# UNIT 8 TRADE RELATED POLICIES

**Structure**

## 8.0 OBJECTIVES

After studying this unit, you will be able to:

- explain the basis of trade between countries;
- discuss the GATT and its evolution to WTO;
- identify obligations of countries under WTO agreement;
- explain the implications of WTO agreement to Indian agriculture; and
- discuss the trade policy of India and incentives under EXIM policy; and

## 8.1 INTRODUCTION

The basic principle of trade is to promote free competition and gain a comparative advantage. Whether a country has an absolute advantage or not in the production of agricultural commodities, it will find its comparative advantage in the production of some commodities or the other and can participate in trade by following the free and fair competition. There is a tendency for countries to protect their own home markets by charging high tariffs on imported goods. But after the General Agreement on Tariffs and Trade (GATT) was formed in 1947, the tariffs were gradually reduced to promote more trade. The Uruguay Round talks led to the formation of the World Trade Organization (WTO) to oversee and facilitate trade by resolving trade disputes amicably. Trade in agricultural commodities was partially liberalized and the Doha Round talks initiated in 2001 was to further liberalize it. The broad objective of the Doha round is to reduce distortions in agricultural trade caused by high tariffs and other barriers, export subsidies, and some kind of domestic support. The Doha round remained inconclusive due to differences among major trading countries. Doha round was further followed by (i) The Cancun Ministerial Conference, 2003, (ii) The Hong Kong Ministerial Conference, 2005, (iii) The Nairobi Package, 2015, and (iv) Buenos Aires Ministerial Conference, 2017, etc. India has always been a net exporter of agricultural commodities but its surplus in agricultural trade is fast shrinking. As the technological progress in agriculture slowed down and resource shortages are becoming more acute, the cost-push inflation is increasing agricultural prices rapidly. Cost-push inflation by definition is caused by an increase in prices of inputs like labour, raw materials, etc. The increased price of factors of production leads to a decreased supply of such goods. In the case of agriculture, while the demand remains constant, the price of agricultural commodities increases thereby causing a rise in the overall price level. The outlook for international agricultural trade does not seem to be promising in general and to India in particular. This unit focuses on the obligations of the countries to open up under the World Trade Agreement and the policy initiatives of the Government of India to increase exports. The incentive schemes and the outlook for the expansion of agricultural exports are assessed.

## 8.2 BASIS OF TRADE BETWEEN COUNTRIES

Why do countries trade? Because trade plays a crucial role in providing livelihoods for farmers and people employed along the food supply chain. It also contributes to reducing food insecurity across the globe and provides greater choices in consumer goods. The Portuguese, the Dutch, the French, and the British came to India's coastal towns only for trade. Even earlier than the arrival of European traders, trade did take place with other countries by land and sea routes. Large multinationals want to exploit the opportunities to trade in as many countries as possible. Hitler started the Second World War as trade barriers in the form of high tariffs were making it difficult to trade and earn foreign exchange to pay for the reparations imposed on Germany after the defeat in the First World War. Trade interests are as important as security interests for the countries to form blocks and unions.

### 8.2.1 Absolute Advantage

The basis for trade between countries is the same as in the case of trade between a farmer and a weaver in the same village. Instead of producing both food and cloth required by his family, a farmer produces more food than what he needs and exchanges his surplus food with a weaver who supplies him with the cloth. The weaver has the skills of making cloth, while the farmer knows the art of growing food. Thus, there is a rudimentary division of labor between the two and the exchange of goods between them makes both of them better off! **It is the principle of comparative advantage** that forms the basis for trade at the village level. The same principle explains the reason for the exchange of goods and services between people belonging to different tehsils, districts, and states in India. Up to the level of a country, this process is easily understood because there is easy mobility of people and goods within a country in a relative sense. But there are usually many restrictions on the movement of people and goods between countries. So, trade between countries requires agreements and restrictions, although the basis for trade is the same principle of comparative advantage.

### 8.2.2 Principle of Comparative Advantage

Each country is endowed with considerable resources of land, water, labor force with required entrepreneurial and managerial skills, etc., These resources of one country may favor the production of one commodity (say cotton) at less cost relative to another commodity (say silk). If there is another country where the silk can be grown at less cost relative to cotton, both countries can benefit if the farmer country specializes in the production of cotton and sells it to the latter country in exchange for silk. We may sometimes have a pair of countries with the farmer country having the ability to produce both cotton and silk cheaper than in the latter country. Yet, these two countries can specialize and trade between them, if, for example, the cost of production of cotton in the former country is only one-half of that in the latter country while the cost of production of silk in the former country is three-fourths of that in the latter country. Since the former country has a greater advantage in the production of cotton, it can specialize in cotton. Although the latter country does not have an absolute advantage in the production of silk, it can still specialize in silk, as it has a relative advantage in it. Thus, even a country with a poor resource base and skills can also participate in the production and trade of some commodities or others as per the principle of comparative advantage. Both countries will benefit when they specialize and trade.

### 8.2.3 Protectionist Tendencies

Agricultural protection is part of the agricultural policy of almost every country. The countries populations basic needs, and economic policies framed to achieve the protection of the agricultural sector from foreign completion, protects the interests of all groups: producers, consumers, and the economy as a whole. Further, most often, several countries perceive self-sufficiency and self-reliance as the desired objectives. It is believed that some rich and powerful countries manipulate the prices to their advantage and it is not prudent for poor countries to depend on others for the supply of important agricultural goods for consumption. Some of these misgivings may be borne out of apprehensions but some are based on real past experiences. Virtually no country can manage without trade. But the degree of dependence of a country on external trade is influenced by its policy orientation and its assessment of benefits and threats from trade.

## 8.3 UNCTAD, GATT AND WTO

At the beginning of the twentieth century, there was more openness to trade between countries. The average tariff level was only about 10 percent. But the two world wars and mutual distrust between countries raised the average tariff level to over 40 percent by 1945. In the aftermath of the Second World War, the countries joined together to establish a United Nations Organization and several subsidiary organizations under it. **The United Nations**

**Conference on Trade and Development (UNCTAD)** was established to deal with issues related to trade and development.

### 8.3.1 General Agreement on Tariffs and Trade (GATT)

Parallel to UN organizations, the rich countries met at Bretton Woods in the USA and set up an International Bank of Reconstruction and Development (IBRD) for long-term lending and the International Monetary Fund (IMF) for medium-term lending. The main difference between them lies in their respective functions. The IMF oversees the stability of the global monetary system, whereas, the goal of the IBRD (World Bank) is to reduce poverty by offering assistance to middle and low-income countries.

After lending for reconstruction in war-ravaged countries, IBRD has started lending to development projects in developing countries and has acquired the name of 'The World Bank'. A lot of deliberations took place to set up an 'International Trade Organization (ITO) but it was not favored by the USA at that time. As a short-term substitute, a provisional organization called 'General Agreement on Tariffs and Trade (GATT) was set up in 1947 to reduce tariffs and promote trade between countries. Between 1948 and 1973, there were seven GATT agreements that liberalized the trade in industrial products by reducing the average tariff level from 40 to 6.5 percent. It has resulted in rapid growth in the world merchandise trade, leading to the globalization of markets. While the world economy grew at an average rate of 3 percent per annum, World Trade grew at an average rate of 12 percent per annum between 1950 and 1990. During the first seven GATT agreements, the member countries of GATT could choose the agreements they would like to join and keep out of those they do not like. The member countries can retain their membership of GATT even if they do not join any agreements in a particular round of talks. All seven agreements dealt with trade in industrial products and did not touch the trade in agricultural commodities. So all seven rounds of trade talks under the aegis of GATT did not become controversial at all.

### 8.3.2 The Uruguay Round

But the eighth round of talks began in 1986 in Uruguay and became controversial. Before the onset of these talks, a group of 16 countries met at Cairns (a city in Queensland, Australia) and demanded that the trade in agricultural products should also be liberalized just as it happened in the case of industrial products.  When this Cairns group of 14 countries led by Australia proposed for liberalization of trade in agricultural commodities, some countries (USA & EU Members) opposed it by arguing that the agricultural sector has multi-functionality like maintaining ecological balance and preserving the scenic beauty and should not be considered as a mere producer of commodities. But agricultural trade entered the agenda for Uruguay round talks along with other issues like Trade Related Intellectual Property Rights (TRIPS), Trade-Related Investment Measures (TRIMS), General Agreement on Trade in Services (GATS), Anti-dumping measures (ADM), Issue of the country of origin of products and so on. The agenda became long and heavy and the talks continued up to December 1991. While the talks were going on, the socialist economies in USSR and Eastern Europe crumbled one after another under the heavy weight of subsidies and operational inefficiencies. The bipolar world has become one with a single economic philosophy of Liberalization, Privatization, and Globalization.

### 8.3.3 Dunkel Draft Text (DDT)

Mr. Arthur Dunkel, who was the Director General of GATT, prepared a draft text and circulated it to all the member countries. This Dunkel Draft Text (DDT) became quite controversial and sections of people in many countries agitated against it. It proposed setting up a regular trade body i.e. World Trade Organization (WTO) with a permanent secretariat and an elaborate dispute settlement mechanism in place of GATT. All the 13 agreements negotiated in the Uruguay Round would be treated as a single undertaking. The member countries were either to take them all or leave them all. It means that the countries can not pick and choose the agreements they would join. They should join all the agreements and have to forego the membership if they would not join the agreements. Trade in agricultural commodities was touched in a limited way, paving the way for some liberalization. Because of many new and rigid provisions, there was a big uproar against DDT in many countries. But when Peter Sutherland, the successor of Arthur Dunkel, set a deadline of December 15, 1993, to sign the agreement, about 108 countries signed it including member countries in GATT (91). The number swelled to 125 by 1994 April when the Commerce Ministers of countries ratified it in Morocco. In India, there was a fierce campaign against the agreement, but the Government signed it by executive decision without a discussion in the Parliament. India became a founder member of WTO by promulgating a couple of ordinances to facilitate it. **WTO came into being on January 1, 1995, while GATT ceased to exist after December 31, 1995.** During the period of one year when both organizations co-existed, members of GATT joined WTO after completing the necessary formalities.

| **Activity 1:** |
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Visit cold storage near your place and record the products stored there, the costs incurred in maintaining it and the charges levied from the farmers/traders. Summarize your impressions about its usefulness.

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## 8.4 OBLIGATIONS OF COUNTRIES UNDER WTO AGREEMENT

We confine the discussion on obligations of countries only to the Agreement on Agriculture (AOA), Sanitary and Phyto-sanitary Standards (SPS), Technical Barriers to Trade (TBT), and Geographical Indications (GI), Patents, and Plant Variety Protection Certificates under the agreement on Trade Related Intellectual Property Rights (TRIPS) as they are the major provisions that are relevant for Agriculture and Agro- business sectors.

### 8.4.1 Market Access

Market Access for goods in WTO means the conditions of tariff and non-tariff measures, agreed by members for the entry of specific goods into their Markets Tariff Commitments for goods are set out in each members schedules of concessions on goods.

All the countries have to provide minimum market access to products from other countries. The developed countries should start with a minimum access of 3 percent of their consumption in the base year and reach a level of 5 percent within a period of 10 years. The developing countries should start with an access level of 2 percent of their consumption in the base year and go up to 3.33 percent by 2004. If the current access is higher than the minimum access specified, it should be maintained. All the non-tariff measures of protection should be converted into tariffs and the total tariff should be reduced by 36 percent, on average, over the period of the agreement by the developed countries. The developing countries should reduce them by 24 percent. The reduction on a single tariff line should be by 15 percent for the developed countries and by 10 percent for the developing countries. This minimum access and tariff reduction proposals are aimed at a token liberalization of trade in agricultural commodities in the international market.

### 8.4.2 Aggregate Measure of Support (AMS)

The Aggregate Measure of Support means the annual level of support (subsidies) expressed in monetary terms, provided for an agricultural product in favour of the producers (product specific) of the basic agricultural product and non-product provided in favour of agricultural producers in general. AMS consists of two parks-product-specific subsidies and non-product subsidies. Product Specific Subsidy refers to the total level of support provided for each individual agricultural commodity. Non product specific subsidy refers to the total level of support given to the agriculture sector as a whole.

Another important measure is to compute the Aggregate Measure of Support (AMS) after allowing exemptions under the green box, blue box, and special exemptions granted to developing countries and reducing it if it exceeds the permissible level. Green box measures are considered non-distorting to the market and include expenditures on research, extension, training, quality control, etc., relief granted during calamities, support to insurance schemes, and income support, etc., There is no upper limit for expenditures made for green box measures. Blue-box or production-limiting programmes to balance supply with demand are also exempted from the computation of AMS but they have an upper cap on them. Developing countries can also exempt capital subsidies on surface irrigation projects, the support provided to resource-poor farmers, and incentives given to farmers to wean them away from growing illegal crops from the computation of AMS. After all these exemptions, the remaining support provided by all levels of Government to agriculture has to be added up to compute product specific support in the case of 21 basic products listed in the agreement and sector-specific support that is provided in general to farming. In the case of product-specific support, market and non-market support given to specific products have to be added up. The input subsidies given to fertilizer, irrigation water, power, and interest subsidy on loans given to agriculture are to be added up to arrive at sector-specific support. The product-specific or sector-specific support should not exceed 5% of the value of output or agricultural GDP in the case of developed countries. If they exceed the permissible level, the excess support should be reduced by 20% over 6 year period. In case of the developing countries, the permissible support is 10% of the value of the product or agricultural GDP. The excess support has to be reduced by 13.33% spread over10 the years.

### 8.4.3 Export Subsidies

The elimination of agricultural export subsidies is one of the central elements of the **"Nairobi Package"** adopted **at the 10th Ministerial Conference held in December 2015**.

The third provision in the AOA is the limit on export subsidies. A developing country giving export subsidies should reduce them by 36% and reduce the quantities subsidized by 21%. In the case of developing countries, the reduction requirements are 24% for value and 14% for quantities. Countries that did not give export subsidies in the base years should not give them after the agreement. But the developing countries are permitted to subsidize the internal and external freight and marketing costs.

### 8.4.4 Sanitary and Phyto-Sanitary Standards (SPS) and Technical Barriers to Trade (TBT)

The agreement on the application of Sanitary and Phyto-Sanitary measures (SPS) came into force with the establishment of WTO on January 1, 1995. It concerns the application of food safety and animal and plant health regulations. It allows countries to set their own standards. Also, regulations must be based on science.

Besides AOA, SPS and TBT are also important for international trading in agricultural products. They acquired the name of secondary tariffs and are often used to prevent imports by specifying a very high level of safety and technical standards. SPS relates to the standards required to protect the health of plants, animals, and humans. Some examples are aflatoxins in groundnut, bacterial contamination in case of fish and prawns, pesticide residues in case of spices, fruits, and vegetables, and heavy metal contamination in commodities, etc., Member countries can publicize the standards they will impose from a later date, although they are advised to limit the requirements to those recommended by international bodies like *Codex alimentarus* or HACCP. They are required to apply the same standards for their domestic production also and should not discriminate between countries from which the products are imported. The developed countries and WTO would train the personnel from the developing countries so that they will be able to attain the required standards. Technical standards relate to product quality, specifications, and safety to the handlers in the case of machinery and toys. These two agreements recognize the right of countries in specifying the standards for the products imported but stipulate that they should not be used to discourage imports and for discrimination purposes.

### 8.4.5 Trade Related Intellectual Property Rights (TRIPS)

The WTO agreement on TRIPS negotiated during the Uruguay round introduced Intellectual Property Rules for the first time into the Multilateral Trading System. The agreement whole recognizing Intellectual Property Rights (IPRs) as private rights, also established minimum standards of protection that each government has to give to IPRs in each of the WTO member countries. The member countries' Geographical Indications (GI) relate to the characteristics of products acquired because of soils or climates that are unique to a particular growing area. They are like trademarks and are protected through labeling. Wines and spirits were given stronger protection than other commodities in the agreement. Some examples of GI in India are Darjeeling tea, Ratnagiri Alfonso mangoes, etc., Member countries can legislate to give special trademark protection to some products that acquire special characteristics when they are grown in a particular area. Patents are the strongest form of Intellectual Property Rights (IPR) and they are granted when a new product passes the tests of Novelty, Usefulness, and Inventive step which is not obvious to an ordinary practitioner of an art. The member countries were asked to give patent protection to both product and process patents. New animal or plant forms can be exempted from patent protection, but biochemical and microbiological processes need to be given patent protection. The countries where product patents are not in vogue are given a 10 year grace period to introduce them. But they should provide a mailbox provision to establish the seniority for patent applications and provide exclusive marketing rights for 5 years provided that the product has already received patent protection in another Member country. Plant varieties should be protected either by a grant of patents or through a *sui generis* method. Sui Generis means “of one’s own or its own kind”. In law, this is a term of art to identify a legal classification that exists independently of other categorizations because of its uniqueness. For granting plant variety protection to a new variety, the tests of Distinctness, Uniformity, and Stability have to be passed. The companies have to register the varieties and declare the parentage and breeding methods used in developing the New Variety. New machinery can be protected by granting Utility Patents.

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**Check Your Progress 1**

**Note:** a) Use the space given below for your answers.

b) Check your answer with those given at the end of the unit.

1) The cost of producing a ton of tea is $500 in Sri Lanka, while it is $600 in India. Rubber is produced in Sri Lanka at a cost of $ 800 per ton, while it is $1200 per ton in India.

   i) In the above example, which country has an absolute advantage in the production of tea and rubber?

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   ii) In which commodity does Sri Lanka have a comparative advantage? Does India have a comparative advantage in any of the two commodities?

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   iii) What should be the joint trade strategy of the two countries to maximize the benefits for both countries?

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2) When was GATT established?

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3) What is the permissible support that a developed country can give to the agricultural sector?

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**Activity 2:**

Go to an agricultural export company and find out about the products they export, the prices at which they procure, the costs they incur, and the profits/ losses they make in the export of agricultural products.

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## 8.5 IMPLICATIONS OF WTO AGREEMENT ON INDIAN AGRICULTURE

When India become a member of WTO on 1st January 1995, the domestic prices of agricultural commodities were much lower than their prices in the international market due to cheap labor available in the country. The Government felt that India has an unassailable competitive advantage in agricultural commodities and that it will be able to increase exports rapidly. Liberalization of agricultural trade and reduction of domestic subsidies were expected to push up international prices. Since India was having a problem of the balance of payments, it was argued that minimum market access commitments do not apply to India. Since the level of domestic support is quite low, there was no need to reduce the AMS in India. It was also felt that India can use the 10 year grace period to postpone the grant of patents and that the plant varieties can be protected by the *sui generis* method which allows both the farmers' and breeders' rights.

### 8.5.1 Competitiveness

During the 1990s, there was price inflation in India which was faster than that in the trading partner countries, due to which the competitive edge enjoyed by agricultural commodities was rather lost. The international prices of agricultural commodities did not increase as the rich countries increased the support under the *green* and *blue* box provisions which have more than offset the subsidy reduction under the *amber* box provisions.

In WTO terminology subsidies, in general, are identified by 'boxes' which are given the colours of traffic lights" green box refers to permitted list/level, amber (slow down i.e. need to be reduced) red refers to forbidden items.

Blue box is the amber box with conditions designed to reduce distortion in prices. The green box is defined in Annex. II of the Agriculture agreement. In order to qualify, green box, subsidies must not distort trade.

India also came out of the balance of payments problem in 1997 due to which quantitative restrictions had to be withdrawn. India went ahead with the passing of the protection of 'Plant Varieties and Farmers' Rights Act, 2001 in the parliament. Due to all these reasons, India's export of agricultural commodities increased slower than anticipated. But the agricultural imports surged mainly because of allowing edible oil imports at zero duty. Still, India has a trade surplus in the case of agricultural trade. There is an increase in the proportion of the value of agricultural imports to the value of agricultural exports. The overall trade deficit increased rapidly due to increased oil imports at very high prices. India also faced problems because of arbitrary changes in SPS and TBT standards by rich countries. However, there is an increased awareness about quality issues like reducing pesticide residues and promoting organic products to reach the international market. India participated quite actively in the anti-dumping litigation at WTO on both sides. Some issues cropped up with some companies in advanced countries trying to patent basmati rice, neem, and turmeric products.

### 8.5.2 Ministerial Meets

The ministerial conference is the top decision-making body of WTO, which usually meets once in two years. It brings together all members of WTO.

In general, the public opinion in India with regard to WTO is generally negative. It is not perceived as a facilitator of trade. Unfortunately, it is viewed as an abettor of exploitative trade practices of the developed countries. The once-in-a-two-year Ministerial Conferences of WTO have become quite controversial with the disagreements between developed and developing countries ever-growing, thereby making it impossible to arrive at another agreement. The Doha round which started in 2001 has not come to fruition fully so far. It is supposed to address the implementation issues arising out of the 1994 GATT agreement. The future of WTO looks quite bleak and is also under threat due to the rise in tariff and non-tariff trade barriers and protection now. The trade interests have created a gulf between the expectations of developed and developing countries. There is no agreement between the United States on the one hand and European Union and Australia on the other side on how the stalemate can be resolved. India, Pakistan, and China are on one side in trade negotiations despite political differences among them. The Hong Kong Ministerial meeting in 2005 agreed on some broad parameters but the countries could not thrash out the differences at a specific level. As and when there will be a new agreement, it should take some more steps toward agricultural trade liberalization. But, at the moment, it looks unlikely that the member countries of WTO will conclude another agreement.

## 8.6 INTERNATIONAL MOVEMENT OF AGRICULTURAL PRODUCTS

Agricultural commodities are also traded between countries. There is differences in climate, soil types and suitability conditions, etc. in each country. They produce a set of commodities in greater quantities than their requirements and sell the surplus to other countries which can not produce them or produce them at a high cost. In the same way, they buy some products from other countries which have a comparative advantage in producing them. India was actively participating in trade at the time of Independence. In 1948, India had a share of 2.2 percent in the world exports of merchandise and a 2.3 percent share in the world imports of merchandise. But these shares dropped to 0.5 percent in 1973 both in the case of exports as well as imports. The Government of India followed import substitution policies due to export pessimism that permeated the economic policy. It was felt that the world markets were controlled and manipulated by the rich countries and poor countries should participate in trade to the minimum extent possible. But, this policy slant changed after 1991 but due to inadequate preparedness, the shares of India in world trade did not increase much. In 2010, which was a good year for India in respect of international trade, India's exports had a share of 1.75% in world merchandise exports and a share of commercial service export of 3.5% in the year 2019 while its imports clocked 2.4 percent share in world merchandise imports during the same year.

### 8.6.1 Surplus in Agricultural Trade

Over the last 70 years of Independent India, the country always had a trade deficit because the value of our merchandise imports was always higher than that of our merchandise exports. But in the case of trade in agricultural commodities, the country always had a surplus. The value of agricultural exports was always higher than that of agricultural imports.

But the agricultural trade surplus is gradually decreasing. At one time, the value of agricultural exports was about five times that of agricultural imports. But, in the recent period, agricultural imports are about two-thirds that of agricultural exports. The tapering off of green revolution gains and extreme scarcity of land and water and lower doses of labor and capital employed in the agricultural sector are responsible for this state of affairs. In the year 2020, India realised a USD 15.8 billion trade surplus of the agricultural, fishery, and fishery goods.

### 8.6.2 Changing Composition of Agricultural Exports

The nature of agricultural exports has changed from mere raw products to more processed and value-added products in a relative sense over a period of time. But the growth in agricultural exports is hampered by high domestic requirements and a reduction in the competitive advantage enjoyed by high domestic inflation. The country's dependence on edible oil imports and imported fertilizers and agrochemicals is swelling the import bill. The difference between the rate of growth in non-agricultural sectors and that in the agricultural sector is widening over time. The share of agriculture in the Gross Domestic Product (GDP) is gradually increasing in 2018-19 (17.6%), and 2020-21 (20.2%). The proportion of people dependent on agriculture for their livelihood and income is 70% (2017-18) declining only at a slow pace. This structural maladjustment is causing disenchantment of people engaged in agriculture, leading to rising debts, sagging hopes, and despair, evidenced by suicides and the exit of youth from agriculture forcing them to migrate to urban and metropolitan areas. Based on a study, it was noticed that India, in the pre-WTO era attempted to achieve specialization in agricultural exports whereas, no such effort was made in the past WTO era. It means that WTO has a mixed impact on India's Agricultural exports. It has helped India to improve its position in global agricultural exports but did not allow India to gain expertise in the exports of agricultural products.

### 8.6.3 Agricultural Trade Performance

International trade in agricultural products is expanding but at a much slower rate than in non-agricultural products. In 2010, world agricultural exports grew at a rate of 7.5 percent, while the total world merchandise exports increased by 14.0 percent. Between 2005 and 2010, world agricultural production rose at an annual rate of 2.0 percent, but the trade in agricultural exports increased at an annual rate of 3.5 percent. In the case of India also, both agricultural production, as well as exports, grew at much smaller rates than in the non-agricultural sectors. International prices of agricultural products are rising, but the domestic price inflation in agricultural products is rising even faster, making domestic agricultural products less competitive. India's Trade performance is given in Table 8.1.

**Table 8.1: India's Market Share (Global) in Agricultural Products**

**Unit: USD in billion**

| | **Units/Volumes** | **2017** | **2018** | **2019** | **2020** |
|---|---|---|---|---|---|
| 1 | Total Exports | 32.2 | 32.7 | 31.0 | 33.4 |
| 2 | Total Imports | 27.8 | 22.3 | 22.7 | 22.1 |
| 3 | Import from USA | 1.9 | 1.9 | 2.1 | 1.6 |

***Source:*** Directorate General of Foreign Trade, Ministry of Agriculture and Farmers Welfare, Trade Data Monitor, GoI.

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**Check Your Progress 2**

**Note:** a) Use the space given below for your answers.

b) Check your answer with those given at the end of the unit.

1) Does India have a surplus or deficit in agricultural trade with other countries?

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2) What change was noted in the composition of agricultural exports over the last few decades?

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3) Why is the growth in agricultural exports lagging behind that in total exports of the country?

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**Activity 3:**

Collect the data from the website of the Commerce Ministry, Government of India regarding the major agricultural exports and major agricultural imports during the last two decades and analyze which export commodities are showing rapid growth and which agricultural imports are surging.

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## 8.7 TRADE POLICY OF INDIA

The Foreign Trade Policy of India, 2009-14, aims to arrest and reverse the declining trend of exports and to provide additional support to the sectors badly hit by the world recession. It set an immediate target of achieving a 15% growth in exports per year till 2011 and achieving a high export growth rate of 25% per year between 2011 and 2014. Between 2009 and 2014, the target was to double the exports and the long-term target for 2020 was to double its share in world exports.

### 8.7.1 Schemes to Encourage Exports

To encourage agricultural exports, the Special Agriculture and Village Industry Scheme, Agriculture Infrastructure Incentive Scrip, Export Promotion Capital Goods (EPCG) scheme for agro units, a single window system for the export of perishable agricultural products, and special support for the marine sector were introduced. All other general schemes of export promotion can also be availed by the exporters of agricultural products. Many special focus initiatives like market diversification, technology up-gradation, and incentives to status holders can be availed by them. Special Economic Zones/ Agro-export Zones continue to receive special exemptions. Schemes like Assistance to States for the Development of Export

Infrastructure and Allied Activities (ASIDE), Market Access Initiative (MAI), Market Development Assistance (MDA), Towns of Export Excellence (TEE), Focus Product Schemes, Duty Exemption, and Remission Schemes, Advance Authorization Scheme, Duty-Free Import Authorization Scheme, Duty Entitlement Passbook Scheme, etc., are introduced or strengthened to encourage exports. Agricultural exporters may utilize the benefits of these schemes to reduce some costs and compete in the international market. The recent weakening of the rupee has improved the competitiveness of Indian exports to some extent and it will be able to offset the adverse impact of domestic inflation on export competitiveness. But the economic difficulties the Euro Zone is experiencing and a general slowdown in the world economy are the challenging factors that Indian exports have to overcome.

## 8.8 INCENTIVES UNDER EXIM POLICY/ FOREIGN TRADE POLICY (2015-2020)

The EXIM policy, 2009-14 provided support to the exporters in diversifying the exports to 29 new countries in Latin America, Africa, Asia, and Oceania. The incentives provided in the focus marketing scheme are increased from 2.5% to 3.0% and the incentives under the focus product scheme have been increased from 1.25 % to 2.0%. The outlay for the Market Linked Focus Marketing Scheme has been increased significantly and it ensures support to exports to Latin America, Africa, and major Asian markets like China and Japan. To achieve technological upgradation, The Export Promotion Capital Goods (EPCG) scheme has been extended to marine products and rubber and rubber products in the wider agricultural sector, besides many other products in the non-agricultural sectors. The rules for claiming a 3% incentive under EPCG have been simplified to help the exporters in using it. Under Advance Authorization Scheme (AAS), the requirement for value addition is fixed at 15% of the import value of inputs to receive benefits and to encourage value addition in exports. The status holder incentive scrip scheme has also been extended to marine products. All eligible status holders of agricultural exports will be incentivized up to 10% of the value of exports towards the Agricultural Infrastructure Incentive subject to a limit of Rs. 100 crore per year. The Exim policy 2015-20 introduced two new schemes i.e. (i) Merchandise Exports from India Scheme(MEIS) for the export of specified goods to specified markets and (ii) Senesces Exports from India scheme (SEIS) for increasing Exports of notified services. For the grant of rewards under MEIS, the countries have been categorized into 3 groups. The rates of rewards under MEIS range from 2% to 5%. Under SEIS the selected services would be rewarded at the rates of 3% to 5%.

### 8.8.1 Incentives to Exports from Rural Sector

Under the Agriculture and Rural Industry sector, there are a number of schemes like Vishesh Krishi and Gram Udyog Yojana which confers many benefits to agricultural products, handlooms, and handicrafts. Duty credit Scrip benefits are granted to compensate for high transportation costs and other disadvantages. These benefits are provided up to 5% of the value of the Free On Board (FOB) value of exports in the case of most agricultural exports. Additional benefits of up to 2% of the value of exports can be availed by the exporters of fruits, vegetables, and flowers. The capital goods imported under the EPCG scheme will be allowed to be installed anywhere under Agro- Export Zones (AEZ). So far, 45 agro-export zones are established in the country. AEZs are being established to facilitate end-to-end development for the export of specific products from a geographically contiguous area. AEZs are to be identified by the state governments and would evolve a comprehensive package of services provided by all state government agencies, state agricultural universities, and all institutions and agencies of the union government for intensive delivery in these zones. Corporate bodies with proven credentials will be allowed to sponsor new agro-export zones or take over fully or partly the all ready notified AEZs for intensive promotion of agro-exports. To reduce transaction and handling costs, a single window system of facilitating the export of perishable agricultural produce has been introduced. Under Market Access Initiative (MAI), the exporters can claim benefits up to 25% to 100% of the total cost depending on the activity and implementing agency. Under Market Development Assistance (MDI), support is provided to exporters to participate in trade fairs, seminars and special visits to the countries under consideration. Under the Advance Authorization Scheme for agro-exports, the import of inputs like pesticides is permitted. Additional flexibility for agro-infra scrip scheme has been allowed for limited transferability of scrip to other status holders and units in the Food Parks. In the case of the marine sector, imports for technological upgradation under EPCG in the fishery sector are exempted from minimum export obligation. Duty-free import of specified specialized inputs/ chemicals and flavouring oils is allowed to the extent of 1% of the FOB value of the preceding year's export value. Agricultural exporters can take advantage of the support provided by the "India Brand Equity Foundation" for popularizing "Made in India" brands to make the agricultural exports appealing to consumers in the importing countries. All these incentives provided under the EXIM policy are designed to compensate the exporters for higher transportation and marketing costs incurred with agricultural exports. But, basically, competitiveness is determined by the cost of production and the inflation pressures in the domestic economy, and the demand situation in the importing countries.

Export incentives are regulatory legal, monetary, or tax programmes that are designed to encourage businesses to export certain types of goods and services. The Foreign Trade Policy 2015-20 (FTA) has contained several incentives for exports to make the Indian product competitive. One of the benefits provided is the “Transport and Marketing Assistance (TMA) for specified Agricultural products to aid with the international component of freight and marketing of agricultural produce. The prime objective of TMA is to promote brand recognition for Indian Agricultural Products in the specified overseas markets and to reduce the higher cost of transportation due to the transshipment of export of specified agricultural products. The TMA assistance under FTP (2015-20) aimed to provide benefits through bank transfer of freight incidence on exports by Indian Exporter at specified rates. The FTP 2015-2020 also provided for (i) Eligibility for Assistance, (ii) Conditions and restrictions for availing Assistance under TMA, (iii) Manner and method of submission of application etc.

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**Check Your Progress 3**

**Note:** a) Use the space given below for your answers.

b) Check your answer with those given at the end of the unit.

1) What is the target set for export growth between 2011 and 2014 by the Foreign Trade Policy, 2009-14?

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2) What is the long term target for export growth which India seeks to achieve by 2020?

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3) How many agro-export zones are set up in the country so far?

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**Activity 4:**

Pay a visit to one of the agro-export zones located near your place and record the facilities established there, and the incentives provided to the exporters and processors there.

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## 8.9 FUTURE OUTLOOK FOR INTERNATIONAL AGRICULTURE TRADE

The outlook for international agricultural trade looks rather uncertain. The Doha Work Programme initiated in 2001 has not concluded and the existence and relevance of WTO, itself, are under a cloud. Trade blocks and protectionist policies pursued by countries are limiting the potential for international trade in agricultural commodities. Economic growth is slowing down in the world and rich countries are repeatedly dipping into recession. In response to low growth and high unemployment, the countries are going into protective shells. But these protectionist policies are what these countries are preaching against for a long time. The double standards practiced by the developed countries have become naked as they prescribe liberalization to developing countries but follow protectionist policies in their own countries. Because of competitive protectionism, the US and EU are unable to agree on the liberalization of trade in agricultural products and are mainly responsible for the breakdown of the Doha Work Programme.

The OECD-FAO Agricultural Outlook projects that demand for food, agriculture, and fisheries products will continue to grow over the new decade. However, growth will be at a slower pace than in the recent past, when exceptionally strong growth in China and the larger policy-induced expansion of biofuels spurred demand. Food trade will increase and contribute to building global food security, assuming current prices. Technological developments and digitalization in particular expected to evolve rapidly, and productivity growth, sustainable resource use, and climate change may require urgent attention, etc.

### 8.9.1 Outlook for Indian Agricultural Exports

India's dependence on the rest of the world for crude, fertilizers, and raw materials for fertilizers is only increasing over time. So, this is the case with edible oil imports from countries in South East Asia. But the potential for increasing agricultural exports remains limited. Population and incomes continue to grow in the country which is driving up demand for food in general and high-value, quality food articles in particular. But there are severe supply constraints in the agricultural sector. The basic resources, land, and water, are under severe strain both in terms of quantity as well as in terms of quality. Technological progress has slowed down and productivity increases are possible only with more intensive use of inputs. With the rapid growth in input and labour costs, the cost of production per unit of output is increasing, squeezing out the profit margins of farmers. Farmers are deeply indebted and do not want to continue production unless the prices of outputs increase sharply. Any such increase in prices would make agricultural products non-competitive in the international market. This process is likely to further accentuate in the future. Many analysts predict that India may become soon an import-dependent country, as the supply fails to keep pace with the demand growth. Any technological breakthrough would delay this inevitable prediction. But the prediction of import dependence is likely to happen by 2050 or by 2100 A. D. From 1948 to 2000 A.D., food and agricultural production increased faster than population growth and supply increased a little faster than demand, making it possible to export some of the agricultural products. But in the present century, supply is increasing slower than demand, and food and agricultural production may rise slower than even the population growth.

As this situation persists for a long time, import dependence may spread to more and more agricultural products. What started with edible oils and pulses may eventually spread to fruits, vegetables, dry fruits, processed foods, and, finally, food grains. Dairy and marine products may also join the bandwagon as demand growth for them outstrips supply. India's agri-exports depend heavily on normal monsoon to come close to USD 50 billion mark achieved last year (2020-21). India as a nation also has to increase the shipment of other products that have a potential for uprising eg: organic cereal, millets, select horticulture products, and a few value-added items to keep the agri-export momentum growing.

In 2021-22 the exports have valued at USD 2 billion, a little more than a 3-fold rise. At present with wheat export being banned barring exceptional circumstances, non-basmati rice, which was the top exchange earner among all agricultural commodities in 2021-22, has to step up this year as well.

## 8.10 LET US SUM UP

Trade takes place between countries based on the principle of comparative advantage. Every country can find its comparative advantage in the production of some commodities even when it does not have an absolute advantage in any of them. Free trade will benefit all but countries resort to protectionist policies by raising high tariff walls to shield domestic producers from competition. By the time of the Second World War, the average tariff reached a high of 40 percent. General Agreement on Tariffs and Trade (GATT) was established in 1947 to facilitate negotiations on reducing tariffs and promoting trade. The GATT agreement, 1994 paved the way for setting up the World Trade Organization (WTO) and for partial liberalization of trade in agricultural products, among many other aspects. But the Doha round of work program initiated in 2001 has not been completed so far due to the protectionist policies of different countries. The impact of the WTO agreement has been mixed for India. India always enjoyed a surplus in agricultural trade but the surplus is fast eroding due to resource crunch and slow technological progress. The Trade Policy of India, 2009-14 has set ambitious targets but the export growth is far short of the targets. Slow economic growth in the world and rising inflation in the country is impacting India's competitiveness in agricultural trade. A few incentives announced in the policy are helpful but are not strong enough to accelerate the growth in agricultural exports. The Foreign Trade Policy 2015-20 (extended up to 2022 due to covid 19) has contained the following major highlights: (i) Simplification and Merger of reward schemes (MEIS & SEIS), (ii) Boost to **Make in India**, (iii) Trade facilitation and ease of doing business, and (iv) new initiatives for Export Oriented Units (EOUs). Electronic Hardware Technology Parks (EHTPs), and Software Technology Parks (STPs).

## 8.11 KEYWORDS

**Access** : Right to entry, entrance, admittance.

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| **Barrier** | : | Wall, blockade, hurdle. |
| **Geographical indication** | : | Environmental, ecological. |
| **Incentive** | : | Inducement, motivation. |
| **Intellectual property right** | : | Recognition to property emanating from intellect. |
| **Patent** | : | Exclusive rights given to invention. |
| **Sanitary** | : | Hygienic, clean. |
| **Tariff** | : | Duty, tax, levy. |

## 8.12 SUGGESTED FURTHER READING/ REFERENCES


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3. Bhattacharya, B. (2001). State of the Indian Farmer, Millennium study, Volume 18: Agricultural Exports, Academic Foundation, New Delhi
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## 8.13 ANSWERS TO CHECK YOUR PROGRESS

**Check Your Progress 1**

**1.** i) Sri Lanka has an absolute advantage in the case of both tea and rubber.

ii) Sri Lanka has a comparative advantage in the case of rubber, while India has a comparative advantage in the case of tea.

iii) The joint strategy should focus on India specializing in tea and exporting it to Sri Lanka and importing rubber from it. Sri Lanka should specialize in rubber production. This strategy would benefit both countries.

**2.** GATT was established in 1947.

**3.** A developed country can give support to its agricultural sector only to the tune of 5% of its agricultural GDP under the WTO agreement.

**Check Your Progress 2**

1. India always had a surplus in agricultural trade which means that the value of agricultural exports exceeded that of agricultural imports every year.
2. The composition of agricultural exports has undergone a change in that the share of raw agricultural products exported decreased while the share of processed products increased over the last few decades.
3. The growth in agricultural exports is lagging behind the growth in general exports because the supply of agricultural products is falling short of the demand for the same and the competitiveness of agricultural exports is eroding due to the cost-push inflation.

**Check your progress 3**

1. The Trade policy of India, 2009-14 has set a target of 25% annual growth in exports between 2011 and 2014.
2. The trade policy has set a long-term target of doubling the share of India's exports in total world exports by 2020.
3. 45 Agro-Export Zones were set up so far in the country.