COMPOSITION OF INDIAN AGRICULTURAL TRADE

Dr R. S. Wadhawan*

ABSTRACT

Agri-trade continues to be strictly regulated and any adverse price movement makes the Government adopt knee-jerk trade, tariff and administrative means to restrain prices. A comparison of international prices and domestic prices for major crops shows that these have increasingly aligned over the last decade indicating that Indian agriculture is very much in tune with global markets for major agri-products. In several commodities, our domestic prices are below fob prices indicating our trade competitive advantage. But the uncertain and somewhat unstable trade policy orientation has not promoted resource allocation in line with this inherent competitive advantage, and thus did not allow Indian agriculture to fully reap the efficiency gains from trade. India has adopted a cautious approach towards agri-trade permitting exports only after ensuring that it would not have adverse impact on domestic prices.

Keywords: *Indian Agriculture, Agricultural Trade, Agricultural Export, Agricultural Trade*

***Academic Coordinator, Maharaja Agrasen College Jagadhri

INTRODUCTION

Agri-exports by India during the FY 2011-12 were more than US$ 37 billion against an import of agri-commodities worth around US$ 17 billion. India emerged as the world's largest exporter of rice, replacing Thailand and Vietnam. India also emerged as the largest exporter of beef (buffalo) meat, exporting 1.7 million tonnes worth almost US$ 3 billion, beating Brazil, Australia and US, which are traditionally the largest exporters of beef. The temporal behavior of India's exports and imports shows that India has consistently remained a net exporter of agri-products during the last two decades. Indian agriculture has increasingly integrated with the world markets but relatively less than the entire Indian economy. The agri-trade (exports plus imports) as a percentage of agri-GDP, which was about 5 percent in 1990-91 when economic reforms started is today more than three times of that, touching 18 percent in 2011-12. It is still low as compared to the share of total trade in goods and services as a percent of India's GDP that has increased from 17.5 percent to 59.1 percent over the same period.

A major challenge that the Indian economy faces today is of increasing merchandise trade deficit. In the year 2011-12, this trade deficit would have been higher but for buoyant agricultural exports. As per latest data released by WTO (WTO, 2012a), India's exports of agricultural products increased by an astounding 49 per cent in 2011. India emerged as the world's largest exporter of rice, replacing Thailand and Vietnam, which are generally the two largest exporters of rice. India also emerged as the largest exporter of beef (buffalo) meat, exporting 1.7 million tonnes worth almost US$ 3 billion, beating Brazil, Australia and US, which are traditionally the largest exporters of beef1 . In all, agri-exports by India during the FY 2011-12 were more than US$ 37 billion against an import of agri-commodities worth around US$ 17 billion.

The year 2011-12 may have been an upswing year for Indian agriculture, but the long term trends do suggest that Indian agriculture is globally competitive (Hoda & Gulati, 2007) and one can tap this potential even more to benefit its farming community provided we have a stable, more predictable, and rational agri-trade policy. It is to this effect that this paper highlights the gradual integration of Indian agriculture with world markets over the last two decades or so, and what benefits it has brought about to Indian farmers and economy in general.

India is a net exporter of agricultural commodities with agricultural exports constituting 11.9 percent of India's total exports and agricultural imports constituting only 3.4 per cent of

India's total imports in 2011-12, indicating India's 'Revealed Comparative Advantage' in agriculture. India's share in total global exports of agri products has increased from 0.8 percent in 1990 to 2.1 percent in 2011. This share is more than the share that India has in global merchandise exports, i.e., 1.7 percent in 2011 (0.6 percent in 1990). Thus, from that point of view too, Indian agriculture seems to have a greater comparative trade advantage than manufactured goods. However, it needs to be appreciated here that India's agri-trade policy has been relatively restrictive and unstable. The success of the agri-sector against this backdrop, therefore, deserves all the more credit and signifies that a more supportive and liberal trade policy can help propel growth and prosperity in rural areas.

An analysis of the composition of agricultural trade over the last decade shows that traditional agri-exports of India, such as tea, coffee, cashews, spices, etc have been over taken by new and more dynamic sectors like rice and maize, cotton, meat, guar gum, and the like, with the biggest change being registered in cotton. India has also emerged as the largest importer of edible oils and pulses. A significant change has been the imports of raw cotton which accounted for 10.1 percent of total agri-imports in TE 2001-02 but now is the second biggest agri-export accounting for 11.4 percent of total India's agri-exports. So the decade of 2000s really belongs to cotton, with most spectacular increase in production, exports and declining imports- all being driven by the new Bt technology in cotton and newly found export markets in China.

A comparison of international prices and domestic prices for major crops shows that these have increasingly aligned over the last decade indicating that Indian agriculture is very much in tune with global markets for major agri-products. In several commodities, our domestic prices are below fob prices indicating our trade competitive advantage. But the uncertain and somewhat unstable trade policy orientation has not promoted resource allocation in line with this inherent competitive advantage, and thus did not allow Indian agriculture to fully reap the efficiency gains from trade. India has adopted a cautious approach towards agri-trade permitting exports only after ensuring that it would not have adverse impact on domestic prices. Agri-trade continues to be strictly regulated and any adverse price movement makes the Government adopt knee-jerk trade, tariff and administrative means to restrain prices. The export ban on wheat and common rice (1996-2000 and again from 2007-11) are stark examples of this policy of restrictive agri-exports. Such restrictions resulted in massive accumulation of grain stocks (63 mt on July 1, 2002 and 82 mt on June 1, 2012), leading to large wastages and efficiency losses. Indian trade policy has oscillated between complete export bans to high import duties with an overarching objective to attain domestic price stability at relatively low price levels. This in-built pro-consumer bias prevents farmers from realizing a remunerative value for their produce, and thereby slows down investments and growth in agriculture.

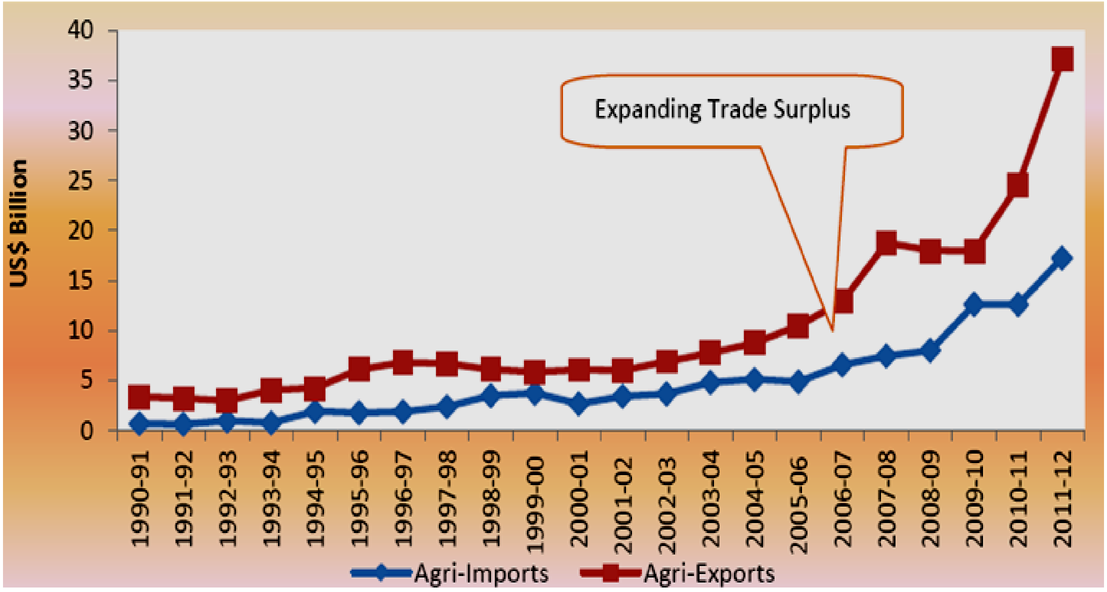
Lifting of a four year ban on rice has led to record rice exports in 2011-12. India has emerged as a large exporter of cotton and maize due to open trade policies. But recent and abrupt policy changes in case of cotton have led to erosion of confidence of the international market in India and hurt India’s image as a regular supplier. India is a large importer of pulses and edible oils. Imports of pulses are permitted under OGL at zero duty but exports are prohibited except for kabuli chana and 10,000 tonnes of organic pulses & lentils per annum. Imports of crude edible oils and refined edible oils are freely allowed with zero and 7.5 percent duties respectively but exports are banned. There is another anomaly in as much higher import duties of 30 per cent apply on oilseeds. Logically, the import duty is graduated from low on raw material to highest on refined product. For sugar, imports have been allowed at zero import duty since August 2009 (10% duty imposed on raw and refined sugar since July, 2012) while exports of sugar have been tightly controlled and were subject to release orders from the Directorate of Sugar until recently. This was despite surplus production years of 2010-11 and 2011-12. This restrictive export policy along with free imports clearly shows a pro-consumer bias and needs to change in order to take into account producer interest as well. Exports need to be fully opened as also imports to have a neutral trade policy for producers as well as consumers.

A stable, liberal and neutral (for producers as well as consumers) trade policy with only moderate duties of 5-10% in most of the years, with provision of Special Safeguards, would promote resource use efficiency, generate surpluses and promote agri-growth. The guiding principle should be the alignment of the domestic and international prices and guard against sharp spikes and troughs through Agricultural Special Safeguards. The key requirement is to continuously monitor domestic and international price trends and identifying the trigger points for prompt action. And the regulatory instrument used should be tariffs and not quantitative restrictions as they are inefficient and make the policy biased.

India’s Agricultural Trade-Trends

The temporal behavior of India’s exports and imports shows that India has consistently remained a net exporter of agri-products during the last two decades. Agri-Exports have increased more than ten times from US$ 3.5 billion in 1990-91 to US$ 37.1 billion in 2011-12 growing at an annual average rate of 13.6 percent. Agri-Imports have increased from US$ 0.7 billion in 1990-91 to US$ 17.2 billion in 2011-12 growing at an even higher annual average rate of 21.4 percent. Though agri-imports have risen at a higher rate, the trade surplus has widened during this period as is clearly depicted in Figure 1.

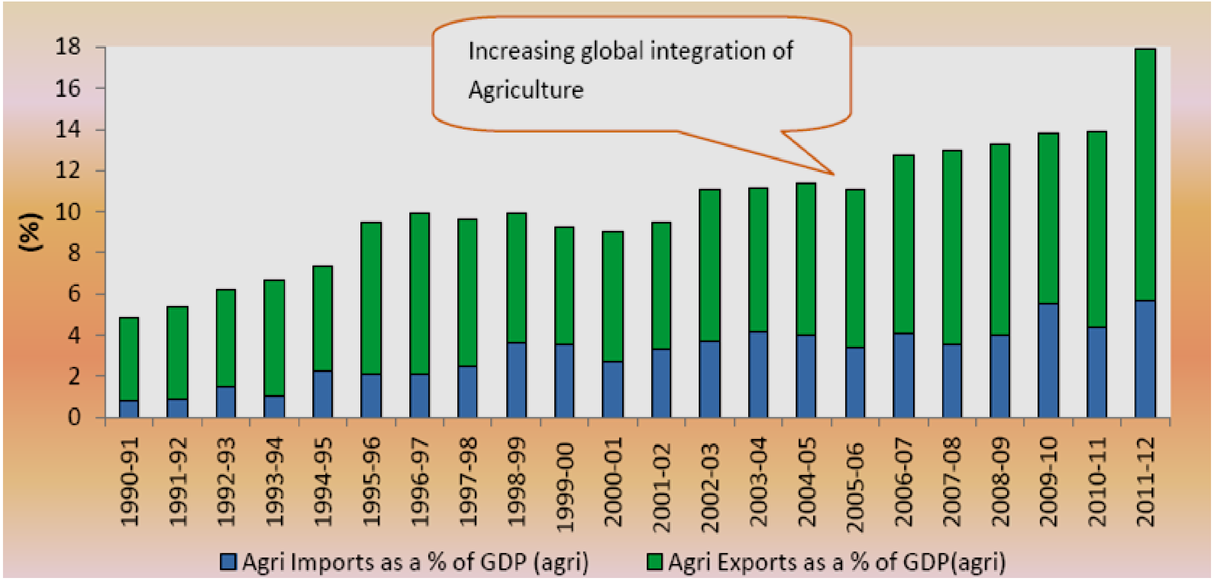
Figure 1: India's exports and imports of agri-commodities



Source: Agricultural Statistics at a glance- various issues & Department of Commerce

Indian agriculture has increasingly integrated with the world markets as measured by agri-trade as percentage of agri-GDP. The agri-trade (exports plus imports) as a percentage of agri-GDP, which was about 5 percent in 1990-91 when economic reforms started is today more than three times of that, touching 18 percent in 2011-12 (Figure 2). It is still low as compared to the share of India's total merchandise exports & imports as a percent of India's GDP, which increased from 14.7 per cent to 46.2 percent over the same period, and if one includes the trade in services, Indian economy is even more integrated to the world economy. The share of total trade in goods and services as a percent of India's GDP has increased from 17.5 percent to 59.1 percent over the same period with software consulting services emerging as a major service export.

Figure 2: Agri-exports and imports as percent of agri-GDP (%)



Source: CSO, Agricultural Statistics at a glance- various issues & Department of Commerce

India is a net exporter of agricultural commodities with agricultural exports constituting 11.9 percent of India's total exports and agricultural imports constituting only 3.4 per cent of India's total imports in 2011-12, indicating a 'Revealed Comparative Advantage (RCA) ' in agriculture, whenever Indian agri-trade policy has been somewhat liberal. India's agricultural exports constituted a higher 18.5 percent of India's total exports in 1990-91 while agricultural imports constituted 2.8 percent of India's total exports in 1990-91. Thus, over this period agri-exports have increased at a slower pace than other merchandise exports while agri-imports have marginally increased their share in total imports. One of the reasons for India's agri-exports growing slower than its agri-imports is that when international commodity prices are on an upswing, and Indian agriculture could be exporting large quantities, India puts a ban on exports of several agri-commodities, be it onions or potatoes, or cereals like rice and wheat, pulses or oilseeds, or milk (SMP) and milk products, etc. This is based on the fears that keeping agri-trade open will lead to higher food prices at home, and given large mass of poverty, India would not be able to protect their interests. On the other hand, it opens imports of several essential commodities, especially those which are in short supply at home, at zero or very low import duty, be it pulses, or edible oils, or sugar, etc. to augment domestic supplies and suppress prices. Thus, it uses a restrictive export policy and liberal import policy to achieve equity objectives, i.e., protecting the poor consumers. But in this process, it suppresses incentives to cultivators and thus remains in a low-level equilibrium trap as far as agri-growth is concerned. It would be much better if India could devise a transparent income policy for the poor and allow the price and trade policies to do their main function of allocating resources efficiently, and thereby promoting growth in agriculture.

In any case, despite these restrictions, the net exports of agri-commodities from India have been increasing, and in 2011-12, it stood at US$ 20 billion. Thus, the skepticism about gains from opening up agricultural trade (Chand, 2002) has been unfounded. In fact, Indian farmers have latched onto the opportunities provided by a wider market & better prices. India's share in total global exports of agri products has increased from 0.8 percent in 1990 to 2.1 percent in 2011. This share is more than the share that India has in global merchandise exports i.e 1.7 percent in 2011 (0.6 percent in 1990). Thus, from that point of view, Indian agriculture seems to have a greater comparative trade advantage than manufactured goods. This has been possible as the sector has responded by undergoing a structural transformation which we will elucidate in the next section. It needs to be appreciated here that India's agri-trade policy has been relatively restrictive and unstable. The success of the sector deserves all the more credit and signifies that a supportive trade policy can help propel growth and prosperity, especially in rural areas.

Table 1: Comparative Share of Major Agri-Products in Total Agri-Exports

Item	Share	
	TE 2001-02	TE 2011-12
Foodgrains	15.8	15.9
Rice	11.0	12.0
Cotton	0.41	11.4
Marine Products	20.8	9.9
Oil Meals	7.1	7.9
Meat and Prep	4.1	7.6
Spices	5.8	7.1
Gaurgam Meal	2.3	5.3
Sugar	2.4	5.2
Fresh Fruit	2.9	4.9
Tea, Coffee & Cashew	18.2	7.9

Source: Agricultural Statistics at a Glance, various issues & DOC

Looking at the decade of 2000 more minutely, one finds that the share of food grains in total agri-exports has hovered around 15 percent during the decade. *Rice* has remained a consistent export while exports of wheat have been substituted by maize. India has emerged as a major corn exporter with exports expanding by more than 10 times from 0.3 million tonnes in 2000-01 to 3.9 million tonnes in 2011-12. Wheat exports have languished as they were banned for a major part of the decade. Another interesting case is *cotton* which has emerged as the second largest agri-export of India.

CONCLUSION

India is now the world's second largest exporter of cotton and together with US accounts for more than half of the world's exports. *Meat & preparations* have emerged another significant export accounting for 7.6 percent in TE 2011-12 – India has emerged as the world's largest exporter of beef in 2012. *Marine products* are still significant agri exports though their share has declined from 20.8 percent in TE 2001-02 to 9.9 percent in TE 2011-12. *Oil meals* are other significant agri-exports and have increased their share in total agri-exports from 7.1 percent in TE 2001-02 to 7.9 percent in TE 2011-12. *Spices* have also increased their share from 5.8 percent to 7.1 percent in the same period. *Guargum meal* exports have lately emerged as a major agri-export and account for 5.3 percent in TE 2011-12. India has also emerged as a major exporter of *sugar* during this decade with its share increasing from 2.4 percent in TE 2001-02 to 5.2 percent in TE 2011-12. But a closer look reveals that sugar exports have been largely cyclical with trade policy for sugar playing an important role, which we will examine later. Traditional exports like tea, coffee and cashew together accounted for 18.2 percent in TE 2001-02, which fell to 7.9 percent by TE 2011-12 signifying diversification of India's agri exports. The share of exports of Fresh fruits & vegetables has also increased from 2.9 percent in TE 2001-02 to 4.0 percent in TE 2011-12 signaling a movement towards high-value exports in line with the global/national demand (Table 1). That this can happen even with weak and fragmented supply lines is a commendable feat, which is only likely to increase as India improves its supply lines for fresh produce.

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