commitment of farm support and production through establishment of a strengthened GATT Rules and disciplines.

The commitments incorporated in the agreement on agriculture cover three distinct areas, namely, domestic support, market access, and export subsidies.

7.3.2.1 Domestic Support Commitments

Almost all developed countries provide positive support to their cultivators ranging from as high as 72 percent in case of Japan, 37 percent in case of EC and 26 percent in case of USA. It is provided that all domestic support in favour of agricultural producers (with the exception of measures that have been exempted from reduction) shall be reduced by 20 percent in case of a developed country, 13.3 percent in case of a developing country. The reduction commitment shall be achieved in 6 years in case of a developed country in 10 years in case of a developing country. The reduction commitments are to be expressed and implemented in terms of total aggregate measurement of support (AMS), or in terms of equivalent commitments, where the calculation of AMS is not practicable. AMS comprises two elements,

---

namely, product specific AMS and non-product specific AMS. For the purpose of calculating the domestic support to farmers, both product specific AMS and non-product specific AMS shall be taken into account. In case of developed countries the obligation to reduce domestic support arises if the total AMS given to farmers exceeds 5 percent of the value of the total agricultural production of country. For developing countries, this limit has been set at 10 percent. The base period for calculating reduction commitment is 1986-88.9

An important feature of the Agreement is that Government service programmes are exempt from reduction commitment and therefore, shall not be taken into account for calculating the total AMS. These include; (i) general services, such as, research programmes, pest and disease control, training services, extension and advisory services, inspection services, extension and promotion services, infrastructural services, including capital expenditure for electricity, roads and other means of transport, market and port facilities, water supply facilities, dams and drainage schemes, and infrastructural works associated with environmental programmes; (ii) public stock holding for food security purposes; (iii) domestic food aid; (iv) direct payments to producers subject to their meeting certain criteria; (v) decoupled income support; (vi) Government financial participation in income insurance and income safety-net programmes; (vii) payments for relief from natural disasters; (viii) structural adjustment assistance provided through producer retirement programmes; (ix) structural adjustment assistance provided through resources

---

9 Final Act Embodying the results of the Uruguay Round of Multilateral Trade Negotiations, Marrakesh, 15 April, 1994.
retirement programmes; (x) structural adjustment assistance provided through investment aids; (xi) payments under environmental programmes; and (xii) payment under regional assistance programmes.\(^{10}\)

Apart from the above mentioned generally available exemptions, developing countries have been provided three additional exemptions, namely, (i) investment subsidies which are generally available to agriculture; (ii) agricultural input subsidies generally available to low income or resource-poor producers; (iii) domestic support to producers to encourage diversification from growing illicit narcotic crops\(^ {11}\).

7.3.2.2 Market Access

Under market access commitments, all member countries of GATT are required to (i) replace all types of non-tariff barriers with tariff barriers. (ii) Tariffs resulting from this tariffication process as well as other tariffs on agricultural products are to be reduced by an average of 36 percent in case of developed countries and 24 percent in case of developing countries. The reductions are to be undertaken over 6 years in case of developed countries and 10 years in case of a developing country. (News of the Uruguay round; 1994-p. 8-9).\(^ {12}\) Least developed countries are not required to reduce their tariffs. The agreement contains special safeguard provisions for tariffed products. It says that if the volume of imports of a particular product in a particular year and the price of the imported product falls below the average of 1986-87 price, the country concerned may impose a specified duty temporarily for

\(^{10}\) Mohanty P.K. (1994) : Uruguay Round Agreement an Agriculture - An overview, Ministry of Commerce Govt. of India.

\(^{11}\) Ibid.

one year to safeguard its agriculture. Another stipulation in the case of market access is that where there is no significant imports, minimum access opportunities will have to be provided i.e. closed markets for agricultural imports in developed countries will be opened up. These countries are required to import at least 3 percent of their domestic consumption and gradually raise it to a minimum of 5 percent over 6 years. Minimum levels of access have, however, not to be granted by countries which do not have obligation to tariff non-tariff restrictions (such as those maintained for BOP reasons). However exemptions have also been provided for staple crops for which there is no minimum import requirement.

The proposals in the Final Act, which modifies the Dunkel proposals, provide that once the New Agreement is implemented, countries have to provide access opportunities to imports of at least 4 percent of their total consumption as between 1986 and 1988, except for those primary products which are considered as staple in the traditional diet of a developing country. (In India perhaps rice and wheat could qualify as such.). In the latter set of commodities the minimum access opportunities would have to be 1 percent of the corresponding domestic consumption to begin with. The access opportunities for the non-staple commodities would have to be increased annually by 0.8 percent between the first and the sixth year. For staple commodities, the minimum access opportunities have to be increased to 2 percent at the beginning of the fifth year of the implementation period and up to 4 percent of domestic consumption, at the beginning of the tenth year after the enforcement of the
Agreement. (Mukherji, I.N.)\(^\text{13}\).

7.3.2.3 Export Subsidy Commitments

GATT agreement calls for reducing value of direct export subsidies to a level of 36 percent below the 1986-90 base period level over 6 years implementation period and the quantity of subsidised exports by 21 percent over the same period. In the case of developing countries, direct export subsidies are to be reduced by 24 percent and the quantity of subsidised exports by 14 percent over 10 year implementation period.\(^\text{14}\) Export subsidies included in reduction commitments are: (a) direct subsidies contingent on export performance, (b) export sale of non-commercial stocks held by Government at a price lower than the price charged to buyers in the domestic market, (c) payments on the export of an agricultural product that are financed by virtue of government action, (d) subsidies to reduce the costs of marketing exports of agricultural products including handling, upgrading and other processing costs, and costs of international transport and freight, (e) internal transport and freight charges on export shipments on terms more favourable than for domestic shipments, and (f) subsidies on agricultural products contingent on their incorporation in exported products. The reduction commitments have to be made in terms of budgetary outlays as well as quantities.

As regards export subsidies not listed above, it is provided that they shall not be applied in a manner which results in, or which threatens to lead to, circumvention


of export subsidy commitments.

In case of developing countries, the agreement provides that during the implementation period they shall not be required to undertake commitments in respect of the export subsidies listed in (d) and (e) above.

7.4. IMPLICATIONS OF TRADE POLICY REFORMS ON INDIA'S AGRICULTURAL EXPORTS

7.4.1 Implications of GATT on India’s Agricultural Exports

India has not undertaken any commitments under the Uruguay Round Agreement on Agriculture.

7.4.1.1 Domestic Support

In case of domestic support, almost all developed countries provide the support to their cultivators (ranging from as high as 76 percent in case of Japan, 52 percent in case of EC and 43 percent in case of USA). India, however, imposes net tax on its cultivators due to the fact that - (i) India does not provide any product specific support other than market price support. During the reference period (1986-89), India had market support programmes for 22 products, out of which 19 are included in the country’s list of commitments filed in GATT. According to the estimate made by the Commerce Ministry, the total product specific AMS was negative Rs. 244.9 billion during the base period. The total non-product specific AMS came to Rs. 45.8 billion. Taking both the product specific and non-product specific AMS into account, the total AMS in case of India was minus Rs. 198.6 billion, equivalent to about - 18

---

percent of the value of total agricultural output.\textsuperscript{16} (ii) over the years the AMS has not only been negative but has been increasing overtime and stood at Rs. - 341.44 billion during 1992-93. This massive increase of 73.77 percent in total AMS seems to be the effect of depreciation.\textsuperscript{17}

Since India’s total AMS is negative and that too by a huge magnitude, the question of our undertaking any reduction commitment does not arise. As such, India has not undertaken any commitment in its schedule filed in GATT.

It may be mentioned that in the calculation of our domestic support, no account has been taken of the exemption of input subsidies to low income and resource-poor farmers in developing countries. In India, operational holdings of 10 hectares or less account for 79.5 percent of agricultural land. If farmers holding less than 10 hectares of land are considered to be resource-poor or low income, almost 80 percent of the input subsidies will qualify for exemption from inclusion in non-product specific AMS. This would result in a AMS figure being lower even.\textsuperscript{18}

7.4.1.2 Market Access

India, classified as a developing country with balance of payments problems, does not have any market access commitments for agriculture and is therefore free to maintain quantitative restrictions on imports. However, according to the Ministry of Commerce, countries with negative balance of payments would have to indicate the

\textsuperscript{16} Mohanty, P.K., 1994, Uruguay Round Agreement on Agriculture - An Overview, Ministry of Commerce, Govt. of India.

\textsuperscript{17} Gulati Ashok and Sharma Anil, 1994: Agriculture under GATT, Seminar on Uruguay Round Agreement on Agriculture IIIFT, 1994.

ceiling tariffs which would apply when BOP constraints are no longer there and quantitative import restrictions are consequently withdrawn. As such, India has indicated that the ceiling tariff levels would be 100 percent for primary products, 150 percent for processed products and 300 percent for edible oils.¹⁹

7.4.1.3 Export Subsidy

The GATT agreement on agriculture, as mentioned earlier, lists six types of subsidies to which the reduction commitments will apply. Indian exporters of agricultural products do not get direct subsidy. The only subsidies available to them are in the form of (a) exemption of export profits from the income tax which is not one of the listed subsidies in GATT agreement and (ii) subsidies on costs of freight on export shipments of certain products like fruits, vegetables and agricultural products. This is part of the two listed subsidies for which developing countries are exempted from the reduction commitments. The total aggregate value of subsidies given to farmers namely, subsidies on fertilizer, electricity, seeds, pesticides and cost of credit is well below the ceiling prescribed in the GATT Final Act. Thus, the GATT commitments framed in the subsidies code in case of export subsidies will not have adverse impact on agricultural exports from India. Thus, India may continue with the present subsidy and has got scope to even enhance it, if required, Further, the reduction of subsidy by developed countries may lead to improvement in world prices of agricultural products which may have stimulating effects on agricultural exports of developing countries like India.

¹⁹ GATT (1994): Country Studies: India
7.5 CONCLUSION

The analysis of GATT commitments in agriculture and their impact on India's agricultural exports reveal that the GATT agreement on agriculture does not constrain us from following our development policy with regard to agriculture as India has not undertaken any commitments under the Urgugay Round agreement on agriculture. Thus, to take full advantage of such opportunities of world trade in agriculture, the required strategy of agricultural exports as suggested in Chapter VI, should be to enhance policy initiatives in the areas of yield improvement and resource management for increasing export surpluses of this sector with least effects on domestic prices.

The analysis of Section 7.3 reveal that the recent trade policy reform has reduced tariff and non-tariff protection for the industrial sector, and sought to eliminate the over valued exchange rate through a substantial depreciation. This has led to removal of implicit bias against agriculture which had led to a misallocation of resources for the past four decades and at present, has created a climate for encouraging agricultural exports in the country. However, the real effect of these policy initiatives on agricultural exports would depend on how far these policy initiatives are successful in not only creating a climate for increasing agricultural exports, but also providing consistency and stability to these exports by moving away from the stage of incidental activity (or peripheral and residual activity) to a planned deliberate effort as suggested in strategy of agricultural exports (Chapter VI).