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WTO & Agriculture Negotiations: Why should India play the ball?

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Outline: 3 basic points to discuss

- Why should India play the ball? ...The fast changing context
- Why the negotiations are in “coma”, and what could be India’s approach
- Competitiveness of India’s agriculture, and how it can be enhanced further

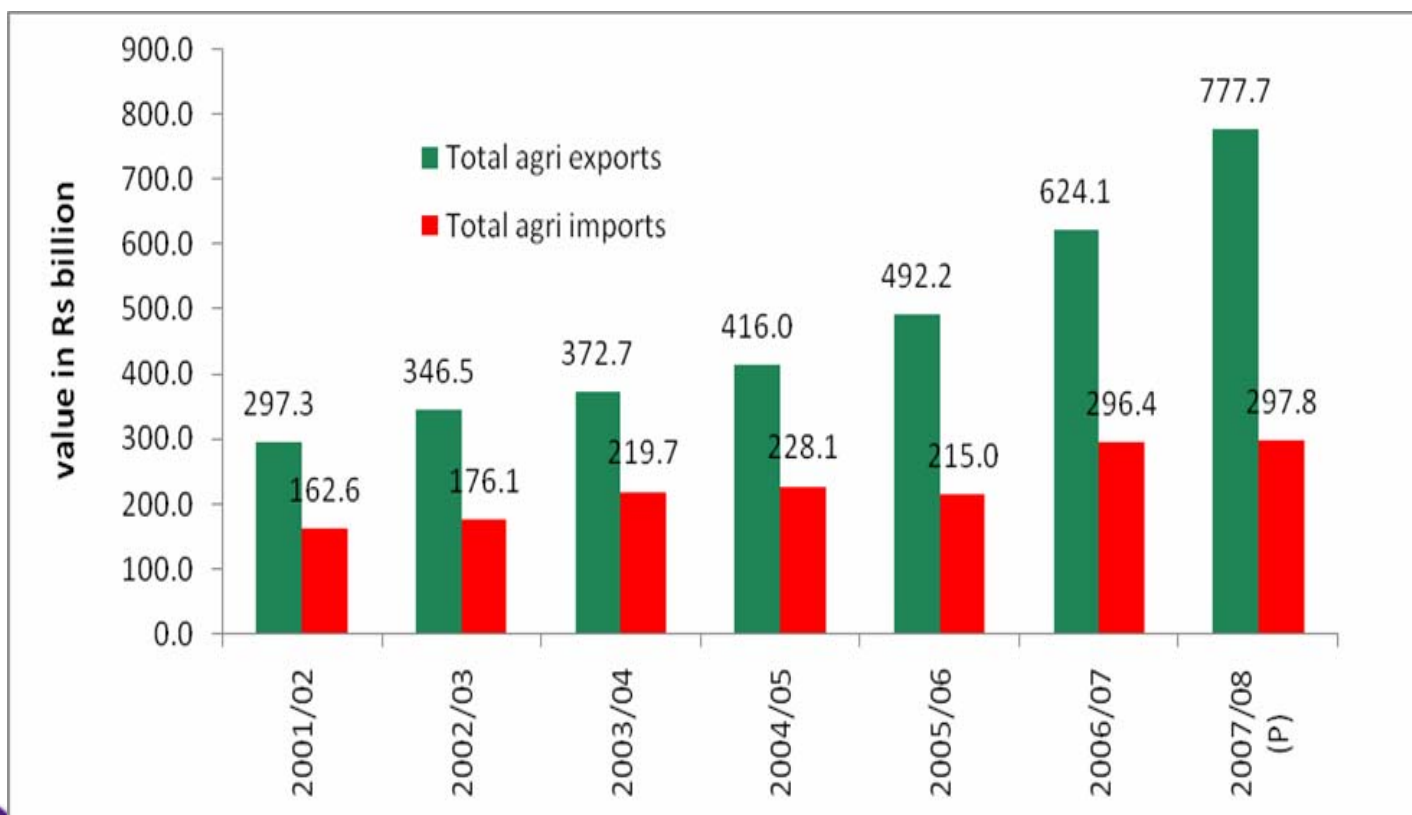


The fast Changing Context

- India's exports of agri. Commodities are expanding... (both in terms of absolute size as well as % to agl GDP; India needs to protect its markets);
- Global food crisis of 2008, and ongoing financial crisis, is making countries more protectionist; it can harm India's interests
- Bio-fuel policy of US is bringing in new uncertainty about global prices



India's changing Agri. exports & imports

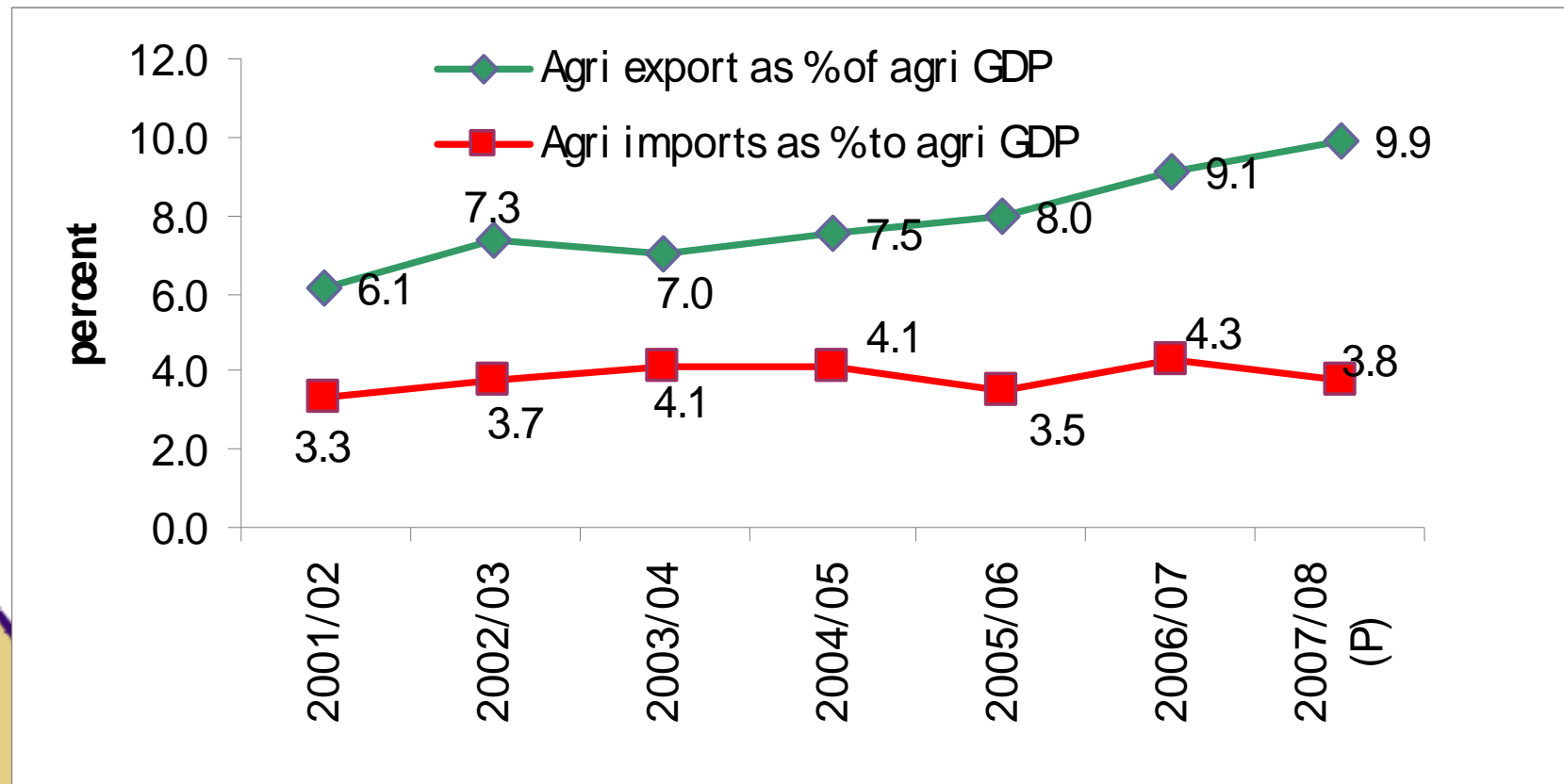


Source: Agricultural Statistics at a Glance 2008



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Agri. exports & imports as % of agri. GDP



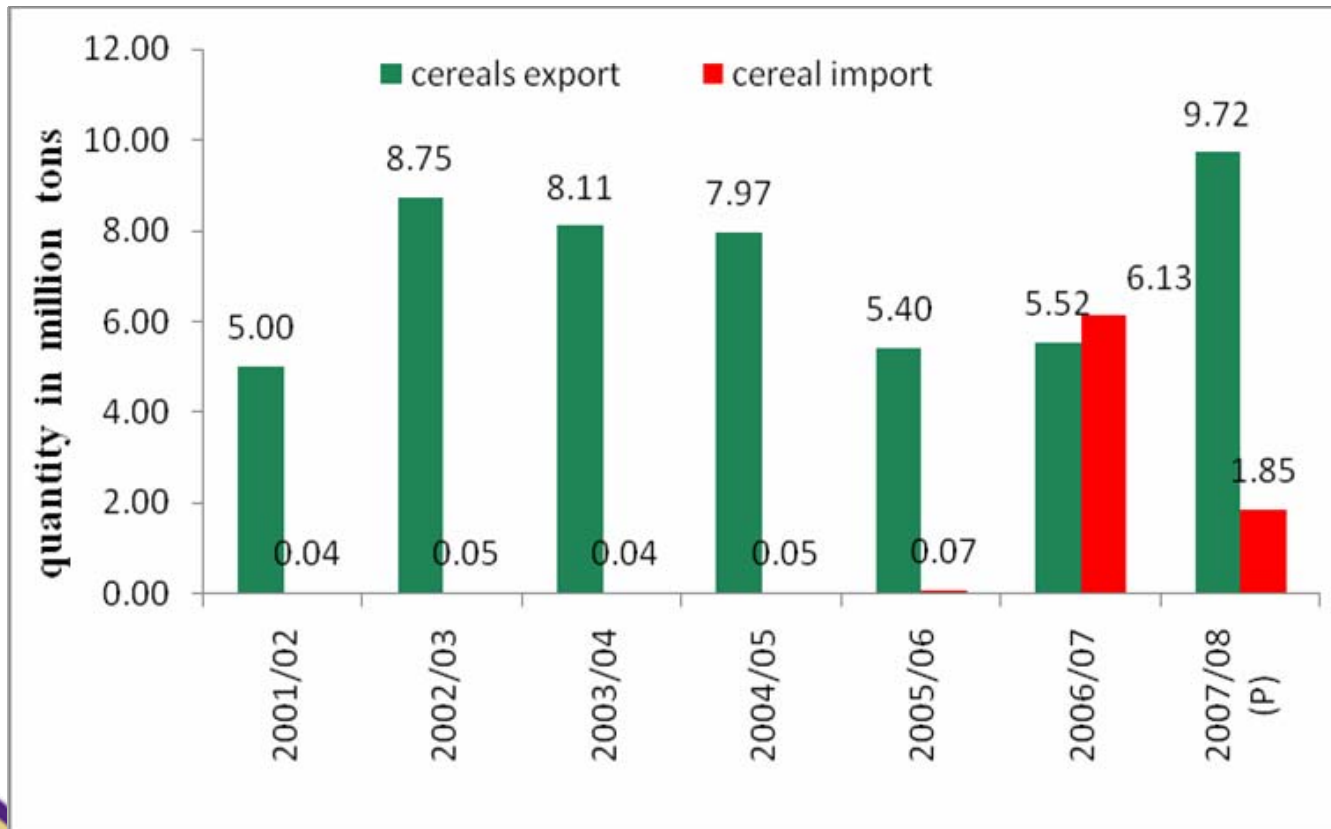
Source: Agricultural Statistics at a Glance 2008



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How about “food security”??

Net cereal exports of more than 42 million tons during 2001-02 to 2007-08

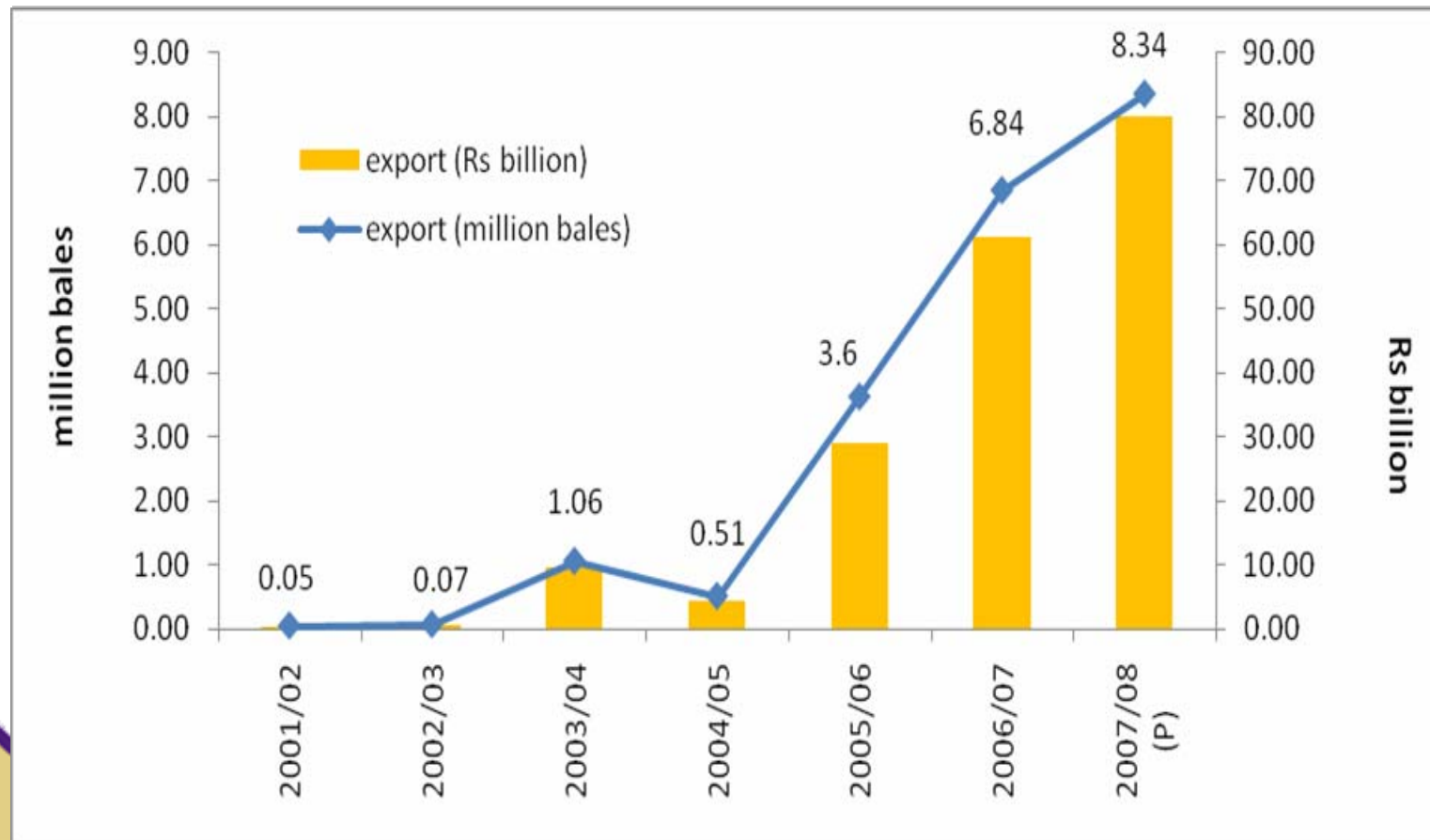


Source: Agricultural Statistics at a Glance 2008



Cotton: Zooming exports

(if these were not there, revolution in cotton production may not have been that striking)



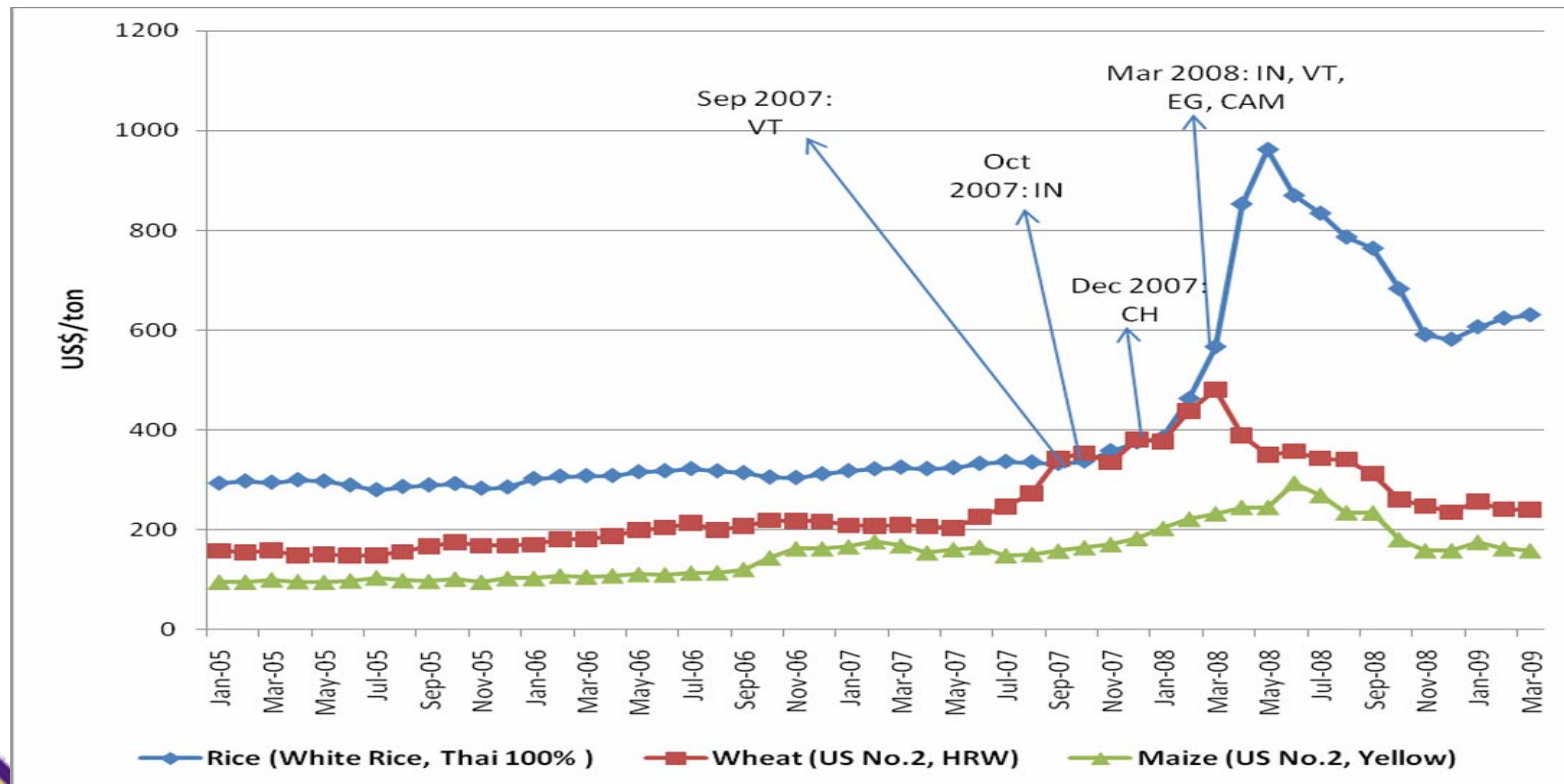
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Changing context: “Global food crisis”

WTO negotiations: are they tailored for high price regime??
(International prices (US \$/ton) and rice export bans)



Source: FAO 2008; Notes: Sep 2007 VT: Vietnam placed partial ban on new sales; Oct 2007 IN: Indian imposes minimum export price; Dec 2007 CH: China imposed tax on rice exports; Mar 2008 IN, VT, EG, CAM: India imposes ban on non-basmati rice. Vietnam re-imposed its ban on new sales until June 2008. In late March 2008 Egypt replaced its voluntary ban with an official ban on rice exports. Cambodia also banned rice exports in Mar 2008.



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Changing Context: Subsidies on Bio-fuels

Can WTO negotiations take care of this?

Corn usage for ethanol production in the U.S. (in m.tons)

		2002-03	2007-08	2008-09
1	Corn used for ethanol production	27.1	81.6	108.9 #
2	(1) as % of US corn production	11.9	24.6	32.8
3	(1) as % of global corn production	4.5	11.6	15.4

Source: http://www.fas.usda.gov/grain_arc.asp

Planned estimate reported by USDA



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IFPRI

Aggressive US policy on bio-fuels can raise global prices of staples...albeit it has food security implications

Recent price spikes have been attributed to increased demand for bio-fuels to a large extent

as per IFPRI' IMPACT model (Rosegrant, 2008)

- 39% of increase in real prices of corn
 - Accounts for 30% of the rise in weighted average of grain prices
 - 21% of increase in prices of rice
 - 22% of increase in prices of wheat
- The key question is: Will the US continue its policy of subsidizing bio-fuel program (about a dollar a gallon in 2007-08)??



Why are the agri. negotiations in “coma” and what could be India’s approach?

- The key issues under negotiation... the three pillars...
 - Market access
 - Domestic support
 - Export Competition

Other issues:

- The catch of Special & Differential treatment (“special products”)
- Peace Clause



Backdrop of agri. negotiations

- General Agreement on Tariffs and Trade (GATT, 1947) (23 major trading nations founded GATT, but agri. trade lib. almost left out);
- Uruguay Round (1986-94) made first serious attempt to reform world trade in agri. Marrakesh Agreement established WTO, which started its life from Jan 1, 1995; URA asked for “continuation of the reform process”;
- Doha Round launched in Sept. 2001 in Doha... negotiations still on...Doha Development Agenda



Agri. Negotiations lie at the heart of Doha Development Agenda

- Most developing countries vary of agri. Negotiations due to high agri. subsidies in OECD countries that depress world prices; and implementation experience of the AoA (1994-2000) tells them that OECD countries are not likely to make any substantial cuts in their support to agri. (may change the color of boxes through “de-coupled income support”)
- So, for developing countries, the whole approach has been largely defensive and protective, asking for “special treatment”

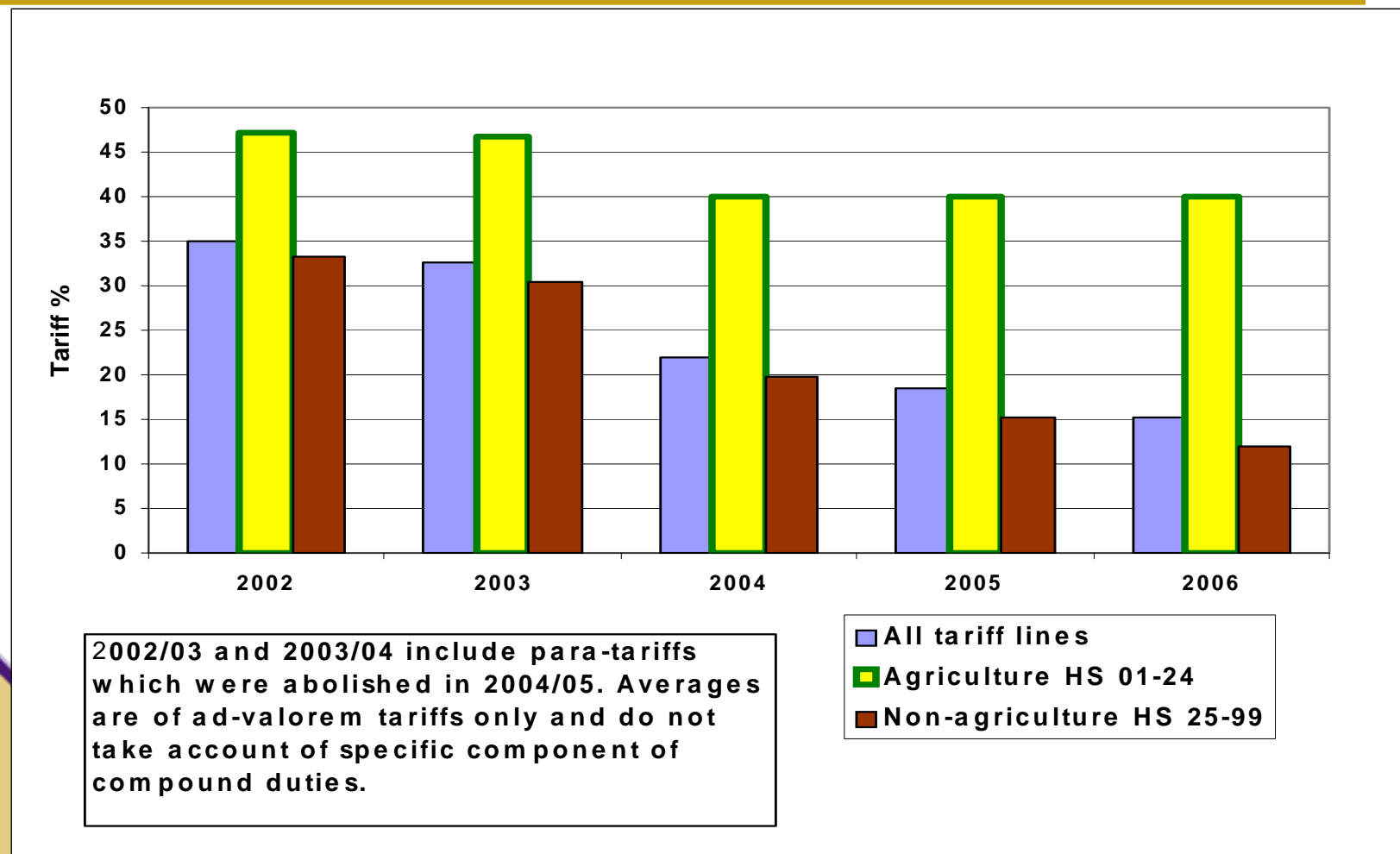


India no exception...

- Cautious in opening up...high tariff bindings & high applied rates (40% till 2006-07) for leveraging WTO negotiations
- However in 2007/08: Export controls on rice, wheat, etc...and import duties on several agri. Commodities slashed to almost zero



Unweighted avg. import tariffs on agri and non-agri goods: India, 2002 to 2006 (percent)



State of Play as on Dec. 2008

(Revised draft modalities for agriculture)

- On Overall Trade- Distorting Domestic Support (OTDS); No agreements yet, but....
 - Inching towards 10% of the value of agri. Output for developed countries (5% for product specific and non-product specific; and 5% for those in Blue box); and 20% for developing countries
 - Tiered reduction formula, faster for those with high OTDS in base period



State of Play...contd..

■ On Market Access

- Tiered formula for tariff reductions, higher reductions for those where final bound tariff is high; in six equal instalments over 5 years for developed countries, and in 11 equal instalments over 10 years for developing countries;
- Sensitive products: 4% tariff lines for developed countries;
- Special products: 12% tariff lines (to be self designated) for developing countries;
- Special safeguard Mechanism (SSM) can be invoked for any tariff line (disagreement on trigger points)



State of Play...contd..

- On Export competition
 - Developed countries to eliminate all exports subsidies by 2013, and developing countries by 2016;
 - Tighter and somewhat more transparent rules suggested on export credits, state trading enterprises, and international food aid.



What is needed to break the deadlock?

- A fundamental change in the approach for negotiations...as most of the developing countries (including India) are low cost producers of agri. and use much lower levels of subsidy
- From “defensive” and “special treatment” to “pro-active” and “equal treatment” except for small farmers and disadvantaged regions



What should India aim at and what can it offer?

- Aim at putting a cap on peak tariffs...offer to cap your own at 65-70% .
- Aim at bringing all subsidies down to 5% of the value of agri. output (only exemption should be for those targeted to small and marginal farmers (less than 2 ha.) and for disadvantaged regions);
- Aim at elimination of export subsidies (as agreed by 2013), else use the anti-dumping clause



Contd..

- Don't get trapped in "Special products", but rely on Special Safeguard Mechanism to be offered to all (define automatic trigger points)
- If uncomfortable, keep "special products" to the minimum say less than 5% of tariff lines.

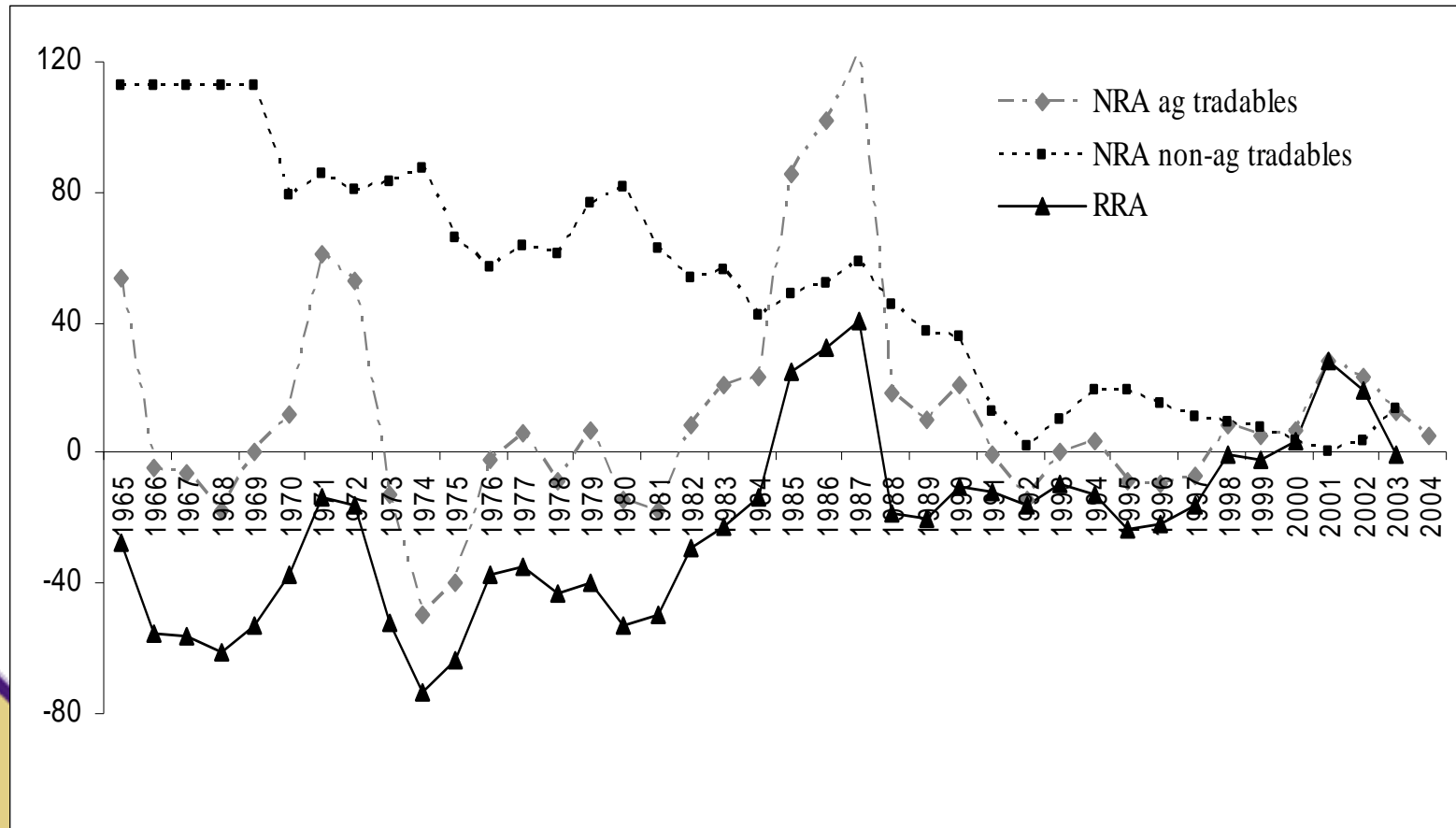


Can Indian agriculture survive/thrive in such an environment? Is it globally Competitive?

- Roughly 80% of Indian agriculture is quite globally competitive, most of the time; in most of the regions;
- Rising exports of Indian agriculture are a testimony to that



NRA to all agri tradable industries, all non-agri tradables, & RRA: India, 1965 to 2004 (percent)



Source: Pursell, Gulati & Gupta in Kym Andersen and Will Martin, 2009

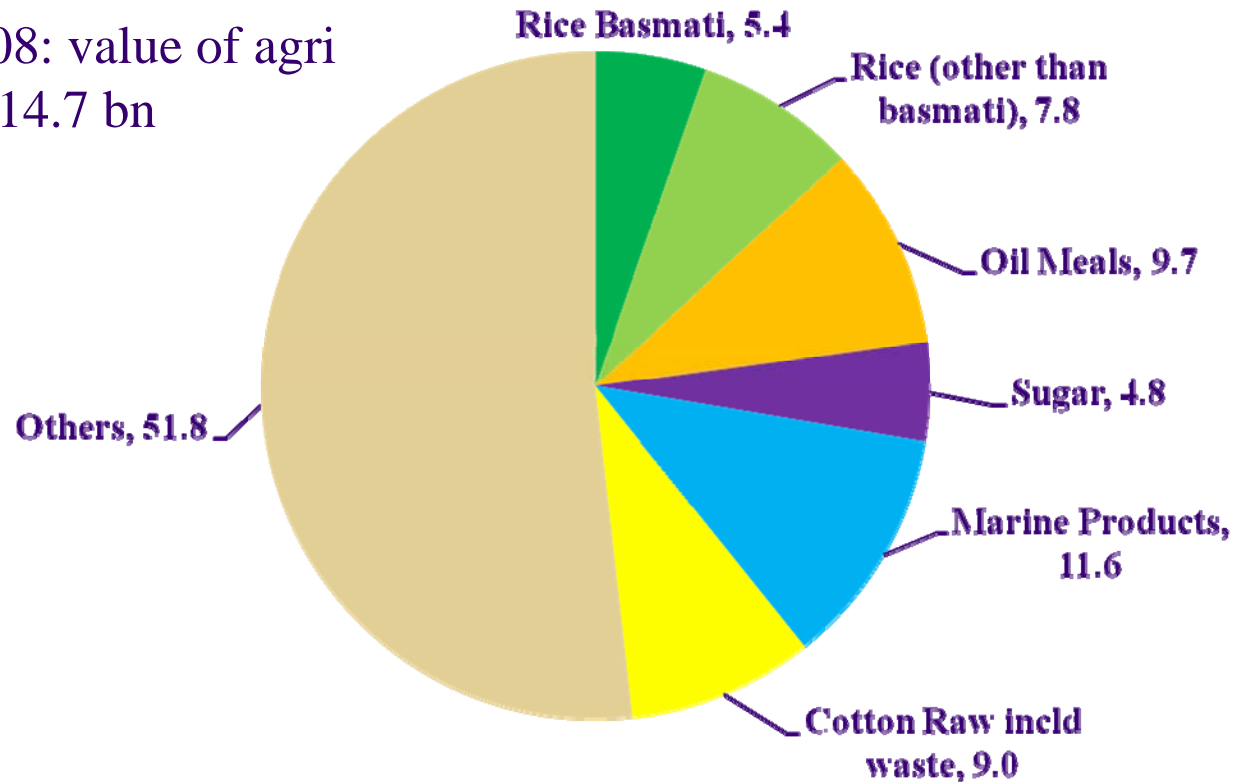


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Major Agricultural Exports: TE 2007/08

~ percent distribution (Diversified basket)

TE2007/08: value of agri exports \$14.7 bn



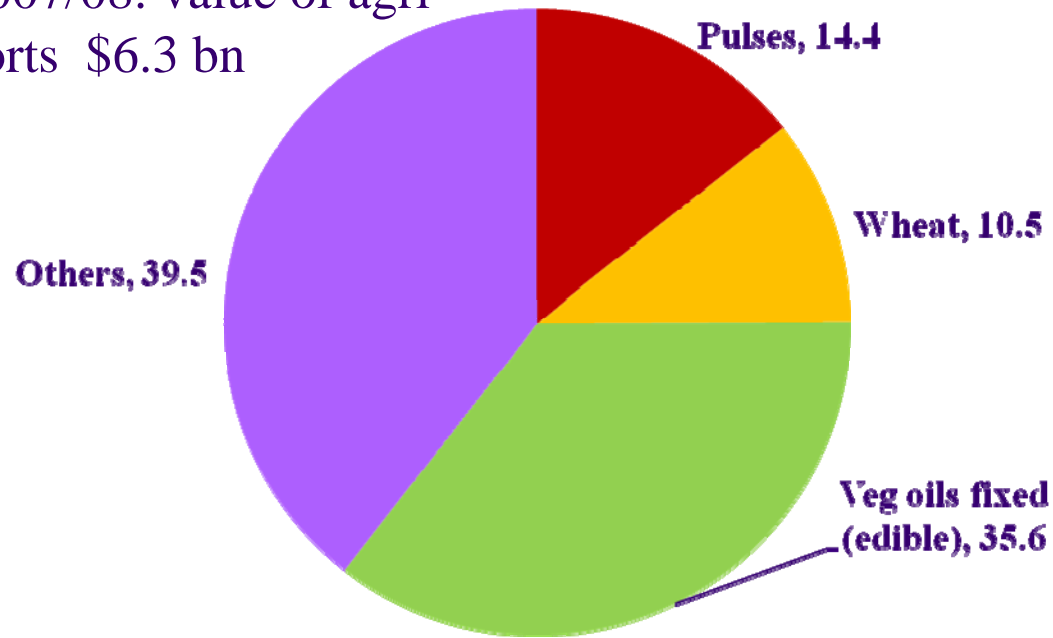
Note: Data for 2007/08 are provisional
Source: Agricultural Statistics at a Glance 2008, Government of India



Major Agricultural Imports: TE 2007/08

~ percent distribution (concentrated basket)

TE2007/08: value of agri
Imports \$6.3 bn



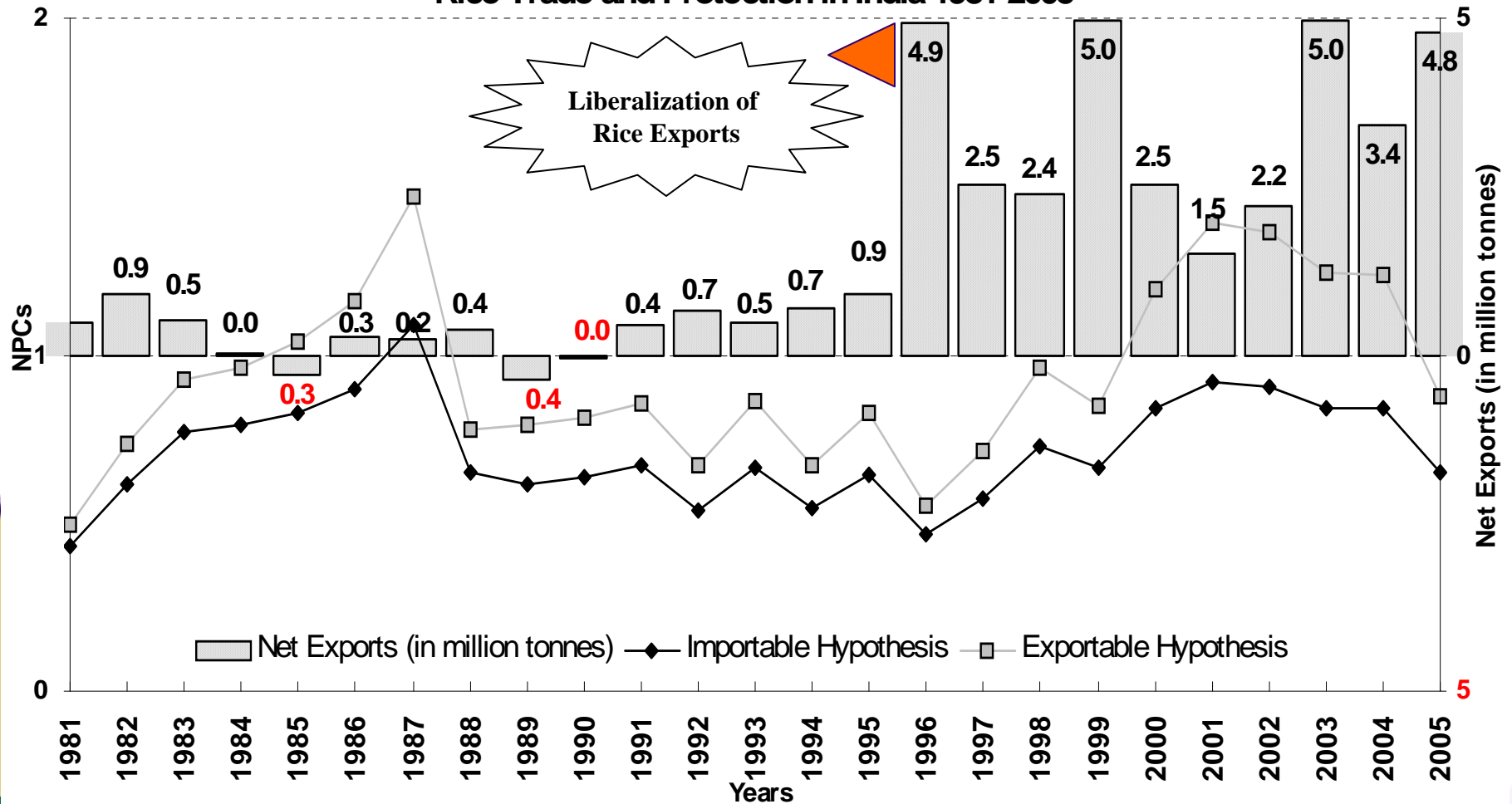
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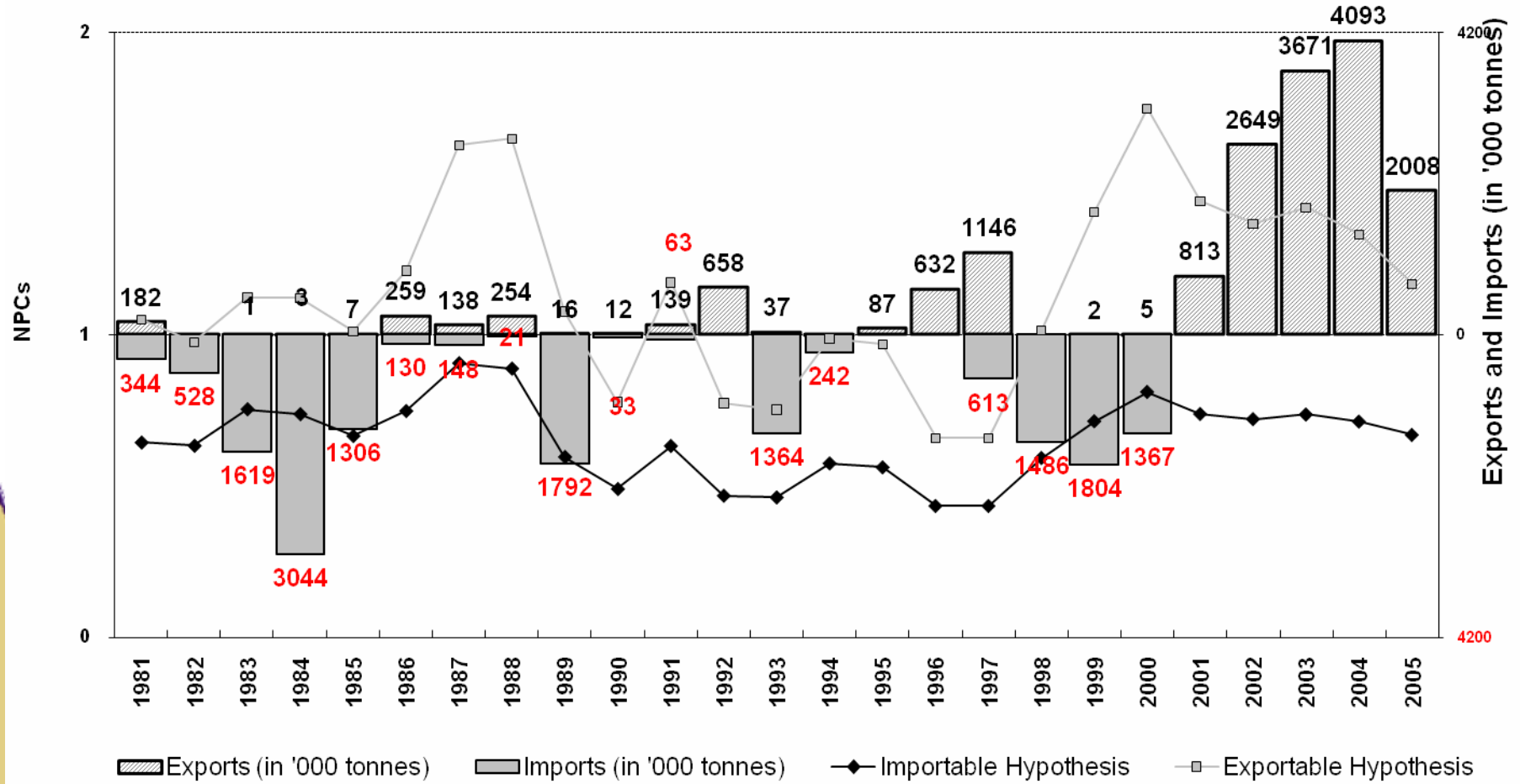
Price Competitiveness of Indian rice (NPCs)

Rice Trade and Protection in India 1981-2005



Source: Hoda and Gulati, 2008 (WTO, Agricultural Negotiations, and Developing Countries: Lessons from the Indian Experience, OUP/JHUP)

Wheat Trade and Protection in India 1981-2005



Source: Hoda and Gulati, 2008 (WTO, Agricultural Negotiations, and Developing Countries: Lessons from the Indian Experience, OUP/JHUP)



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How can we enhance competitiveness of Indian agriculture?

- Raise investments in R&D and rural infrastructure (roads, irrigation, markets, etc.), public and private
- Contain subsidies on fertilizer, power and water leading to huge inefficiency
- Improve fragmented value chains by mainstreaming small holders



Returns on investments and subsidies...in terms of growth of agl. GDP

(Fan, Gulati, Thorat, 2008)

	1960s-70s	1980s	1990s
Returns in Agricultural GDP (Rs per Re. Spending)			
Roads	19.99	8.89	7.66
Education	14.66	7.58	5.46
Irrigation Investment	8	4.71	4.37
Irrigation Subsidies	5.22	2.25	2.47
Fertilizer Subsidies	1.79	1.94	0.85
Power Subsidies	12.06	2.25	1.19
Credit Subsidies	18.77	3	4.26
Agricultural R&D	8.65	7.93	9.5



Technology and markets together can turbo charge...

- Technology generation and adoption critical...
- But it can not solve the problem without assured markets (roads...)
- **Example: Case of cotton** (production more than doubled from 14 m. bales to 30 m. bales during 2002-07, record exports of 8.3 m. bales in 2007-08; all driven by Bt and good prices through exports....)



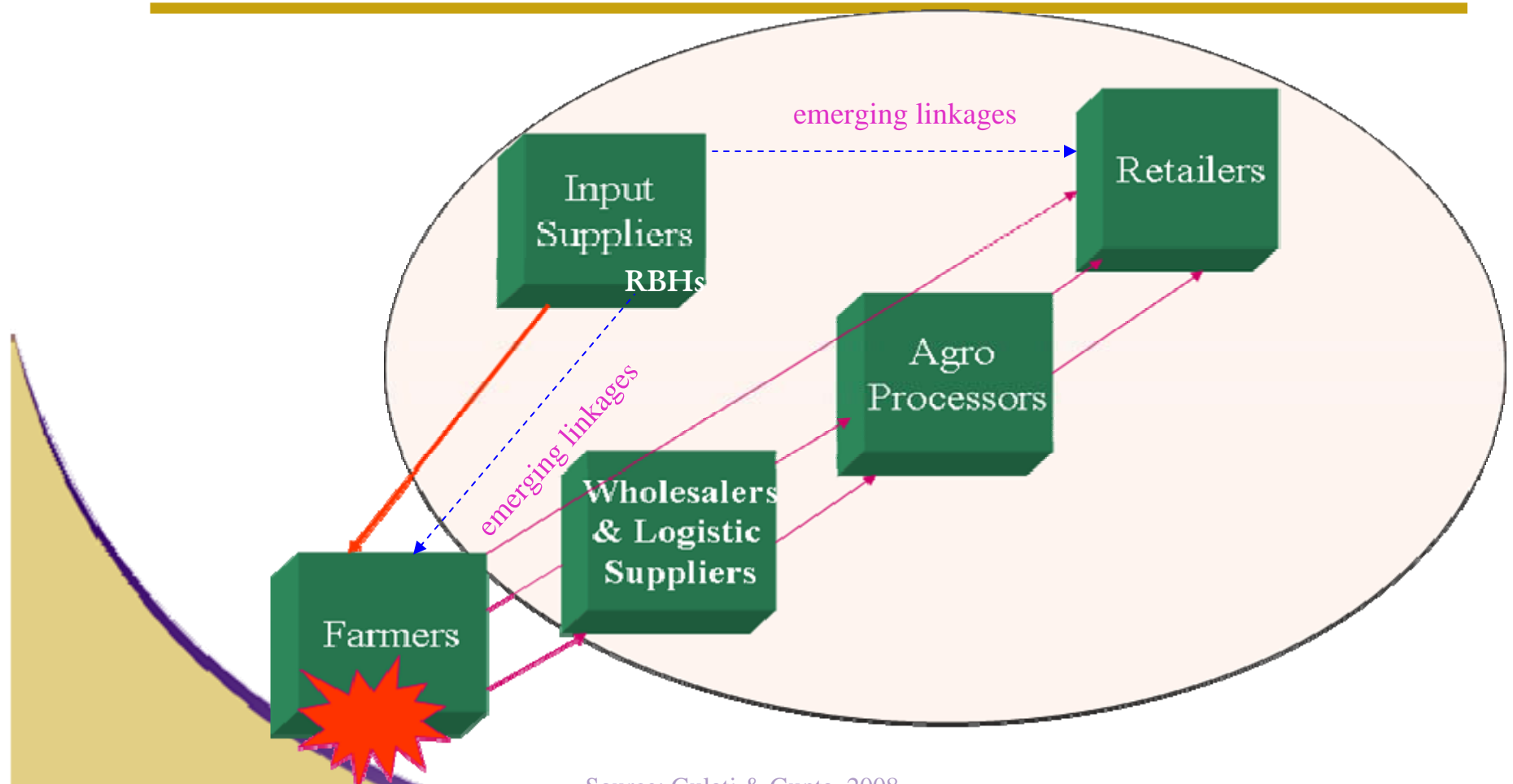
Can allocating more money to R&D solve the problem?

- Only marginally in the current form of R&D system
- The existing system of R&D (ICAR and SAUs) needs a massive dose of Institutional Reforms
- Incentives, autonomy, re-organization, PPP (case of large vacant vacancies of scientists; large under-utilization of funds with NAIP)

(Similarly institutional reforms needed in irrigation sector)



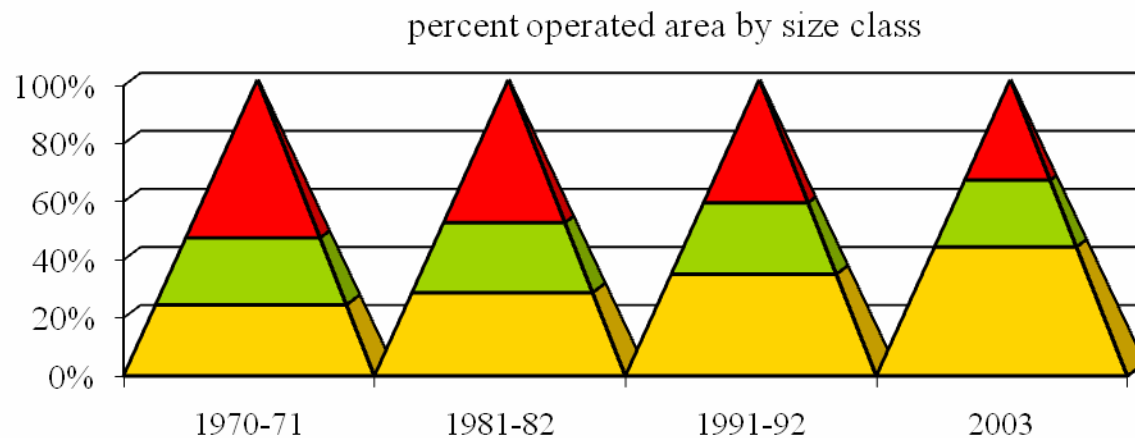
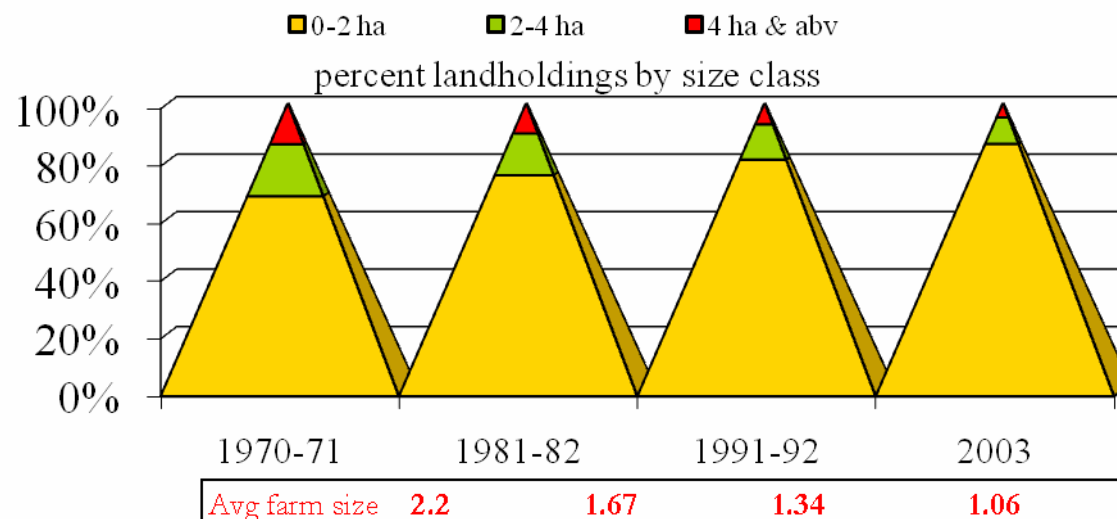
Challenge of mainstreaming small holders in Transforming Agri-System



Source: Gulati & Gupta, 2008

Fragmenting Farm Sector

~swelling bottom



Source: NSSO, 2006



Making Small holders efficient through Rural Business Hubs

