CHAPTER 4

EXTERNAL TRADE IN AGRICULTURAL PRODUCTS

One other important aspect of agricultural marketing is the marketing of agricultural commodities across the nation's borders usually termed as external trade. As far as an individual country is concerned, external trade is done in the form of either exports or imports. Exports provide the market support for the country's surpluses and generate foreign exchange earnings which increases the country's capacity to import other goods, but at the same time in the short run, they reduce the domestic availability of the commodities exported and consequently raise the domestic price level. Imports, on the other hand, though reduce the foreign exchange reserves, augment the domestic availability of goods and if these pertain to the capital goods or inputs, expand or improve the production capacity but in the short run, they depress the domestic prices. The effect of exports and imports of final goods on the domestic price level is such that, in the absence of any public intervention in the domestic market, the producers gain by exports and lose by imports. One other point to be noted in this regard is that the levels of exports and imports of a country are inter-related as the capacity of imports depends on its ability to export.

International trade or marketing essentially involves buyers and sellers of two different countries. Usually the currencies are different and convertibility is quite often not automatic. This apart, depending on the development philosophy, domestic economic levels; natural resource endowments and national objectives like self-sufficiency or self-reliance, there are quite a few barriers-physical, tariff, subsidies etc. that are imposed by the national governments. Therefore, the buying and selling of commodities across national boundaries usually have not been taking place in the framework of free market environment.

Trade Policy for Agriculture

Over the last five decades of Indian planning, the perception about the importance of external sector in economic development has gone through a number of changes. These changes can be categorized as under:

(i) During the first half of 1950s, i.e., the period of first five year plan, the foreign trade was considered to be almost irrelevant for economic development in India and hence export policies did not receive emphasis.

(ii) During mid 1950s and 1970s (1955 to 1975), the foreign trade was seen as a constraint on growth and India followed a moderately outward looking economic policy. During second five year plan (1956-61), agricultural items hardly received any export incentives. Rather several items were under export restrictions. The third five year plan (1961-66) marked a radical departure in the export policy. Various export promotion measures were introduced in the form of fiscal incentives, import entitlement scheme, direct financial incentives and marketing incentives from the government. Following the devaluation of Indian rupee in 1966, many of the export promotion measures were abolished. The promotion of India's exports continued during the fourth five year plan period (1969-74). To facilitate agricultural exports, the fourth plan extended the compulsory quality control and grading under Agmark. This period was also marked by the establishment of organizations aimed at providing services to the exporting community. These include Export Promotion Councils, Commodity Boards, and the Trade Development Authority, which were set up in early 1970's.

(iii) During late 1970's to early 1980's, the external trade got more prominent place. In 1977, a Task Force on Agricultural Exports, headed by G.V.K. Rao, in its report submitted to the Government of India, criticized the adhocism applied to agricultural trade. The report pointed out that India did not have an independent export policy for agricultural commodities and agricultural export policy during the 1970's remained 'adhoc, short term and mere reaction to the situation'. The report suggested that long term policies should be formulated and frequent changes in export policies should be avoided. Another committee was appointed by Government of India under the Chairmanship of P.E.Alexander in 1977 to review the export-import policies and procedures. The Committee in its report submitted in 1978, recognized that the export control measures for agricultural commodities have resulted in supply uncertainties and loss of market share. The Committee recommended for the stability of export policies, advocated more transparency in making these policies, replacement of licensing system by the tariff system, rationalization of export incentives, elimination of multiplicity of incentives, and strengthening of institutional infrastructure for export promotion. Another Committee on trade policies under the chairmanship of Abid Hussain was appointed by the Government of India in 1984 to review the trade policies and suggest rationalization and improvements in these policies. The Committee realized that incentive element in these policies was small and was not sufficient to offset the negative export bias implicit in other domestic policies. The report proposed rationalization of duty drawback schemes, tax concessions, and increased fiscal concessions to increase the relative profitability of exports.

(iv) Mid 1980's to early 1990's marks the period when India started liberalization of the external sector. It began in mid 1980s but gathered pace only since 1991. However, upto mid 1990s, agriculture remained largely a protected sector in the Indian economy. During this period, the main policy objectives were to ensure stability of domestic prices of agricultural items. The government actively regulated agricultural exports through a variety of measures like export taxes, export ceilings, canalization and export prohibitions. Monitoring of agricultural exports was done on adhoc and short term basis to keep the domestic supply of agricultural goods stable.

(v) In July 1991, India introduced radical policy reforms in various economic sectors including trade. These include devaluation of rupee in 1991 and making rupee partially convertible. Trade restrictions on agricultural products were left mostly untouched in the 1991 reforms but during subsequent trade policy changes, restrictions on agricultural products were gradually lifted. India signed the Uruguay Round Agreement on 15th April 1994 at Marrakesh. The treaty introduced agricultural trade in the multilateral agreement for the first time. The aim of this treaty was to eliminate physical controls on agricultural trade by replacing them with bound tariff rates. The Agreement on Agriculture came into effect from January 1, 1995 which marked the beginning of a new era of agricultural trade policy in India.

The macro-economic reforms recently introduced in India aim at liberalization of trade and industry and at progressively moving towards linking the Indian economy with the world economy. As the reform package is extended to the farm sector also, it is expected that various forms of the so-called subsidies presently available to the agricultural sector will be phased out. The export of agricultural commodities as also agro-based processed products is being encouraged and controls/restrictions on trade in agricultural commodities have been increasingly relaxed. The physical controls on import/export of agricultural commodities have been replaced by tariffication, which are also being progressively reduced.

Apart from the macro-economic reforms, the end of the cold war, the disintegration of the erstwhile Soviet Union – one of India's major trading partners accounting for about 16 per cent of total Indian export basket and a source for about 8 per cent of India's imports – and the new international trade agreement under WTO have important implications for the agricultural sector. As the public intervention in agricultural marketing is being reduced and international trade is being liberalized, it is necessary to have a look at the current status of import and export of agricultural commodities, the world trade in these commodities and prospects for India in this regard.

Share of Agricultural Products in Total Imports/Exports of India

In 1960-61, exports of agricultural and allied products (AAP) were valued at Rs.284 crores which accounted for 44.2 per cent of total value of exports. Over the years, though the exports of AAP (in value term) increased but as the exports of other commodities increased at a rate faster than that of AAP, the share of AAP in the total exports of the country has gone down. In 1990-91, exports were valued at Rs.6317 crores but they represented only 19.4 per cent of total exports (Table 4.1). After 1990-91, the exports of AAP from India in value terms increased at a faster rate. In 1995-96, exports of AAP were valued at Rs.21,138 crores. During this period the exports of other commodities also increased at a rapid rate. Even then, the share of AAP in total exports from India at about 20 per cent, was higher than that during the preceding five years.

In 2001-02, exports of AAP were valued at Rs.29,312 crores. During 1995-96 to 2001-02, the exports of other commodities increased at a rapid rate than the exports of AAP and as such the share of AAP in total exports from India came down further to only 14 per cent. The share of agricultural and allied products export in India's total exports during the last four decades (1960-61 to 2001-02) has, however, been declining continuously. It came down from 44 per cent in 1960-61 to 14 per cent in 2001-02.

As regards the imports, the country during 1960-61 imported food articles (cereals and fats) valued at Rs.186 crores representing 16.6 per cent of total imports. The imports of food articles increased to Rs.89 crores during 1980-81, but their share in total imports

Table 4.1

Trend and Shares of Food and Agricultural Products in Imports and Exports of India

(Rs. in crores)

Year	**Imports**			**Exports**		
	Total Imports*	Food articles*	Share of food articles in total imports (%)	Total Exports	Agricul-tural and allied products	Share of agricultural & allied products in total Exports (%)
1960-61	1122	186	16.6	642	284	44.20
1970-71	1634	252	15.4	1535	487	31.72
1980-81	12549	809	6.4	6711	2057	30.65
1985-86	19658	880	4.5	10895	3018	27.70
1990-91	43193	508	2.2	32553	6317	19.41
1995-96	122678	2340	1.9	106353	21138	19.88
1998-99	178332	8799	4.93	139752	26104	18.68

1999-00	215236	9007	4.18	159561	25016	15.68
2000-01	230873	6183	2.68	203571	28582	14.04
2001-02	245199	562	0.02	209018	29312	14.02

* Includes only cereals, cereal preparations and animal and vegetable oils and fats.

Source: Government of India, Indian Economic Survey, 1996-97, Ministry of Finance, New Delhi.

declined to 6.4 per cent. In 1985-86 the imports of food articles increased to Rs.880 crores but their share in total imports further declined to 4.5 per cent of total imports. In the subsequent years, the imports of food articles declined both in absolute terms as well as in terms of its share in total imports. It came down to Rs.508 crores or 2.2 per cent of total imports in 1990-91. The imports of food articles increased since then to Rs.2340 crores in 1995-96 and to Rs.9007 crores in 1999-2000. The share of imports of food articles in total imports has shown a mixed trend, i.e., first reduced to 1.9 per cent in 1995-96 and increased to 4.2 per cent in 1999-2000 and again shown a declining trend both in absolute as well as in the per cent share thereafter. Though in absolute terms, India's imports of food articles have been increasing over the decades from mere 186 crores in 1960-61 to over 9000 crores in 1999-2000 but their share in total imports of the country has decreased from 16.6 per cent to 2.6 per cent during this period.

Changes in India's Agricultural Export Basket

A number of agricultural commodities are exported from India. The commodities exported from India fall broadly in three categories:

(i) Traditional export items – These products are cashew nuts/shelled; castor oil; coffee; raw cotton, cotton waste; fruits, spices, sugar and molasses; tea and tobacco-unmanufactured.

(ii) Non-Traditional items but uncertain – These items are raw jute; raw wool; gums, resins and lac, essential vegetable oils; and non-essential vegetable oils (excluding castor oil).

(iii) Non-Traditional items with good prospects – These items are floriculture products; HPS groundnut; oil meals; meat and meat preparations; processed fruits and juices, processed vegetables; sesame and niger seeds; shellac; wheat and rice.

The growth in the export of non-traditional new items has been at a rate higher than that of traditional items (Table 4.2). Tea, coffee, tobacco, cashew kernels and spices are the traditional export items. During 1990-91, they together accounted for 36.1 per cent of the total AAP exports but their share decreased to 23.10 per cent in 2001-02. As against this, the exports of non-traditional items like marine products, basmati rice, fruits, vegetables, oil meals and processed foods have been increasing in the export basket of the country. Among the non-traditional items, the increase has been conspicuous in rice and fish and fish preparations. Rice accounted for 7.3 per cent of total exports of AAP in 1990-91 which further increased to 10.8 per cent in 2001-02. Similarly the share of fish and fish preparations increased from 15 to 20 per cent during this period. The relative importance of various commodities in total agricultural and allied products exports has substantially changed during the last four decades.

Table 4.2

Exports of Agricultural and Allied Products from India

(Value in Rs. crores)

Commodity	1960-61	1970-71	1980-81	1990-91	1995-96	2001-02
Tea and Coffee	131	173	640	1332	2674	2814
Oil cakes/meals	145	55	125	709	2349	2263
Tobacco	16	33	141	263	447	808
Cashew kernels	19	57	140	447	1237	1652
Spices	17	39	11	239	794	1497
Sugar and Molasses	30	29	40	38	506	1782
Raw Cotton	12	14	165	856	204	43
Rice	-	5	224	462	4568	3174
Fish & Fish	5	31	217	960	3381	5897
Preparations Meat & meat	1	3	56	140	627	1193
Preparations Fruits, Vegetables & Pulses	6	12	80	216	802	1560
Processed Foods	1	4	36	213	745	1236
Others	32	31	182	952	2804	5393
Total Agricultural and Allied products	284	487	2057	6317	21138	29312

Source: Economic Survey 2002-03, Ministry of Finance and Company Affairs, Economic Division, Government of India, New Delhi, pp.S-84-86.

During the nineties, agricultural exports have received special attention since it is in this area that there exists great potential for raising farm incomes, tackling unemployment problem and earning foreign exchange. The impetus for accelerated growth in agricultural exports is envisaged through increased infrastructure support and by building up conducive policy environment. Some of the measures undertaken in this connection include, market determined exchange rate policy, lowering import duties on capital goods, particularly machinery necessary for food processing, easier availability of credit for exports, removal of restrictions on export of agricultural products and several concessions to export-oriented units.

Some of India's major export markets for various agricultural commodities are shown in Table 4.3.

Table 4.3

India's Major Export Markets for Various Agricultural Commodities

Name of Commodity	Apr 2005 - Feb 2006		Apr 2006 - Feb 2007	
	Export Value of Goods			
	(INR in Crores)	(US$ in Millions)	(INR in Crores)	(US$ in Millions)
1.GEMS & JEWELLARY	61,369.32	13,867.33	62,586.53	13,785.00
2.PETROLEUM CRUDE & PRODUCTS	47,016.18	10,624.02	76,683.05	16,889.83
3.RMG COTTON INCL ACCESSORIES	25,535.86	5,770.21	27,520.53	6,061.54
4.MACHINERY AND INSTRUMENTS	19,773.71	4,468.17	26,512.59	5,839.53
5.DRUGS,PHRMCUTES & FINE CHEMLS	19,553.87	4,418.49	21,833.63	4,808.97
6.MANUFACTURES 4,439.47 OF METALS	16,674.57	3,767.87		20,156.05
7 TRANSPORT EQUIPMENTS	16,374.62	3,700.09	19,064.44	4,199.04
8 COTTON YARN,FABRICS,	15,638.97	3,533.86	16,682.33	3,674.37
9.IRON ORE	14,505.39	3,277.71	15,074.03	3,320.13
10.PRMRY & SEMI-FNSHD IRON & STL	11,641.69	2,630.62	17,856.68	3,933.02

11.PLASTIC & LINOLEUM PRODUCTS	11,239.89	2,539.82	13,132.29	2,892.45
12.OTHER COMMODITIES	10,157.94	2,295.34	22,636.02	4,985.70
13.ELECTRONIC GOODS	8,454.86	1,910.51	11,453.82	2,522.76
14.INORGANIC/ORGANIC/ AGRO CHEMLS	7,726.50	1,745.92	8,584.59	1,890.80
15. MANMADE YARN, FABRICS,MADEUPS	7,691.74	1,738.07	8,765.30	1,930.60
16. MARINE PRODUCTS	6,401.16	1,446.44	6,417.69	1,413.53
17 .DYES/INTMDTES & COAR TAR CHEML	6,029.60	1,362.48	9,207.34	2,027.96
18. NON-FERROUS METALS	4,923.14	1,112.46	14,323.19	3,154.76
19.PROCESSED MINERALS	4,433.27	1,001.76	5,182.24	1,141.42
20.OTHER ORES AND MINERALS	4,152.38	938.29	6,390.75	1,407.59
21.RMG MANMADE FIBRES	4,078.58	921.62	3,645.04	802.84
22.OIL MEALS	3,960.66	894.97	4,710.21	1,037.45
23.RUBR MFD. PRDCTS EXCPT FOOTWR	3,603.10	814.18	4,209.44	927.15
24.PAPER/WOOD PRODUCTS	3,420.08	772.82	4,102.55	903.61
25.CARPET(EXCL. SILK) HANDMADE	3,279.38	741.03	3,572.51	786.86
26.FOOTWEAR OF LEATHER	3,169.30	716.15	3,886.61	856.05
27.RICE (OTHER THAN BASMOTI)	2,929.21	661.90	3,668.38	807.98
28.RESIDL CHEMICL & ALLIED PRDCTS	2,865.65	647.54	3,016.44	664.39

29.GLS/GLSWR/CERMCS /REFTRS/CMNT/	2,856.98	645.58	3,450.60	760.01
30.RICE -BASMOTI	2,718.14	614.20	2,477.56	545.70
31.LEATHER GOODS	2,648.14	598.39	2,849.61	627.64
32.FINISHED LEATHER	2,532.20	572.19	2,794.80	615.57
33.MEAT & PREPARATIONS	2,474.31	559.11	2,925.45	644.34
34.CASHEW	2,389.86	540.02	2,255.92	496.88
35.COTTON RAW INCLD. WASTE	2,233.23	504.63	5,027.31	1,107.29
36.IRON&STL BAR/ROD ETC	2,229.39	503.77	3,394.22	747.59
37.COSMETICS/TOILETRIES	1,965.51	444.14	2,248.64	495.27
38. SPICES	1,894.59	428.11	2,718.26	598.71
39. HANDCRFS(EXCL .HANDMADE CRPTS)	1,867.24	421.93	1,539.14	339
40.NATRL SILK YARN, FABRICS,MADEUP	1,744.91	394.29	1,799.35	396.32
41.PAINTS/ENAMELS/ VARNISHES ETC.	1,690.16	381.92	1,682.52	370.58
42.RMG OF OTHR TEXTLE MATRL	1,595.12	360.44	1,855.51	408.68
43. TEA	1,589.85	359.25	1,859.71	409.61
44. RMG WOOL	1,508.88	340.95	1,530.53	337.11
45. LEATHER GARMENTS	1,402.70	316.96	1,316.37	289.94
46. COFFEE	1,391.80	314.5	1,717.29	378.24
47.RMG SILK	1,032.17	233.23	1,062.41	234.00
48.FERRO ALLOYS	1,008.15	227.81	1,417.38	312.19
49.PULSES	985.36	222.66	716.65	157.85
50.FRESH FRUITS	938.58	212.09	1,167.26	257.10
51.GUERGUM MEAL	929.61	210.06	1,016.15	223.81
52. MACHINE TOOLS	916.16	207.02	964.67	212.47
53. TOBACCO UNMANUFACTURED	887.42	200.53	1,108.72	244.2
54.MISC PROCESSED ITEMS	886.47	200.31	997.64	219.74
55. CASTOR OIL	862.98	195.00	992.84	218.68
56.FRESH VEGETABLES	823.33	186.04	1,322.54	291.3

57.ALUMINIUM OTHR THAN PRODUCTS	798.88	180.52	1,191.20	262.37
58.LEATHER FOOTWEAR COMPONENTS	723.21	163.42	883.08	194.5
59.DAIRY PRODUCTS	703.71	159.01	475.70	104.78
60 .SESAME SEEDS	659.18	148.95	703.45	154.94
61.PROJECT GOODS	596.72	134.84	412.62	90.88
62.WHEAT	556.95	125.85	35.86	7.90
63.COIR & COIR MANUFACTURES	541.16	122.28	586.88	129.26
64.SPORTS GOODS	532.61	120.35	529.22	116.56
65.PROCESSED FRUITS & JUICES	517.71	116.99	635.35	139.94
66. JUTE HESSIAN	460.71	104.10	349.66	77.01
67. OTHER CEREALS	437.07	98.76	562.21	123.83
68. GROUNDNUT	430.08	97.18	698.25	153.79
69. PROCESSED VEGETABLES	426.99	96.48	539.67	118.87
70.COMP.SOFTWARE IN PHYSICAL FORM	372.00	84.06	210.85	46.44
71.SUGAR	368.89	83.36	2,651.86	584.09
72. WOLLEN YARN,FABRICS ,MADEUPSETC	341.44	77.15	342.13	75.36
73. MANMADE STAPLE FIBRE	335.84	75.89	790.07	174.02
74.SADDLERY AND HARNES	299.58	67.69	335.89	73.98
75. POULTRY PRODUCTS	298.82	67.52	262.00	57.71
76. FLOOR COVERING OF JUTE	288.26	65.14	276.05	60.80
77.TOBACCO MANUFACTURED	274.75	62.08	372.28	82.00
78.RESIDUAL ENGINEERING ITEMS	273.87	61.89	320.57	70.61
79.FLORICLTR PRODUCTS	272.45	61.56	356.68	78.56
80.SPIRIT & BEVERAGES	232.82	52.61	226.53	49.89
81.OTHER JUTE MANUFACTURES	227.82	51.48	249.70	55.00
82.FOOTWEAR OF RUBBER/CANVAS.	223.00	50.39	212.21	46.74
83.COAL	220.5	49.83	339.25	74.72
84.JUTE YARN	210.05	47.46	229.39	50.53
85.SHELLAC	145.64	32.91	133.05	29.30

86.SILK CARPET	95.05	21.48	118.28	26.05
87.FRUITS / VEGETABLE SEEDS	75.67	17.10	97.65	21.51
88. MICA	69.07	15.61	69.07	15.21
89.NIGER SEEDS	53.70	12.13	56.61	12.47
90.MOLLASES	26.93	6.09	119.37	26.29
Total	404,719.56	91,452.54	510,488.44	112,437.68

Recent Policies on Trade

Export-Import Policy, 1992-97

The Government of India announced a new five year export-import policy effective from April 1, 1992 which gave further push to liberalization of imports and intended to give significant boost to exports. Under this policy, the international trade was made free subject to a negative list of imports and exports. But as far as farm products and related goods are concerned, most of them remained a part of the negative list, as per the following details:

Negative List of Exports

(i) Permitted Subject to Licensing -

Coconut, copra, seeds and planting materials, cotton seed, vegetable oils, groundnut cakes, rice bran, milk, cattle, camels, chemical fertilizers.

(ii) Permitted through Canalising Agency -

Onion (NAFED), Niger Seed (NAFED/TRIFED), Powdered Milk (NDDB), Ghee (NDDB).

(iii) Permitted without a licence but subject to terms and conditions -

Basmati rice, non-basmati rice, wheat, barlet, maize, bajra, jowar, ragi, HPS groundnut, raw cotton (Bengal desi, Assam comilla, staple cotton, yellow picking), sesame seed, sugar, gram and gram flour, wheat flour, deoiled groundnut cake, deoiled rice bran, VFC tobacco, soyabean extractions, cotton yarn, black pepper etc.

Negative List of Imports

(i) Canalised Items -

All fertilizers (MMTC), edible oils (STC, HVOC), seeds of oilseed crops (STC, HVOC), Cereals (FCI).

(ii) Restricted Items -

Livestock, plants, seeds and other materials (licence from the department of Agriculture).

The import of pulses, raw cashewnut, seeds of vegetables and flowers, plants, tubers and bulbs of flowers etc., were placed in the negative list.

The philosophy underlying these massive trade policy reforms include the following:

(i) Trade – both exports and imports can flourish in a free regime.

(ii) Trade policy should go far beyond balancing of imports and exports and should lead to better technology, greater investment and more efficient production at home.

(iii) Liberalization and removal of licensing, quantitative restrictions and other discretionary controls on matters relating to exports and imports are essential to trade policy reforms. This meant fewer governmental restrictions, greater freedom to trade and lesser administrative controls.

The process of pruning the negative list and decanalization has continued in recent years.

Main Features of Export-Import (EXIM) Policy, 2002-07

- Removal of all quantitative restrictions and decanalization of exports (except a few sensitive items) of farm products.
- Scheme of Special Economic Zones (SEZ) strengthened.
- Major thrust to promote agricultural exports by setting up of Agri Export Zones and by removing export restrictions on designated items (agro and agro-based products).
- Transport subsidy provided for export of fruits, vegetables, floriculture, poultry and dairy products.
- Simplification of procedures to further reduce transaction costs.
- Widening of the scope of Market Access Initiative Scheme to include setting up of Business Centres in Indian Missions abroad for focused market promotion of exports.
- Dereservation from small scale industry provisions of over 50 items including agricultural implements.

Agri-Export Zones

The Government announced the proposal to set-up Agri-Export Zones in the EXIM Policy 2001-02 for the purpose of developing and sourcing raw materials and their processing/packing leading to final exports. The concept essentially embodies a cluster approach of identifying the potential products and the geographical regions in which such products are grown and adoption of end-to-end approach of integration of the entire process. Under the scheme, the state government would identify products with export potential which have comparative advantage in the local area. APEDA is the nodal agency of the Central Government to promote setting up of Agri-Export Zones.

Till December, 2002, the Central Government has sanctioned and notified 41 Agri-Export Zones (AEZs) which are being set up in 16 states-West Bengal, Uttaranchal, Karnataka, Punjab, Uttar Pradesh, Tamil Nadu, Maharashtra, Andhra Pradesh, Tripura, Jammu & Kashmir, Madhya Pradesh, Bihar, Gujarat, Sikkim, Himachal Pradesh, Orissa and Jharkhand. Agricultural products covered under these AEZs are Litchi, pineapple, potatoes, onion, garlic, mangoes (Kesar, Chausa, Dusshari, Alphonso), grapes, flowers, apples, vegetables, walnuts, gherkins, wheat, ginger, turmeric, basmati rice and seed spices. A projected export of more than Rs.3000 crore during the next 5 years and a substantial amount of direct and indirect employment is likely to be generated as a consequence of setting up of these zones. These 41 AEZs will entail an estimated investment of Rs.1142.5 crores, out of which Rs.333.68 crores will flow from various Central Government agencies like APEDA, NHB, Ministry of Food Processing Industry and Ministry of Agriculture; Rs.168.61 crores from state governments and Rs.640.24 crores from the private sector.

International Trade Agreements

GATT (The General Agreement on Trade and Tariffs)

The General Agreement on Trade and Tariff (GATT) was a multinational treaty to liberalize world trade. It took effect on 1st January, 1948 and ended when 117 member states signed the Uruguay Round of negotiations in Marrakesh, Morocco on 15th April, 1994. GATT's administrative structure in Geneva was succeeded by the World Trade Organization (WTO) under the Uruguay Round agreement.

GATT established a code of conduct for international trade, based on the principle that the trade should be conducted without discrimination, tariffs should be reduced through multilateral negotiations, and member, countries, should consult each other to overcome trade problems. GATT centre operated jointly with the United Nations Conference on Trade and Development to assist developing nations in promoting their exports.

Under GATT, a total of eight round of talks of trade negotiations brought about phased reductions in tariffs and other trade barriers. The prolonged eighth round of talks began in September, 1986 at part del Este, Uruguay. In this, the participants agreed to expand the negotiations to include banking investment, intellectual properties and telecommunications. The talks were concluded in December, 1993 and resulted in the far reaching trade liberalization in the history. Trade in the agricultural commodities was included in the agreement for the first time.

The Uruguay Round launched over 1986-94 was the most ambitious so far. This round also established the World Trade Organisation (WTO). The successor to the General Agreement on Trade and Tariff (GATT). It brought international trade rules to areas previously excluded or subjected to weak rules (agriculture, textiles and clothing), services, Trade Related Investment Measures, and Trade Related Intellectual Property Rights (TRIPS) and strengthened the dispute settlement mechanism. Despite these achievements, the global trading system faces major challenges. Against these challenges, the ministerial conference in Doha in November, 2001 adopted the Development Agenda, which calls for a more coherent approach to trade and development and puts the needs and interests of the developing countries at the heart of the WTO's work program.

World Trade Organisation (WTO)

WTO is an international body to supervise and encourage international trade. The Uruguay Round of trade talks concluded in 1994 resulted in setting up of the World Trade Organisation (WTO) to take over the functioning of GATT for encouraging multilateral trade in goods and services. The WTO began functioning on 1st January, 1995. The Agreement on Agriculture (AoA) under WTO requires clear understanding.

Agreement on Agriculture (AoA) under WTO

The provisions under AoA can be understood to consist of five broad groups:

(i) Market Access Commitment

(ii) Reduction Commitment for Aggregate Measure of Support (AMS)

(iii) Reduction Commitment for Export Subsidy

(iv) Sanitary and Phyto-Sanitary Measures (SPS)

(v) Trade Related intellectual Property Rights (TRIPS)

(i) Market Access

The provisions under market access commitment include the following:

(a) Tariffication of all non-tariff barriers (like converting quantitative restrictions to import duty)

(b) Reduction of all tariffs in a time bound framework as follows:

Countries	Period	Reduction %
* Developed	6 years	36
* Developing	10 years	24
* Less Developed	-	0
* Those with BP problem	-	0

(c) If imports of foreign goods to the domestic market is less than three per cent in the base period (1986-88), it must be brought to three per cent and to further raise it to five per cent in the implementation period.

(d) If dumping is proved, the countries will have the freedom to increase the import duty.

(ii) Aggregate Measures of Support (AMS)

The aggregate measures of support for a country's agriculture is the sum of product specific and non-product specific subsidies. If AMS in the base period (1986-88) is more than the permissible limit, it should be reduced by the following amount during the implementation period:

Country	Permissible AMS (% of GDP)	Reduction commitment if exceeds the limit (%)
* Developed	5%	20%
* Developing	10%	13%
* Less Developed	NA	-
* Those with BP problem	-	0

(iii) Export Subsidies

The reduction commitment for export subsidies require that (a) the developed countries would reduce it by 36 per cent in six year; and (b) the developing countries would reduce it by 24 per cent in 10 years.

(iv) Sanitary and Phyto-Sanitary Measures (SPS)

The SPS provisions of AoA require all exporters to employ international standards relating to sanitary and phyto-sanitary conditions. In the case of default, the importing countries are allowed to prohibit imports from defaulting countries.

(v) TRIPS

Trade related intellectual property rights include copyrights, trade-marks, geographic indications, industrial designs, and patents. According to AoA, all the countries are required to provide for arrangements for protection of plant varieties. The developing countries were given a period of five years to evolve such arrangements.

The main features of the WTO Agreement on Agriculture (AoA), which are of concern to India, are:

(i) India has been maintaining quantitative restrictions (QRs) on import of 825 agricultural products as on 1st April, 1997. Under the provisions of the Agreement, such QRs were to be eliminated. India had sought to remove them in three phrases within an overall time frame of six years i.e. upto 31st March, 2001. These QRs have since been replaced with appropriate tariffs.

(ii) The Agreement also imposed constraints on the level of domestic support provided to the agricultural sector. In India's case, it may have, in future, some implications on minimum support prices given to farmers and on the subsidies given on agricultural inputs. However, the Agreement allows us to provide domestic support to the extent of 10% of the total value of agricultural produce. Our support to the Indian farmers continues to be less than permissible limit.

(iii) Disciplines on export subsidy do not affect us as India is not providing any export subsidy on agricultural products.

(iv) The Agreement allows unlimited support to activities such as:

(a) Research, pests & diseases control, training, extension and advisory services;

(b) Public stock holding for food security purposes;

(c) Domestic food aid; and

(d) Income insurance and food needs, relief from natural disasters and payments under the environmental assistance programmes.

Model Quiz

1. Globalisation of a country's economy would increase its
   a. Export b. Import c. Both a and b d. Foreign exchange Reserve Ans: c
2. Globalisation of Indian economy was initiated in the year
   a. 1981 b. 1985 c. 1991 d. 1995
   Ans: c
3. Trade liberalisation in India resulted in
   a. Increased share of agricultural and allied products in total export earnings.
   b. Increase in absolute value of total exports.
   c. Both a and b
   d. None of these Ans: b
4. Pick the odd man out
   a. MPEDA b. APEDA c. NAFED d. DMI Ans: d
5. Tariffication of all non tariff barriers is related to
   a. Market access commitment b. Aggregate measure of support
   c. Export subsidy d. TRIPS Ans: a
6. AOA allows unlimited support to activities such as
   a. Pest and disease control b. Public stock holding for food security purpose.
   c.domestic food aid d. All of these Ans: d

TRUE or FALSE

1. In the absence of any public intervention in the domestic market, the producers gain by exporting and lose by importing. (True)
2. Capacity of a country to import depends on its ability to export. (True)
3. Devaluation of the country's currency would benefit the exporters. (True)
4. Processed fruits and juice are the traditional export products of India that show good prospects. (False)

5. Rice is an important non traditional good exported from India. (True)
6. Code of conduct established by GATT does not permit the member countries to consult each other to overcome trade problems. (False)
7. GATT was a bilateral treaty to liberalise the world trade. (False)
8. As per WTO provisions, countries will have the freedom to increase the import duty if dumping is proved. (True)
9. Reduction commitment is more for developed countries than for developing countries in the case of AMS. (True)
10. Reduction commitment is less for developed countries than for developing countries in the case of export subsidies. (False)