AGRICULTURE SECTOR IS MISSING FROM FTA'S: ECONOMY

NEWS: Why agriculture sector is missing from India's FTAs

WHAT'S IN THE NEWS?

India's exclusion of agriculture from FTAs stems from political sensitivity, subsidy structures, and compliance gaps, but it limits agri-export growth and global competitiveness. Strategic inclusion of select sectors with supporting reforms can unlock rural prosperity and trade gains.

Context:

- India has signed a series of Free Trade Agreements (FTAs) with partners like the UK, EFTA, and ASEAN, yet the agriculture sector is often excluded or minimally included.
- This reflects deep-rooted policy, political, and economic concerns, but also results in missed global trade opportunities.

What Are Free Trade Agreements (FTAs)?

- FTAs are agreements between countries to reduce/eliminate tariffs, quotas, and non-tariff barriers for goods and services.
- Key features:
    - Tariff elimination on a wide range of goods.
    - Sensitive lists for items excluded or delayed.
    - Rules of Origin criteria for duty preferences.
    - Provisions for services, investment, and IP.
    - Safeguard clauses to protect domestic industry during sudden import surges.

Why Is Agriculture Often Excluded from India's FTAs?

- Political Sensitivity:
    - Agriculture supports 50%+ of India's population and holds electoral importance.

    - Reforms like the 2020 farm laws led to mass protests, showing the high political cost of liberalization.
- Fear of Import Surges:
    - India exited RCEP fearing cheap dairy imports from New Zealand could harm smallholder farmers.
- WTO Compliance Issues:
    - India's agriculture is highly subsidized (MSP, free electricity, urea) and may breach WTO AoA norms if liberalized under FTAs.
- Non-Tariff Barriers (NTBs):
    - Even with tariff cuts, Indian agri-exports face high SPS and TBT standards in developed markets, limiting effective access.
- Use of Sensitive Lists:
    - India shields key agri-products through long transition timelines (20–25 years) or total exclusion, limiting liberalization benefits.

India's Agricultural Export Snapshot (2023–24):

- Export Value: $48 billion (down from $52 billion in 2022–23).
- Top Exports:
    - Basmati rice (21% of total agri-export earnings).
    - Marine products, spices, coffee, and tobacco.
- Decline in: Sugar, wheat, and marine product exports due to domestic restrictions or market conditions.

Implications of Agriculture Exclusion from FTAs:

- Missed Market Access:
    - Basmati rice, spices, and GI-tagged goods lose competitive advantage due to lack of duty-free access.
- Sluggish Modernization:
    - Absence of FTA pressure delays agro-infrastructure and value chain upgrades.

- Widening Sectoral Imbalance:
    - FTAs benefit textiles, pharma, IT, while agriculture lags, deepening rural-urban disparity.
- Weak GVC Integration:
    - Indian farmers are cut off from global supply chains due to lack of access and compliance readiness.
- Price Instability:
    - No stable export buffers to absorb surplus production or stabilize prices during bumper harvests.
- Dependence on Intermediaries:
    - Farmers lack direct access to export markets, relying on middlemen who suppress farm gate prices.
- Erosion of Competitiveness:
    - Countries like Vietnam, Brazil, and Thailand use FTAs to expand agri-exports; India risks losing regional markets.

Advantages of Including Agriculture in FTAs:

- Expanded Access:
    - Opens doors for Indian farmers to preferential global markets.
- Boost to Processing:
    - Incentivizes value-added exports (e.g., Basmati rice → branded packets, spices → essential oils).
- Improved Infrastructure:
    - Spurs investment in cold chains, testing labs, and SPS compliance systems.
- Deeper GVC Participation:
    - Attracts FDI in agri-logistics, contract farming, and agro-tech.
- Shift in Cropping Patterns:
    - Encourages diversification beyond wheat/rice to high-value crops.

- Enhanced WTO Bargaining Power:
    - Signals reform intent and strengthens India's trade credibility.

Structural Challenges in India's Agri-Export Ecosystem:

- Low Value Addition: Predominance of raw commodity exports like rice and pulses.
- Fragmented Holdings: Smallholder farms lack economies of scale for compliance and quality control.
- Centre–State Misalignment: Agriculture is a state subject; trade is a union subject—leading to regulatory confusion.
- Logistics Gaps: Inland states face poor transport and storage; coastal states dominate exports.
- SPS Failures: Frequent rejection due to pesticide residue, aflatoxins (e.g., mangoes, peanuts).
- Subsidy Lock-in: Overproduction of rice and wheat due to MSP and free input regimes.
- Weak Institutions: APEDA has limited outreach to smallholders; export promotion is fragmented.

Case Studies & Global Lessons:

- Brazil: Shifted from raw to processed exports (soy oil, beef) via agro-industrial investments.
- Thailand: Used FTAs to integrate processing into its export model (e.g., shrimp, rice noodles).
- Vietnam: Diversified beyond rice into coffee, pepper, and cashews, becoming a global player.

Way Forward: Strategic Roadmap for Agricultural Integration into FTAs:

1. Gradual Inclusion Strategy:
    - Begin with sectors like Basmati, marine, spices, processed foods.
    - Use TRQ (Tariff Rate Quotas) and long transitions for sensitive items.
2. Agro-Processing Near APMCs:

- Enable pre-export value addition (e.g., mango pulp, peanut butter) to raise margins.

3. Export Infrastructure Push:
    - Develop cold storage, inland depots, quality testing labs, and logistics corridors.
4. Institutional Coordination:
    - Create a National Agri Trade Council for centre–state–APEDA–exporter policy alignment.
5. Farm Subsidy Reform:
    - Shift from input subsidies to DBT to promote choice and reduce rice-wheat lock-in.
6. Compliance Backbone:
    - Scale up traceability, SPS labs, and export certifications to reduce consignment rejections.
7. Tech-Driven Agri-Extension:
    - Use AI and mobile platforms for vernacular updates on weather, export norms, and prices.
8. Strengthen FPO–Exporter Links:
    - Leverage Farmer Producer Organisations as aggregators and certification facilitators.

Conclusion:

- India's FTA approach has prioritized industry and services, leaving agriculture isolated due to political caution and structural inefficiencies.
- With targeted reforms and calibrated inclusion, agriculture can be a growth engine, unlocking rural prosperity, boosting exports, and reinforcing India's global trade standing.

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