Chapter-VI

Problems with Globalisation
Chapter-6

Problem with Globalization

India like most of other countries including developed countries employs a variety of instruments to both protect and support its agriculture. These instruments can broadly be clubbed into three categories: domestic policies, import policies and exports policies. The domestic policies comprise a wide range of policy instruments like input subsidies on fertilizers, power, and irrigation water, public investment in development of water resources—surface and groundwater, Government intervention in markets, direct payment to farmers (such as those in the form of deficiency payments, insurance and disaster payments, stabilization payments as also some compensatory payments), price supports for major crops, general services (such as government transfers to agricultural research and development, extension services, training and agricultural infrastructure etc.). Other support (comprising such measures like certain tax concessions specific to agriculture or local subnational level funding for agriculture etc.) Import policies refer essentially to border protection through trade barriers such as quantitative restrictions quotas and tariffs on imports which in the process create a restriction between domestic and world market prices. Export policies include those that either promote exports (through instruments like subsidies and marketing arrangements that make exportables of a country more competitive) or these policies that constrain exports (often through canalization and restriction of exports and exports taxes etc.) Usually however import policies etc. are discussed in the context of trade policies rather than support to agriculture per se. Domestic support
and export policies are often intermingled – export subsidies are more often than not a fall out of domestic support policies that maintain domestic prices. Of agricultural products within a country at levels higher than international prices of the different types of domestic support to agriculture however the most important have been through subsidization of input prices and subsidization though payment of higher prices of crop output than that would prevail in a free trade scenario August 2004 Agreed Frame Work. Salient Features on domestic support- All developed countries will make substantial reductions in distorting supports and those with higher levels are to make dxper cuts from “found” rates (the actual levels of support could be lower than the bound levels). The way to achieve this will include reductions both in coverall current ceilings (“bound levels”) and in two components – Amber Box and de minimis supports. The third component, Blue Box supports will be capped, at the moment the Blue Box has no limits.

All of these reduction commitments and caps will apply. However, the new WTO Ceiling at the end of the implementation period will be lower of the Value of trade-distorting support resulting from (i) the overall cut and (ii) the sum of the reductions/caps of the three components. In other words, countries would have to make the required reductions in Amber Box and de minimis support, and be within the capped limit of the Blue Box. Then, if they are still Above the overall limit, They will have to make additional cuts in at least one of three components in order to match the ceiling set by the overall cut. Developing countries will be allowed gentler cuts over longer periods and will continue to be allowed exemptions under Article 6.2 of the agriculture Agreement (they can give investment and input
subsidies that are generally available and are integral parts of development programmes and provide domestic support to help farmers shift away from producing illicit crops)

**On export subsidies and competition-**

The framework status clearly that all farms of export subsidies will be eliminated by a “credible” date. The elimination will work in parallel for all types of subsidies, including those in government-supported export credit, food aid, and state sanctioned exporting monopolies. The negotiations will also develop disciplines on all export measures whose effects are equivalent to subsidies.

**Market Access-**

The framework commits members to “substantial improvements in market access for all products.” There are four key points emerged in the bargaining over the framework: the type of tariff reduction formula that would produce the agreed result of “substantial improvements in market access”. How all countries’ sensitive products might be treated how developing countries might be given further flexibility for their “special products” and be able to use “special safeguard” actions to deal with surges in imports or fall in prices; how to deal with conflicting interests among developing countries over preferential access to developed countries’ markets,” and how to provide market access for tropical products and crops grown as alternatives to illicit narcotics. Also discussed was a possible trade-off between cuts in some developed countries, subsidies and improved market access in developing countries.
WTO Negotiations on Agriculture: India's Stand-

India has been active in WTO negotiations both as a sovereign nation as also collectively as a principal member of G20 and G33 groups of nations. While confirming to the substance of Framework agreement these countries have emphasized that the reforms in all three pillars form an interconnected whole and must be approached in a balance and equitable manner. These countries have individually and collectively suggested:

On Domestic Support:

In order to fulfill the mandate of "substantial reductions in trade-distorting domestic support "negotiations should determine base periods and initial and final numbers for the overall trade-distorting domestic support in a technically consistent and politically credible manner. Any change in the Blue Box (Article 6.5 of the Agreement on Agriculture) is contingent upon agreement on additional criteria in order to make it substantially less trade-distorting than it is now. It should be ensured that in the Green Box no' or at most minimal, trade-distorting effects or effects on production will be generated by any direct payments claimed to be exempt from reduction commitments. Green Box should be reviewed and clarified to include specific provisions designed to accommodate genuine agriculture and rural development programmes of developing countries aimed at alleviating poverty, promoting agrarian reform and settlement policies, and ensuring food security and addressing livelihood security needs”

Further, for facilitating implementation of Green Box measures in developing countries, their special circumstances would also need to be taken into account. Further “given that de minimis support is the
only form of support available to farmers in most developing countries, any attempt to reduce de minimis support in developing countries would negatively affect the programmes benefiting subsistence and resource poor farmers.

**On Export Competition:**

In the export competition pillar, a key decision to be taken is the date of elimination of all forms of export subsidies. They have urged countries that apply such instruments to eliminate them in a period no longer than five years and with a front-loading of commitments. An early agreement would inject new momentum to the agriculture negotiations and make progress easier in other fronts. They stressed the need to develop new disciplines on export credits, export credit guarantees and insurance programmes and food aid so that these instruments are not used in a way as to displace exports or to promote surplus disposal. They have also recalled the need for making operative the 'July Framework' provisions for special and deferential treatment including State Trading Enterprises and the concerns of Net Food Importing Developing Countries (NFIDCs) as provided in the Marrakesh Decision.

**On Market Access:**

On market access, the crucial importance of conversion into ad valorem equivalents (AVEs) for the completion of the core modality-tariff reduction formula has been emphasized. The treatment of non-ad valorem (NAVs) duties should clearly spell out the methodologies used for conversion so that the verification process does not become cumbersome. The long held view that the tariff reduction formula is
the main component of the market access pillar and should be negotiated before addressing the issue of flexibilities has been reaffirmed. It has been underlined that the tariff reduction formula must contain: (i) progressivity - deeper cuts to higher bound tariffs (ii) proportionality - developing countries making lesser reduction commitments than developed countries and neutrality in respect of tariff structures; and (iii) flexibility – to take account of the sensitive nature of some products without undermining the overall objective of the reduction formula and ensuring substantial improvement in market access for all products. It has been strongly stressed that special and differential treatment for developing countries must constitute an integral part of all elements with a view to preserving food security, rural development and livelihood concerns of millions of people that depend on the agriculture sector. The concepts of Special Products and Special Safeguard Mechanism are integral elements of special and differential treatment for developing countries. The elimination of tariff escalation is important for developing countries, as it would allow them to diversify and increase their export revenues by adding value to their agricultural production. A serious concern about the increasing use of Non-Tariff Barriers by developed countries, which acts as impediments to exports of products of interest to developing countries, has also been raised.

Globalization and Domestic Policies Reforms:

The importance of domestic reforms in an environment of increased global integration has been widely acknowledged. It has been asserted that large scale welfare gains from multilateral agricultural liberalization are contingent on well functioning domestic economies
and that if factor markets were inflexible or public infrastructures
were in poor shape only a fraction of the gains from trade reforms
would be realized (Anderson: 2003). The Reserve Bank of India (RBI)
observed in its 2001 Annual Report that "...the pace of progress in
liberalization of external trade in agriculture warrants a sense of
urgency and priority to institutional reform in agriculture." (RBl: 2001).
While stressing the importance of public investment in basic
infrastructure the RBI stressed the importance of effective supply
chain arrangements that encompassed storage, processing and trading.
It also noted a major concern of regulating intermediaries. There is a
strong perception that inadequate regulation of intermediaries in
agricultural trade acutely affects farmers on account of low farm gate
prices. Policy constraints such as restrictions on movement of
agricultural commodities and ad hocism in export policy have been
cited as a major source of regulatory problems (Government of
Kerala:2003). The Government of India removed several statutory
restrictions in its 2002 National Agricultural Policy. In early 2004 the
Government liberalized procurement of food grains for the export
market, exporters are now permitted to procure rice and wheat from
farmers at market-determined rates. Food grain market policy in India
has tended to be highly interventionist with the central and state
governments actively involved in grain storage and restrictions on the
movement of food grains across states (Jha and Srinivasan: 2004).
Transport costs are also extremely high in India. It has been estimated
that comprehensive reform and infrastructure intervention consisting
of rationalization of internal movement controls, reduction of transport
costs by 50% and decentralization of public procurement and the PDS
would have the effect of increasing welfare by about $ 2 billion. The
efficacy of India's Public Distribution System (PDS) in ensuring food
security to the poor has been a subject of extensive criticism. Implementation of modified PDS programs, such as the TPDS, has also proven difficult in India's as a result of weak administrative capacity and resource constraints at the local level. The Planning Commission's mid term Review acknowledges that the MSP policy has been ineffective, farm incomes declined in regions subject to the MSP, and in 2001 it was decided to lower stocks by lowering sales prices and increasing food for work. Nearly a third of the growth in the unirrigated regions since the mid 1990s has been through crop diversification especially to horticultural products. Support price policy, particularly for wheat and rice has remained delinked from domestic and international market realities, creating significant budgetary costs and market distortion. Although initial upward adjustments in domestic prices may have been justified due to the prevailing negative support to cereals, policy was unable to adjust with market conditions. The inability to reform price policy and contain input subsidies has led to a decline in public investment in agriculture at a time when investment in new infrastructure and institutions is needed. Although the incentives and climate, for private investment have improved, it may not be able to fully substitute for weak public investment. Reforms at the border, when they have been implemented, have typically exposed inefficiencies in the domestic market that limit competitiveness. These weaknesses limit the benefits of border reform and, at least in India's case, will require significant investment in transport and marketing infrastructure and institutional capacities to overcome.

As a result of commitments under the Uruguay Round, India has bound all the tariff lines in agriculture. India had bound its tariffs,
at 100% for primary products, 150% for processed products and 300% for edible oils, except for certain items (comprising about 119 tariff lines), which were historically bound at a lower level in the earlier negotiations. The applied rates have been much lower than the bound rates. In India the product specific support is negative, while the non-product specific support i.e., subsidies on agricultural inputs, such as, power, irrigation, fertilizers etc., is well below the permissible level of 10% of the value of agricultural output. Therefore, India is under no obligation to reduce domestic support currently extended to the agricultural sector. Export subsidies of the kind listed in the Agreement on Agriculture, which attract reduction commitments, are not extended in India. Also developing countries are free to provide certain subsidies, such as subsiding of export marketing costs, internal and international transport and freight charges etc.

**India : Effects of Past Liberalization**

Trade liberalization primarily causes changes in producer and consumer surplus and the net effects of this liberalization depend on which of the two effects are stronger. Several researchers have attempted to quantify the effects of trade liberalization. The available results point to mixed evidence of the effects of trade liberalization. A study by Ramesh Chand (1999) attempted to quantify the impact of globalization of agriculture on producer surplus, consumer surplus and net social welfare in the case of four crops, namely, paddy (rice), maize, chickpea and rapeseed-mustard. The study concluded that in the case of studied crops, free trade is likely to have sharp positive impact on net return from production of exportables like maize and rice whereas, it is likely to have small negative impact on net return
from the importables like rapeseed-mustard. In rice where level of input subsidy is high, free trade would not be sufficient to counter the adverse impact on income due to withdrawal of subsidies.

In a recent study Jayati Ghosh, examined the impact and policies strategies with special reference to India however opined that more liberal external trade has not in general had a beneficial impact on cultivators in India. This has been partly because of the patterns in world trade which have led to volatile and declining crop prices internationally. But it also has a great deal to do with internal macroeconomic and sectoral policies which have reduced protection to cultivators, caused input prices to rise sharply made marketing of crops more difficult and exploitative for: the direct producers and reduced the flow of institutional credit. The critical question therefore in the current context is how to manage trade liberalization and domestic policies such as to ensure the viability of small cultivators and food security in the countryside.

In some product such as edible oils, International prices on account of subsidies have consistently been lower than domestic prices. Analysts addressing this issue have consistently shown that Indian edible oils do not compete well with imports (Gulati and Sharma: 1998). Comparing the ratio of domestic and international prices of oilseeds and oil, Chand (2002) shows that oilseeds production, particularly in rapeseed-mustard and soybean, is fairly competitive. This is also shown by a World Bank (1997) study. It is in oils that India is on shaky grounds (Chand :2002). Inefficiencies in the oil-processing sector is one reason; the other factor is the subsidy-driven ability of foreign producers to sell cheap oil. These and other findings indicate that oilseeds production in the country faces a threat
due to inefficiency of processing and marketing and also due to transmission of volatility in world prices to the domestic market. India liberalized its soybean and soy oil import policy in August 1999. This led to dumping of subsidized imports of soybeans on the Indian market. These imports totaled three million tons in one year (a 60 percent rise compared to earlier years) and cost nearly $1 billion. Within one growing season, prices crashed by more than two-thirds and millions of oilseed producing farmers had lost their market, unable even to recover what they had spent on cultivation. While the declining prices have hurt producers have gained considerably. This would require the government to balance the competing interests of producers and consumers and perhaps lean towards to poor and small scale producers (Chand et al:2004). In another study on oilseeds as a result of successive lowering of tariffs on edible oils - first from 65 per cent to 30 per cent, and than to 15 per cent in 1998- and lifting of non-tariff restrictions, imports soared, and India went full circle from self sufficiency to the world's largest importer in only five years. As a result of which, thousands of Indian farmers lost their livelihoods (Mark Fried :2004).

In the case of pulses, Sathe and Agarwal (2004) examined the issues related to the opening up of the Indian pulses sector. The study shows that pulses (lentils) imports have not augmented supply to such in extent that there would be a strong, negative relationship between prices and imports of pulses. Though the import duties on pulses have been generally low the result of our import regime has been such that it has not depressed prices in a substantial way.

Liberalization of imports may have a negative effect on the Indian agrarian economy mainly on account of the huge subsidization
of agriculture by most of the developed countries which implies that imports are sold below the cost of production in India. The imperfect nature of world agricultural markets and also on account of higher volatility of agricultural prices in international markets which in turn gets transmitted to the domestic markets.

A study by Sekhar (2004) attempts to assess the implications for food security of the poor through transmission of international price volatility into domestic markets which arises on account of globalization in agriculture. The commodities elected for study are wheat, rice, groundnut oil, soybean oil, coconut oil, sugar, cotton and coffee. His study shows that extreme volatility in commodity prices, particularly of food commodities adversely affects poor agricultural laborers and those engaged in the unorganized sector because their wages are not index-linked. For exporters price volatility increases cash-flow variability and reduces collateral value of inventories. In order to understand the implications of trade liberalization particularly import liberalization. It is essential to examine the long-term movements of domestic and International prices and assess the degree of divergence between the two. A price wedge percentage difference between the monthly domestic and international prices for 10 year since 1990 has been calculated for this purpose. His study shows that where bound tariffs are much higher than the observed price wedges. The bound rates may be lowered. He concludes by stating that as short-term variability, in agricultural prices in international markets is not found to be higher than domestic market in India, International trade may be used as a short-term trade may be used as a short term price stabilization strategy in case of supply shocks. At the same time care should be taken to negotiate appropriate tariff bindings to protect
against cheap imports resulting from unfair subsidization in some developed countries.

The analysis highlights that more powerful players in the trade space have evolved many new instruments of safeguarding their national interests while the weaker players like India have been forced to implement their commitments of the Agreement on Agriculture. Therefore various provisions regarding Agreement on Agriculture are going to adversely affect the Indian agriculture international trade. As a result, India’s share in global farm exports is only 1 percent at present. With such a small share, India continues to be a marginal player in world agricultural trade.

The most unfavourable clause from India’s viewpoint in the entire Agreement on Agriculture pertains to aggregate measure of support, which is biased and this trade-distorting clause must be removed from the Agreement on Agriculture more advanced among them, and without regard to their legitimate food and livelihood security and rural development concerns, with only minimal market access commitments being called forth from themselves. Further, the G-20 also emphasized the requirement to eliminate all forms of exports subsidies within a credible time frame and to achieve substantial reductions in trade distorting domestic support. However, in the lead up to the WTO General Council Decision of August 1, 2004 (Framework Agreement), the negotiations among the Five Interested parties (FIPs), comprising of EU, US, Australia, Brazil and India, resolved the divergent positions on key aspects of each of the three pillars in the agriculture negotiations. Thus, we can say that the "Framework Agreement," provides a useful basis for further negotiations on detailed modalities that could help to create market
access opportunities for products of export interest and safeguard small and vulnerable producers of farm products.

Naturally, the developing countries like India, China, and Brazil feel that the WTO Agreement on Agriculture is not providing a level playing field in the global market. The agricultural competitiveness of developing countries like India has been lost due to increased domestic farm prices as compared to international prices. As far as agriculture is concerned, the future of developing countries like India is at stake under the WTO regime. As a result, farmers committed suicide in thousands in India.

For human development, growth should be job-creating rather than jobless, poverty reducing rather than ruthless, participatory rather than voiceless, and environment-friendly rather than futureless. A growth strategy that aims for a more equitable distribution of assets—that is, job creating and labour-intensive, and is decentralized—can achieve such growth; it must be compatible with justice and equity. Under democratic framework it must be economically viable, politically desirable and socially acceptable. It should not be imposed from above.