

## W.T.O. AND SUGAR TRADE OF INDIA

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### ABSTRACT

WTO is a product of Uruguay round of negotiation of world trade and successor organization of GATT. It has lots of agreement regarding agriculture and other parts of the trade but as the developing countries has expecting the positive result on trade of agriculture is not going to fulfill due to deterioration of terms of trade of agriculture products. therefore the true benefit of the formation of WTO is not achieved by the international community in respect of agriculture trade specially the sugar trade of India. The obligation and disciplines incorporated in the agreement on agriculture, therefore related to :

1. Increased market access for agricultural trade.
2. Reduce domestic subsidies or domestic support on agricultural trade.
3. Commitments to reduce export subsidies on agricultural products.

But developed nations is not fulfilling the above given agreement is also the major setback for free and fair agro trade of the international level.

**Keywords:** *World trade organization, General agreement on tariff and trade, Provisions of Agreement on agriculture*

### INTRODUCTION

WTO is the successor organization of the GATT. Its came into effect on 1st January 1995 as a result of the conclusion of the Uruguay round of multi lateral trade negotiation. WTO is a permanent organization which achieved the international status like IMF& IBRD but it is not an agency of the UNO. India is a founder member of WTO. At present there are 154 members Labour has always remain a top in agenda for whole of the world.

Agriculture sector was not subjected to international regulations under GATT 1947 so the EEC and U.S.A, the two major agricultural producers of the world were managed to exempt themselves from the jurisdiction of GATT. The Agreement on Agriculture (AOA) forms a part of the final act of the Uruguay round of multilateral trade negotiations, which was signed by the member's countries in April 1994 at Marrakesh, morocco and came into force on 1st January 1995.

It was the first time , that the agriculture features in a major way in the Uruguay round of multilateral trade negotiations and this Uruguay round negotiations(1986-1995) strengthened international rules to regulate the international trade in almost all sectors including agriculture.

The Uruguay round agreement sought to bring order and fair completion to this highly distorted sector of the world trade by establishment of a fair and market oriented agriculture trading sector. Therefore the formation of the world trade organization in January 1<sup>st</sup>, 1995 as a successor organization for the general agreements of tariff and trade (GATT) was watershed event in the history of global trade reform specially in agricultural trade. The growth of the agricultural trade sector is highly crucial for achieving a no. of developmental goals such as improving overall economic growth, poverty eradication, improving food security, conserving natural resources, reducing regional imbalances, etc.

Increasing agricultural trade of developing countries requires integration with the world economy, provided that world markets are not trade distorted. The ratio of trade to GDP has been increasing in European countries and Latin American countries after the formation of W.T.O but India couldn't gain substantially as it was predicted. India can improve his agricultural trade benefits by increasing public and private investment in rural infrastructure and technical development agricultural economic zones (AEZs), credit facilities modernizing production, etc.

## WTO AGREEMENT ON AGRICULTURE (AOA)

### (Three Pillars of the WTO agreement on Agriculture)

The agreement on agriculture is the first serious steps in reform of international rules governing agricultural trade. The obligation and disciplines incorporated in the agreement on agriculture, therefore related to :

1. Increased market access for agricultural trade.
2. Reduce domestic subsidies or domestic support on agricultural trade.
3. Commitments to reduce export subsidies on agricultural products.

### Minimum Market Access Commitment

The minimum market access commitment applies to those countries that maintain restructure of various types on agricultural imports and are, therefore, required to convert these non tariff barriers and reduce those tariffs by 36% over the six years period. Seven countries are also required to allow minimum market access opportunities of 3% of their domestic consumption for 6 years which will rise to 5% after that period. These commitments apply only if a country is obliged to render its export countries in terms of tariffs.

In the case of developing countries, tariff on agricultural products are to be reduced by 24% over a period of few years. Least developed countries are not required to reduce their tariffs.

### Export Subsidies

WTO members are required to reduce the value of direct export subsidies to a level of 36% below the 1986-88 base period levels over the six years implementation period and the quantity of subsidized export by 21% over the same period. In the case of developing countries, the reduction are 2/3<sup>rd</sup> those of developed countries over a few year period. But no reductions apply to the least developed countries.

### Commitments on Domestic Subsidies

Article 7 of the agreement on agriculture comes to grips on the trade distorting aspects of domestic subsidies in the agriculture sector.

The agreement categorizes domestic subsidies by placing them in three boxes-

- a) An exempt Green box (permissible and non counter variable)
- b) An excluded blue box (permissible, countervailing if they cause injury) but not subject to reduction commitments.
- c) A box (permissible but countervailing if they cause injury, and subject to reduction commitments)

AOA provisions made clear that no member nation called promises excess domestic subsidies from the commitments levels and reduce it in time bound manner.

For developed countries that commitment is a reduction of the remaining norm exempt domestic subsidies by 20% from levels existing during 1986-88 base period in 6 equal annual installments.

Developing countries are required to make reduction of 13.3% over 10 years. Least developed countries are not obliged to make any reduction, but must bind their levels of support.

### EXPORT: SOME RECENT TRENDS

India has been both an importer and exporter of agriculture commodities for a very long time. . The economic liberalization and trade reform introduced in 1991, helped India to accelerate the growth rate of exports to 7.42 per cent per annum (Bhalla: 2004). While during the first half of the 1990s India's agricultural exports, performed extremely well, however since 1995-96 these have shown extreme fluctuations. Although the world trade organization (W.T.O.) agreement on agriculture in 1995 was expected to improve India's agricultural exports, this does not seem to have happened.

Examined from another angle, the share of agricultural exports, which constitute more than 30 per cent of the total exports from the country during 1970-71 and 1980-81, have of late been declining consistently, more so in recent years. The declining trend is more noticeable in the post liberalization and post WTO period. In 1995-96 agricultural exports constituted about 19.2 per cent of the total exports that in 2000-01 went down to 13.5 per cent. In 2003-04

agricultural exports constituted only 12.4% of all exports. Although the relative share of agriculture in total exports has been falling over time and is also lower than that of some other developing countries, the share of agricultural products in total export earning is still substantial. While the declining share of agricultural exports in total exports is explained primarily in terms of the relatively faster growth in the volume of Merchandise exports.

It appears that there are other and more fundamental reasons, which underlie the sluggishness of agro-exports from India. Further not only the share of agricultural exports in the total merchandises exports has come down steadily over the years but the share of agricultural exports (including processed food) in agricultural GDP has also declined from 7.6% in 1995-96 to 6.3 per cent in 2001.02 and recovered to 6.9 per cent in 2003.04.

The experience of India since 1971 confirms that growth of agricultural exports from India is highly co-related with the growth rate of international trade in agricultural commodities. The recent slowdown in Indian exports since mid-nineties can also be attributed to a slowdown in International trade in the latter half of the nineties. A complementary factor for rapid growth of agricultural products during the early 1990s was high prices of agricultural commodities prevailing in the international markets during

that period and steep devaluation of Indian rupee. The deceleration in growth after mid 1990s was also on account of fall in international prices for most of the commodities and simultaneous steep increase in domestic administrative prices making Indian product Non-competitive.

An examination of trends in exports of various commodities during recent years suggest that many commodities like rice, meat products, processed foods, fish, fruits and vegetable registered very high growth rate during the Nineties (90s). On the other hand some traditional exports like Tea, Cotton were not able to sustain their growth rate after the liberalization. Marine products were the largest export earner while oil meals were also a major item in early 1990s.

The biggest challenge to the developing countries agriculture in the post WTO period was paved by unprecedented and unforeseen decline in international agricultural prices. The prices of cereals, fish, sugar, cotton and beverage started declining after 1996 and reached historically almost the low level during last 25 years around 2000.

**TABLE: 3: EXPORT PRICES OF PRIMARY AGRICULTURAL COMMODITIES IN POST WTO PERIOD BASE 1995 = 100**

Commodities	1995	1996	2000	2005
Cereal	100	119	67	85
Fish	100	86	76	85
Shrimp	100	97	113	63
Sugar	100	92	66	81

*Source: WTO International Trade Statistics 2006*

Though there is some recovery in the price cycle in the recent years, yet the current level of prices of above-mentioned commodities is 15 to 44 per cent lower than the prices prevailing in the beginning of WTO. Because of this decline in prices in post WTO period, developing countries exports were badly hit and several countries like India were taken aback by import influx of commodities, in which they thought they had strong competitive edge. This caused adverse impact on farmer's income, employment & livelihood security.

The decline in international prices happened contrary to the projection that implementation of WTO AOA would result in reduction in subsidies and this increase in cost of production and prices. Developed countries responded to decline in global agriculture prices by providing huge support to their farmers to protect their income. However, the developing countries neither had mechanism nor resources to protect their agriculture and farmers against such adverse trading and pricing environment

As per the Uruguay agreement, the developed countries were committed to reduce base level of support (taken as average of years 1986-88) to agriculture by 10 per cent by the year 2006. In reality OECD countries on the whole and EU and USA in particular provided much higher level of subsidies to their farmers during most of the post WTO period as compared to the already very high base level.

### **Sugar**

Analysis of trend of Export and import of sugar on the before and Eve and after the formation of WTO.

### Exports of Sugar

**TABLE 4: US \$ MILLION**

Years	1990-91	2000-01	2005-06
Sugar Exports	21	112	135
Total Agro Exports	3521	6256	10549
Percentage (%)	0.59%	1.79%	1.28%

Source: Economic Survey 2006

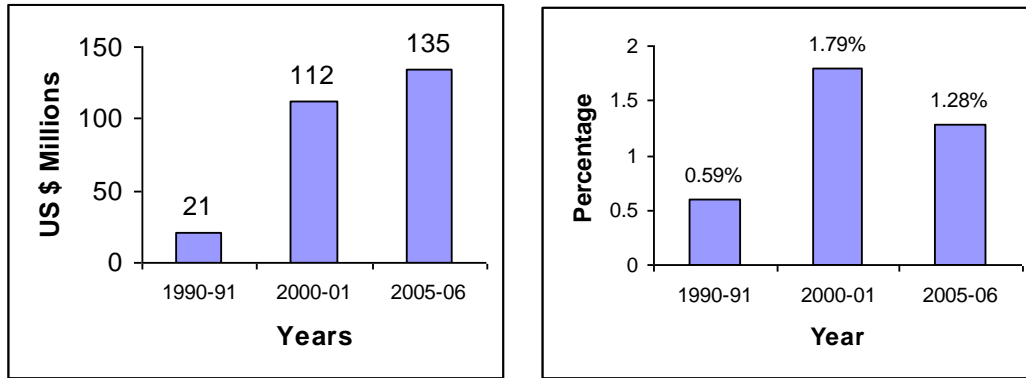


Figure 1: Total Exports of Sugar and Percentage

According to table 4, export of Sugar was 21 US \$ Million in 1990-91 out of total Agro-export 3521 which accounts 0.59% share in total agro-exports has increased to 135 US \$ million in 2005-06 which accounts 1.28 of total agro exports.

### Import of Sugar

**TABLE 5: US MILLION \$**

Years	1994-95	1998-99	1999-00	2000-01	2001-02	2004-05
Import of Sugar	727	127	256	7	7	2
Total Agri-Imports	1884	3292	3432	2388	3049	3811.1
Percentage (%)	38.5%	3.85%	7.45%	0.29%	0.22%	0.05%

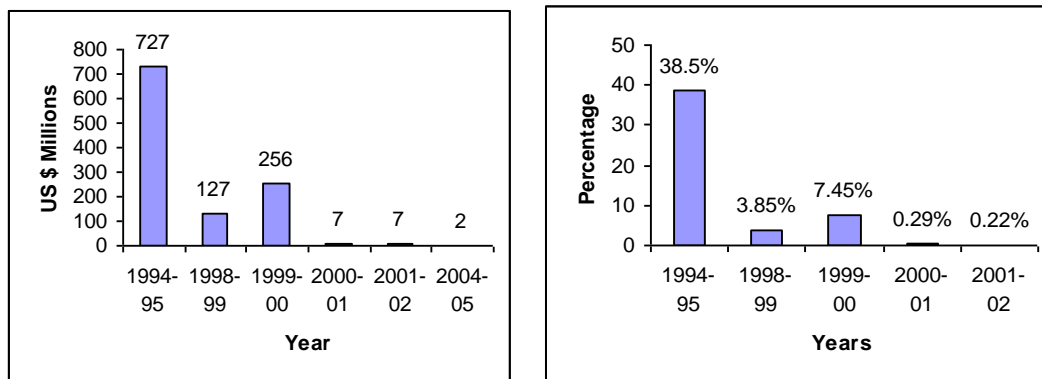


Figure 2: Total import of sugar and its percentage (Source: Economic survey 2006)

According to table 5, the import of sugar was 727 US \$ million in 1994-95 which accounts 38.5% of total agro-imports 1884 US \$ Million in the years 1994-95. Imports of sugar has reduced to 127 US \$ million which accounts 3.85% share of total agri-imports (3292US \$ Million) again import of sugar has increased to 256 US \$ million in

1999-2000 which accounts 7.45% of total imports (3432US \$ Million) but in years 2001-02, sugar imports reduced drastically to 7 US \$ million from 256 US \$ million 1999-2 Table 5:

**Export price of sugar in post WTO period**

Base year 1995=100

Years	1995	1996	2000	2005
Sugar	100	92	66	81

*Source: WTO International Trade Statistics, 2006*

**TABLE 6: INDIA’S SHARE IN WORLD EXPORTS OF SUGAR US\$ MILLION**

Years	1990	2000	2004	2005
World	14236	13866	20385	23961
India	21	118	70	196
% share	0.1	0.8	0.3	0.8

*Source: Economic survey 2007-08*

According to table 6, the biggest challenge to the developing countries in the field of Agricultural exports in the post, WTO period was posed by unprecedented and unforeseen decline in international agricultural price. The price of sugar started declining after 1996 and reached historically almost the low level during last 25 years around 2000. Though there is some recovery in the price cycle in the recent years, yet the current level of prices of above-mentioned commodities is 15 to 44 % lower then the prices prevailing in the beginning of WTO. Because of the decline in prices in post WTO period, developing countries in exports were badly hit and several countries like India were taken aback by import influx of commodities in which they thought, the had strong competitive edge. The main causes of declining international price of sugar is the huge subsidies and other support providing by developed countries especially USA and European Union to his farmer.

In 1990-91, sugar export was 21 US \$ million which account 0.59% share in total agri- export and it reached to 135US\$Millions in 2005-06 and account 1.28%shareof total agri- export in 2005-06 but due to declining international price of sugar. India could not get appropriate benefit of increasing export. Because subsidies and other support of developed countries to his farmers, varies from 5 to 15 per kg, some years higher than even the international price of sugar has reduce the competitive edge of India, Although India’s share in export of world sugar has increased from 0.1% in 1990 to 0.8 in 2005.Due to good performances of sugar exports but India Could not get true benefit of it due to decline in International price of sugar, Subsidies and other supports provided by developed countries to his farmers.

If these negotiations will successful in the future, and DCs reduces or In recent years a different level of ministerial conferences of WTO e.g. Doha, Singapore etc was held. The main issue of Doha round conference was (1) Negotiation in the reduction of export subsidies (2) Market access for agricultural product of developing countries by developed countries.

Eliminate subsidies and open up his market for agro-export of developing countries then India will get true benefit of international trade in sugar due to having competitive edge in this sector.

**POST WTO TRADE REGIME: LESSONS FOR INDIA**

Wide ranging economic reforms introduced in India during 1991 boosted the agricultural trade (Exports as well as imports) and the net trade surplus in agriculture increased from \$ 2 billion during 1992-93 to \$ 4.33 billion during 1995-96. The trade got a fillip with WTO agreement during 1995; thereby resulting in the net trade surplus reaching \$ 6.8 billion in 1996-97. However, the problem of downward trend in exports, increase in imports, sharp year-to-year fluctuations in net trade, erosion of self-reliance etc, started soon thereafter despite further liberalization of trade. The trend raises questions about further liberalization of trade in general and specific commodities in particular, and the implications of present agreement including ongoing negotiations on AOA in WTO etc.

An analysis of the global trends after WTO indicates unprecedented declines in the global prices of agricultural commodities, severely hitting earning from agricultural exports of the countries. India too could not gain much from WTO and global liberalization, though India generally performs better than the other countries when the

international price situation is favorable. As the exports are becoming increasingly competitive, it is not possible to promote exports without improving produce quality, efficiency and cost reduction. From the analysis of the trade scene it is evident that India is facing challenges in traditional export items the challenges is not from the developed countries, but from the developing countries, major import of vegetable oils are from the developing countries (Malaysia and Indonesia); and India has done well in export of high value product to the developed countries.

This research is solely based on the findings of ASHOK GULATI and G.S.Bhalla and Subramanian's study. The main findings of this study are that India would have gain from its participation in liberalized trade in agriculture. Their conclusions are largely based on the expected rise in the prices of world sugar commodities in the long run. But result of table shows some opposite result.

**TABLE 7: THE EXPORT PRICES OF PRIMARY AGRICULTURAL COMMODITIES IN POST W.T.O**

Period Base 1995-100

Commodities	1995	1996	2000	2005
Sugar	100	92	66	81
Cotton	100	82	60	56
Cereal	100	119	67	85

*Source: International trade statistics 2006*

The biggest challenge to the developing countries agriculture in the post W.T.O period was paved by unprecedented and unforeseen decline in international agricultural prices.of sugar. The prices of sugar, cotton etc started declining after 1996 and reached historically almost the low level during last 25years around 2000.

Though these recovery in the price cycle in the recent years, yet the current level of the prices of above mentioned commodities is 15 to 44% lower than the prices prevailing in the beginning of W.T.O. Because of this declining in prices in post WTO period, developing countries exports are badly hits and several countries like India were taken aback by import influx of commodities, in which they thought they had strong competitive edge. The research of Pebisch & Singer "Deterioration of terms of trade of developing countries due to low elasticity of primary product in the international market is highly applicable here. International prices of agricultural commodities have been reducing drastically due huge subsidies and support provided by developed countries especially U.S.A and European Union.

Example- The actual support given to sugar by EEC and the US ranges between.5 and .15% which in some years was higher than even the international prices of sugar. In contrast, domestic support for sugar in India was only 0.21% in 1995, these supports of US and EEC has been increasing day by day to his farmers. India will gain substantially due to having competitive edge in the export of agro-products. As stated earlier, the USA and European Union (which are the two biggest agricultural exporters) will reduce his agricultural subsidies. As a result, prices of all major agricultural commodities will increase. Then India's agro export will become more competitive.

From the above discussion, it can be concluded that the findings of Ashok Gulati and G.S. Bhalla and Subramanian is not correct in present context because the International prices of agricultural commodities like sugar etc has been declining day by day due to DCs has been providing huge domestic support to his farmers. The result of declining international prices of agricultural commodities like sugar etc is that The total agro export in 1995 was 6120.10 US\$ millions which account 19.2% share of total exports and growth of agro export was 44.77 in 1995-96. But agro export has reached to 8001.7US\$ million in 2004-05 which accounts only 10.2% share of total exports (83536 US \$ millions) and growth rate of agro export has reduced to 29.5% in 2004-05. On the other hand, the agro import was 1103.46US\$million in 1995-96 which account 3% share of total imports (36729.98US \$ Millions) has increased to 3811.1US\$million which accounts 3.5 % of total imports (111518US\$millions) in 2004-05: The growth rate agro-import was -12.68% in 1995-96 has increased to 64.30% in 1998-99. But it drastically reduced to -36.86 in 2001-01 again it shows increasing sign because agro import was 1676.35US\$million in 2001-01 has increased drastically to 3811.11US \$ Millions in 2004-05. Overall India is not getting true benefit of trade liberalization in agriculture.

## CONCLUSIONS

Although India started economic reform and gradually dismantling it very high tariff and other non - tariff barriers. AOA give a big push to trade liberalization in agriculture by reducing obstacle to market access, reduce domestic

support and streamline the export subsidies. But commitment of developed countries regarding AOA has been suffering from serious limitations:

- a) Choice of the base year period of 1986-88 when the prices were extremely low.
- b) Developed Countries (DCs) adopting dirty tariffication.
- c) Administration of tariff rate quotas by developed countries were also discriminatory.
- d) Different boxes of subsidies eg. green box, blue box, amber box. Many members were also deliberately shifting expenditure away from the amber box to those measures that are exempt from reduction commitments under the green box
- e) Aggregate Monetary Measures (AMS) are also ambiguous.

Agreement on sanitary and Phyto – sanitary measures deals with food safety, plants health. WTO does not set standard but it allow countries to set their own standard.

The developed countries have been using this as an instrument for denying market access to exports from developing countries.

Therefore, in a highly protective world characterized by high tariff walls, large domestic and export subsidization and strict control on factor mobility. The developed countries have been denied effective access to their sugar markets. Their subsidies also result in depressing the international prices of sugar commodities.

Further, many non – tariff barriers like stringent sanitary and Phyto – sanitary standard have further tended to discriminate against imports from the developing countries.

Because of declining in international prices of sugar commodities in post- WTO period due to huge subsidies and support by developed countries resulting developing countries exports are badly hits and several countries like India were taken aback by import influx of commodities in which they thought, they had strong competitive edge. Example: the actual support given to sugar by USA ranges between Rs 5 to 15 which in some years was higher than the even the international prices of the sugar. In contrast, the domestic support for sugar in India was only 0.21%.

The research of Pebisch and Singer “ deterioration of terms of trade of developing countries due to low elasticity of primary product in the international market is highly applicable here”.

From the above discussion it can be concluded that the funding of Ashok Gulati and G.S.Bhalla and Subramanian is correct in present context because the International prices of agricultural commodities has been declining day by day due to DCs has been providing huge domestic support to his farmers. The result of declining international prices of agricultural commodities is that The total agro export in 1995 was 6120.10 US\$ millions which account 19.2% share of total exports and growth of agro export was 44.77 in 1995-96. But agro export has reached to 8001.7US\$ million in 2004-05 which accounts only 10.2% share of total exports (83536 US \$ millions) and growth rate of agro export has reduced to 29.5% in 2004-05.

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Overall India is not getting true benefit of trade liberalization in agriculture. There are many factors responsible for it- Developed countries are not implementing agreements on agriculture in effective manner.

- 1) Developed countries have been providing huge subsidies and domestic support to his farmers through Green box, Blue box and Amber box etc. These supports are responsible for decline international prices of agricultural commodities.
- 2) DCs are not providing minimum market access for agricultural exports of developing countries.
- 3) DCs had imposed many types of tariff and non-tariff barriers on the agro export of the developing countries.
- 4) DCs is not fulfilling many commitment related to AOA.
- 5) DC has raised the issue of child labour and environmental issues to counter the demands of developing countries and they also look developing countries like Indian sugar in suspicious way .they also treated this Indian sugar of below standard of Ph level.



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