THE GATT TREATY

An opportunity or a Threat to Indian Rubber Plantation Industry?

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The growth attained by the Indian rubber plantation industry since its commercial beginning in 1902 has no parallel in the agricultural scenario of the country. In terms of productivity, growth in area and growth in production, Indian rubber plantation industry is ahead of all the major natural rubber (NR) producing countries in the world. Two major factors, which have contributed to the dynamic growth of this plantation industry during the period are (1) favourable prices enjoyed by the crop thanks to the various price supporting policies followed by the Government of India from time to time along with the presence of a captive domestic market absorbing the entire domestic production and (2) various development schemes implemented by the Rubber Board during the various Five Year Plans.

Despite the many shifts in favour of outward orientation, especially the launching of the New Economic Policy since 1991, NR continued to be a restricted item of import in the country. During the entire period since 1947, import of NR has been either banned or restricted strictly in the country.

For the first time since 1947, import of NR is going to be free of restrictions with effect from 1 April 2001. Thereafter it is mandatory on the part of Government of India not to impose any quantitative restriction on import of NR into the country. Also, there will be binding upon the Government not to increase the import tariff of NR beyond the level agreed upon, called **bound rate.** The bound rate agreed by the Government of India is 25 per cent for solid forms of NR. As the principle of the GATT is to encourage its member countries to reduce the tariffs step by step, the applied rates of import duty have to come down further in future.

Under the emerging QR-free regime, NR trading across countries will definitely increase and the major NR producing countries will compete each other to get the maximum share of the global market of NR. The two mantras of success in any competitive market are price and quality and the NR sector is no exception. Consumers world over would prefer to purchase NR from that supplier, who provides it at the cheapest rate and also attractive with reference to quality and presentation. The challenge before the Indian rubber plantation industry is to face the emerging global competition. Under this situation, NR producers in India have to compete with their counter parts world over, not only for the export of NR but also for withstanding possible imports at competitive prices. The WTO regime will be advantageous for those countries and suppliers, where the production process is cost efficient. Is the Indian rubber plantation industry equipped to face the challenges of the QR-free regime? This paper attempts to identify the problems and opportunities of the Indian rubber plantation to sustain under the WTO mandated regime.

Before attempting this, a brief discussion on the basic principles and legal framework of the rules of GATT 1994 is in order.

The objective behind the strengthened rules of the Uruguay Round is to ensure that the markets remain open and that this access is not disrupted by sudden and arbitrary impositions of import restrictions. Accordingly, the whole framework of the GATT rules is laid up on the following four basic rules :

(i) Protection to domestic industry through tariff rather than quantitative restrictions.

(ii) Binding of tariffs (Member countries are urged to reduce tariffs. The tariffs so reduced are bound against further increases).

(iii) Most-Favoured-Nation (MFN) Treatment (This rules requires that tariffs and other regulations should be applied to imported or exported goods without discrimination among members. Thus it is not open to a country to levy customs duties on imports from one country at a rate higher than it applies to imports from other countries).

(iv) National Treatment Rule (Member countries are prohibited

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from discriminating between imported products and equivalent domestically produced products, both in the matter of levy of internal taxes and in the application of internal regulations. Thus, it is not open to a country, after a product has entered its market on payment of customs duties to levy an internal tax at rates higher than those payable on a product of national origin).

Multilateral agreements negotiated in the Uruguay Round are contained in the following three legal instruments :

1. General Agreement on Tariff and Trade 1994 (GATT 1994) and its associate agreements applying to **trade in goods.**

   The associate agreements are:

   - Agreement on Customs Valuation.
   - Agreement on Perishment Inspection (PSI).
   - Agreement on Technical Barriers to Trade (TBT).
   - Agreement on Application of Sanitary and Phytosanitary Measures (SPS).
   - Agreement on Import Licensing Procedures.
   - Agreement on Safeguards.
   - Agreement on Subsidies and Countervailing Measures (SCM).
   - Agreement on Anti-dumping Practices (ADP).
   - Agreement on Trade-Related Investment Measures (TRIMS).
   - Agreement on Textiles and Clothing (ATC).
   - Agreement on Agriculture (AA).
   - Agreement on Rules of Origin.

   The above set of 12 associate agreements is complemented by a set of 12 understandings and decisions.

2. General Agreement on Trade in Services (GATS), applying to **Trade in Services.**

3. Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Among the various multilateral agreements, three agreements, which are more relevant with regard to natural rubber, are briefly explained in the remaining part of this section.

Agreement on Anti-Dumping Practices (ADP)

When a product is exported at a price lower than the price normally charged in the domestic market, the product is considered as dumped in the country to which it is exported. The difference between the two prices is the *dumping margin.* Dumping is an unfair trade practice as per WTO regulations. A product is also considered to be dumped if it is sold for less than its cost of production. The Agreement on Anti-Dumping Practices (ADP) authorizes countries to levy compensatory duties on the products dumped. However, an importing country can levy anti-dumping duties on dumped imports only if it is established on the basis investigations carried out by it that such imports are causing **material injury** to the domestic industry.

Agreement on Subsidies and Countervailing Meausres (SCM)

Another type of unfair trade practice, which distorts conditions of competition is exported goods receiving the benefits of subsidy. An importing country can levy countervailing duty on subsidized imports if it established on the basis of investigation that subsidized *imports are causing* ***material injury*** to the domestic industry. Countervailing duty shall be to the extent of subsidization.

Agreement on Safeguards

If surge in imports causes **serious injury** to the domestic producer, the domestic producer can request imposition of safeguard duty on imports. It is to be noted that Anti-Dumping and Countervailing measures are against unfair trade practices. But safeguard duty is not against unfair trade practice. Also, for the imposition of safeguard duty the injury should be 'serious' and as prescribed for the imposition of Anti-Dumping and Countervailing measures only "material injury" is not sufficient. The primary purpose of safeguard measure is to give the affected industry time to prepare itself for the increased competition that it will have to face after the restrictions are removed. Such restrictions are applied only for temporary periods by setting a maximum of eight years in general and 10 years for developing countries.

In the light of the brief picture given on of the GATT rules and principles, let us examine the problems and threats of Indian rubber plantation industry to sustain under the new emerging globalized scenario. To begin with let us identify the potential competitors of India. The four potential competitors of India with regard to NR are Thailand, Indonesia, Malaysia and Vietnam, which are the major players in the export market of NR. As may be seen from Table 1, these four countries account for 88 per cent of the global export and 72 per cent of the global production of NR.

Four problems have been identified with regard to sustainability of Indian NR plantation industry in the emerging WTO mandated regime.

1. Cannot enjoy the advantages of being a developing country

GATT 1994 has given special concessions to developing countries. Being a developing country, such concessions are advantageous to India in the case of those commodities for which the country's competitors are developed countries. Unfortunately all the four potential competitors of India with regard to NR are developing countries and hence India cannot make use of the special privileges conferred upon by the GATT to devleoping countries in the case of NR. Besides, on account of the fact that all the four countries are from the Asian continent, India cannot expect to get preferences on geographical considerations in getting export orders from the neighbouring consuming countries.

2. Highly volatile currencies of first three major producing countries

Exchange rate is a crucial factor determining the price competitiveness of a country in the international market. In this context it is important to note that the currencies of Thailand and Indonesia are highly volatile and the case of Malaysia is also not different. If a major devaluation takes place, as happened in 1998 in these countries, it will enable these countries to sell NR at a relatively lower price in dollar terms. Such a situation will be disadvantageous to Indian NR producers because they also will be compelled to reduce the price.

3. Tiny size of Indian rubber holdings

Another disadvantage of India is the tiny holding size of the dominant small holding sector. Whereas the average holding size is two to three hectares in other major NR producing countries, in India it is as small as half a hectare. For tiny holdings the cost of production is relatively higher as compared to larger units. Whereas in the estate sector, owing to the existence of Plantation Labour Act, labourers are to be provided with a package of welfare measures apart from the minimum wages fixed by the Government. Incidence of agricultural income tax is another factor pushing the cost up in the estate sector. Among the major rubber producing countries in the world the cost of production of NR is the highest in India after Malaysia.

4. Indian NR sector is not exposed to export market

Thailand, Indonesia, Malaysia and Vietnam are regular exporters of NR. As much as 83 per cent of the domestic production of NR in Thailand is sold in the export market. Indonesia exports 93 per

Table 1 : Production and Export of NR during 1999

Country	Production		Export	
	Production ('000 tonnes)	% to world total	Export ('000 tonnes)	% to world total
Thailand	2266	33.5	1886	40.9
Indonesia	1599	23.6	1495	32.4
Malaysia	769	11.4	436	9.5
Vietnam	230	3.4	230	5.0
India	620	9.7	Negligible	Negligible
World	6760	100.0	4610	100.0

Source : IRSG (2000).

cent of the domestic production and the corresponding figure of Malaysia is 57 per cent. Almost 100 per cent of Vietnam's production of NR is sold in the export market (IRSG, 2000). Being regular exporters, the production and processing practices prevailing in these countries are oriented towards export market. Also, these countries have well rooted marketing chain as well as regular buyers in the international market. But, India's position is entirely different. Due to the presence of a fairly developed domestic manufacturing sector, which normally absorbs the entire domestic production of NR, the production and processing practices prevailing in the country have been inward oriented. Trading of NR in the international market is mainly done under the futures system through the exchanges in Kula Lumpur, Singapore and Tokyo. This international trading system is still unfamiliar to the Indian NR production sector. In sum, with regard to value addition, attainment of global standards in quality, packaging and labelling and trading system, the Indian NR production sector has to undergo sea changes.

Despite the constraints discussed, the NR production sector in India has much inherent strength too. Five important points in this regard are :

1. Highest productivity

Productivity is a key factor determining cost-efficiency. Productivity of NR is measured in terms of production per unit hectare of yielding area. The most important advantage of India is its highest productivity among the major producers. Table 2 gives the productivity of NR in major NR producing countries.

Table 2 : Average Productivity of NR during 1999
(kg/hectare of yielding area)

Country	Productivity
India	1563
Thailand	1394
Vietnam	1059
Malaysia	949
Sri Lanka	859
Indonesia	709

Source : Calculated from *Quarterly Natural Rubber Statistical Bulletin.* The Association of Natural Ruber Producing Countries, Kuala Lumpur.

Further to the highest productivity already attained, a more striking advantage of Indian rubber plantation industry is the potential still available to realize further increases in productivity. According to Rubber Board (1998), even among the holdings covered under the umbrella of Rubber Producers' Society (RPS), a self-help group extension arm promoted by the Rubber Board and functioning at the grass root level, more than 35 per cent of the holdings have productivity below the national average. For the holdings outside the RPS umbrella the corresponding figure was more than 43 per cent. Table 3 summarizes the percentage number of holdings under different yield classes.

The table shows that as much as 18.8 per cent of the holding in the RPS network have already attained the productivity beyond 2,500 kg per hectare as against the national average of 1,563 kg. By augmenting extension services targeted towards the holdings in the low-yielding classes, it is possible to enhance their yield.

2. Comparatively lower wage rates in India

Lower wage rates prevailing in India as compared to other major NR exporting countries is an opportunity for India. While making use of this opportunity, if the productivity also is increased, Indian rubber production can be made globally competitive.

Table 3 : Classification of Small Holdings according to Productivity

Yield Class (kg/ha)	RPS Holdings		Holdings outside RPS	
	No. of units	% to total	No. of units	% to total
Up to 1000	128	10.7	31	16.0
Above 1000 to 1500	293	24.5	52	26.8
Above 1500 to 2000	324	27.1	51	26.3
Above 2000 to 2500	227	19.0	40	20.6
Above 2500	225	18.8	20	10.3
Total of the Sample	1197	100.0	194	100.0

Source : Rubber Board (1998).

3. Existence of self-help groups of growers for organized cultivation, processing and marketing

As pointed out in Section III, one of the reasons for India's higher cost of production despite having the highest yield is the uneconomic holding size as compared to other major producing countries. The consolidation process initiated by the Rubber Board in the form of setting up of Rubber Producers Societies (RPSs) offers tremendous scope for addressing the problems caused by the tiny size of rubber holdings in India[1]. RPSs play a crucial role in cost reduction by bulk procurement of plantation inputs with least middlemen interference and distribution among the members. It also provides common facilities for processing and marketing. It is also important to note that due to effective transfer of technology and better upkeep of trees, the productivity realized by the holdings under the RPS network is significantly higher as compared to the holdings, which falls outside this umbrella (Rubber Board, 1998). Thus, by enhancing the yield and reducing the cost, the group approach can play a major role towards attaining competitiveness in NR production in the small holding sector. But, the coverage of RPS network comes to only about 20 per cent of the yielding area in the traditional rubber-growing region in the country (Rubber Board, 1998). Considering the remaining 80 per cent of the area falling outside this network, there is tremendous scope for further achievements in productivity growth and cost reduction.

4. Existence of grass-root level marketing network

The presence of a well-developed marketing netwrok, having grass-root level operations, together with the availability of daily market information at the village level, is another important comparative advantage of the Indian rubber plantation industry. As a result, growers are aware of the price in the terminal markets and they are equipped to bargain with the dealers (Jacob and Chandy, 2000). More over the competitive rubber market offers numerous options in the sale of rubber at the most competitive price. Owing to the existence of efficient dealership network and availability of market information at the grass root level, the growers are able to realize at their farm gate about 94 per cent of the terminal market price for their produce (Sreekumar *et. al.*, 1990). As against this, small holders in most other countries realize at their farm-gate only 70 to 85 per cent of the terminal market price.

5. Existence of a captive domestic market

Another favourable factor of India is the presence of a fairly developed rubber goods manufacturing sector in the country absorbing the entire domestic production. India is the fourth largest consumer of NR in the world, accounting for 9.3 per cent of the global consumption (Table 4).

As stated in section III, in the absence of sufficient domestic demand, India's competing countries have to depend on other countries' market to dispose of lion's share of their production. If NR production in India becomes competitive both in price and quality, the manufacturing industries in the country will not go for imported NR and the Indian NR production can continue to enjoy the domestic demand even in a QR-free regime. At the same time, they can make use of the access to the markets of other countries provided under the legal framework of GATT 1994.

To conclude, comparatively higher cost of production of NR in India has been identified as most disadvantageous factor for sustaining the country's NR plantation industry under the WTO mandated regime. But, the attainment of highest productivity among the major producing countries, competitive structure of the domestic market and the presence of grass-root level network for extension services and group activities in processing and marketing provide the country tremendous opportunities. RPSs could play an important role towards attaining cost-efficiency and for

Table 4 : Consumption of NR by Major Consuming Countries during 1999

Country	Consumption ('000 tonnes)	% to world total
U.S.A.	1117	16.7
China	852	12.8
Japan	734	11.0
India	619	9.3
Malaysia	344	5.1
World	6680	100.0

Source : IRSG (2000).

betterment of quality. To make the Indian NR production sector globally competitive, it is necessary to widen the coverage of RPS network and intensify their activities with thrust on cost reduction and productivity enhancing measures.

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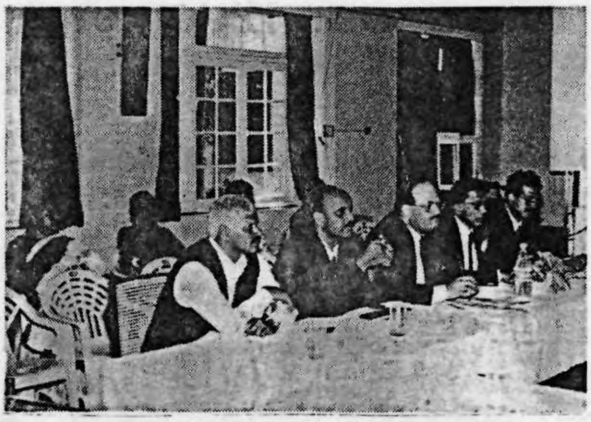
PARLIAMENTARY STANDING COMMITTEE ON AGRICULTURE VISITS UPASI-KVK

The members of the Parliamentary Standing Committee on agriculture visited UPASI-KVK and lauded the role of KVK in creating an awareness among the small and marginal farmers of modern agricultural practices most suited to the agro climatic regions of Nilgiris.