EAST-WEST CENTER
COLLABORATION • EXPERTISE • LEADERSHIP

Asia Pacific Bulletin

EastWestCenter.org/APB

Number 309 | April 21, 2015

Slow Pace of Reforms Inhibits US-India Agricultural Trade

BY SURUPA GUPTA

Surupa Gupta, Associate Professor at the University of Mary Washington, explains that "In the face of multiple challenges such as low productivity, low income, and low growth in the farm sector at the beginning of the 2000s, the [Indian] central government advocated that Indian agriculture was in dire need of liberal reforms."

Trade in agriculture has been a contentious issue in relations between the United States and India in recent years. At the multilateral negotiations in the World Trade Organization (WTO), India has fought to protect its small and marginal farmers – in 2014, India held up its approval of the Trade Facilitation Agreement until it received assurance that its interest in protecting its food security would get urgent attention. In the bilateral context, India's reluctance to import more American farm products has irked farm exporters. India's growing population and rising prosperity are perceived as opportunities for US agricultural exports. However, its continued emphasis on self-reliance and protection of the farm sector has limited the scope of such exports. Observers find this protection puzzling since during this same period India has made significant progress as a farm exporter. Against this background, India's position on farm trade needs to be understood within the context of a domestic farm sector populated by numerous resource-poor farmers and the slow pace of agricultural reforms. A multilateral trade regime shaped almost entirely by developed countries in the 1980s poses additional challenges for countries such as India.

Throughout much of the last fifteen years, India's "growth story" has occupied headlines. From a relatively low start of between 3-5 per cent during 1950s through 1980s, India's growth rate increased dramatically after 1991, topping ten per cent in 2010. A McKinsey Global Institute report estimated that if this growth rate was sustained, then India's 50 million (2007) strong middle class would grow ten-fold to 583 million by 2025. Not surprisingly, American farmers have lobbied to get access to it. Indeed, American farm exports to India have grown at the rate of 10.2 per cent per year during 1991-2010. However, having started from a small base, exports still stood at under US$1 billion in 2013-14. A 2009 USITC report estimated that Indian tariffs reduced US farm exports to India by $291 million while non-tariff measures restricted the same by $146 million.

India's reluctance to open up its agricultural markets has been a point of contention particularly because India's profile as a farm exporter has grown dramatically during the last decade. A recent USDA report names India as the largest agricultural exporter to least developed countries and the seventh largest agricultural exporter globally. Indian farm exports have grown from $5 billion in 2003 to over $39 billion in 2013. At the same time, India's bound tariffs on farm products remain high. India's tariffs are also somewhat unpredictable – the government raises and lowers applied duties and changes policies for exports to protect farmers, consumers and occasionally, other organized interests. American exporters are upset that India continues to protect its agricultural markets at the same time as it continues to grow as an exporter. This has generated some heat for US-India relations and had contributed to the latest deadlock in the WTO negotiations in 2014.

In the run-up to the Bali ministerial meeting, India, along with the Group of 33, demanded that subsidies provided to farmers whose produce contribute to public stockholding of food in developing countries should not be subject to limits. This issue, first brought up in the WTO negotiations by the Africa group and subsequently by Brazil in the mid-2000s, potentially affects the interests of several developing countries. The limits on these subsidies were placed on the basis of prices prevailing in 1986-88 when the issue was negotiated. Although the US alleged that India was using this ploy to subsidize its exports, India and the G33 made several proposals that restrict the subsidies to resource-poor farmers only and to produce that is domestically consumed rather than exported. At Bali, the issue was addressed by announcing that a four-year Peace Clause will be in effect until the WTO membership can work out a permanent solution. Not satisfied with that clause, nor with the lack of progress on food security issue in Geneva, the new Indian government demanded that India and others be given a permanent waiver on the Peace Clause and linked this to signing the Trade Facilitation Agreement, arguably the first multilateral agreement to be signed by the entire WTO membership. India relented and agreed to sign the agreement only after receiving US assurance on the food security issue.

"In India's federal structure, state governments have jurisdiction over agricultural policy. The central government, while encouraging and incentivizing through policy formulation and promising funds for policy adoption and implementation, could do little about adoption of a uniform agricultural marketing framework."

It is necessary to focus on the composition of India's farm sector, its widespread poverty and the slow pace of agricultural reforms to understand India's position on food security and trade. India's has 118.7 million farmers and over eighty per cent of them own plots that are smaller than 5 acres (65 per cent of landholdings are smaller than 2.2 acres). These small and marginal farmers make up a majority of India's poor. India's poor number about 400 million in a country of 1.2 billion. Ensuring food security, therefore, remains a priority. Another important priority for the government is to ensure that these farmers are able to continue with their livelihood. However, this is only half the story. For over a decade now, policymakers in India have also realized that the number of farmers will have to gradually shrink (indeed it is already shrinking) as larger numbers are absorbed in the manufacturing sector. But growth as well employment generation in the manufacturing sector has been slow throughout the last decade. Policymakers also realized that if the farm sector is to remain competitive and capable of generating sufficient income for farmers, it would require market-oriented reforms. In the face of multiple challenges such as low productivity, low income, and low growth in the farm sector at the beginning of the 2000s, the central government advocated that Indian agriculture was in dire need of liberal reforms in distribution and marketing which, in turn, required building infrastructure such as roads, ports, a cold chain, research capacity, and so on. However, in India's federal structure, state governments have jurisdiction over agricultural policy. The central government, while encouraging and incentivizing through policy formulation and promising funds for policy adoption and implementation, could do little about adoption of a uniform agricultural marketing framework throughout the entire country. While it encouraged states to adopt these reforms, they adopted only the parts that did not face strong resistance within those states. In some cases, states were reluctant to adopt reforms because doing so would cut into their revenues and in others, their efforts were thwarted by entrenched groups or by poor reform design. The slow pace of reforms has prevented growth of manufacturing and the necessary transformation of the farm sector, thus ensuring that India's overall negotiating position on agriculture has changed little over a decade and a half. India's 2014-2015 budget and the 2015-2020 Foreign Trade Policy promise greater focus on market reforms in the farm sector and on farm and food exports. However, given that reforming India's farm sector will require time, India's overall policy on farm trade at multilateral and bilateral venues is unlikely to change dramatically.

The *Asia Pacific Bulletin* (APB) series is produced by the East-West Center in Washington.

APB Series Editor: Dr. Satu Limaye
APB Series Coordinator: Alex Forster

Surupa Gupta is an associate professor in the Department of Political Science and International Affairs at the University of Mary Washington. She can be reached at sgupta@umw.edu.