CHAPTER 1

INTRODUCTION

1.1 TRADE POLICY - AN OVERVIEW

The term ‘trade policy’ refers to all the initiatives that have an apparent bearing, either directly or indirectly, on the export performance and import behaviour of goods and services in the country. The analysis of trade policy with respect to trade liberalisation has received a significant attention in the recent literature on international trade.

In general, a trade policy may be a free trade policy or a non-free trade policy. A free trade policy refers to the absence of tariff and non-tariff barriers for the free movement of goods and services and the mobility of the factors of production. On the other hand, a non-free trade policy refers to a protectionist trade policy where-in domestic industries are protected from foreign competition through subsidies and import restrictions.

On the other hand a trade policy may be characterized as inward or outward oriented. An inward oriented trade policy implies bias against exports, emphasizes on import substitution strategy and protection to domestic industries. On the other hand, an outward oriented strategy provides incentives, which are neutral between production for domestic markets and exports. Thus, outward oriented strategy is neither a discrimination against exports or imports nor biased against import substitution strategy. Since international trade is encouraged, outward oriented approach is often referred
to as an export promotion strategy. Specifically, the outward oriented trade measures involve substantial liberalization in terms of decontrolling foreign exchange transactions, reduction of export controls and state trading. It also involves removal of import quotas, licensing of import and other quantitative restrictions.

India implemented economic reform since 1991 and brought drastic changes in the trade policy of India to integrate itself with the global economy.

1.2 STATUS OF INDIAN TRADE ENVIRONMENT ON THE EVE OF REFORMS

One of the main reasons for the initiation of reforms was the looming crisis in the Indian trade. There was a steep fall in the annual growth of exports and imports. The annual growth of exports was negative (-1.50 per cent) in 1991-92 as compared to 15.60 per cent in 1988-89. Similarly, the annual growth of imports was 13.60 per cent in 1988-89. But it showed a negative rate of growth of -19.40 per cent in 1991-92. The total foreign exchange reserves of India were reduced to almost half from US$ 4226 million in 1988-89 to US$ 2236 million in 1990-91. This amount was just enough to finance one month of imports. Further, the nominal exchange rate of the rupee had depreciated substantially from ₹ 14.48 per dollar in 1988-89 to ₹ 26.19 per dollar in 1991-92. Moreover, the balance of payments came under severe strain. Liquidity crisis was experienced in mid-January, 1991 and in late June, 1991. On both occasions, the foreign exchange reserves dropped significantly and the government had to resort to emergency measures, such as pledging its stock of gold to obtain foreign exchange, utilisation of special facilities of the IMF, and the emergency bilateral assistance from Japan and Germany among others. Having resorted to these
measures, the government was able to avoid default in terms of meeting its immediate debt obligations and the financing of imports.

Subsequently, the government embarked upon a programme of more fundamental economic policy reforms. Since the problems confronted by the national economy on the eve of the reforms had their origin in almost all the sectors, the reforms had to be formulated and implemented for all-round development of the Indian economy.

Trade policy reforms constituted the crux of national economic reforms in the country. The trade reforms were initiated with a view, among others, to improve balance of payments position, reduce tariffs, remove quantitative restrictions and integrate the Indian economy with the global economy. Therefore, the year, 1991, is considered a “watershed” year as massive trade liberalization measures have been adopted.

The objectives of self-reliance and self-sufficiency influenced the trade policy formulation in the 1950’s and 1960’s. Factors like export-led growth, improving efficiency and competitiveness of Indian industries influenced the trade policy during the late 1970’s and the early 1980’s. The trade policies during the reform period have been guided mainly by the concerns over globalisation of the Indian economy, improving competitiveness of its industries and the adverse balance of payments situation (Mehta 1997). In essence, the trade reform measures in the 1990s and thereafter aim at making the trade regime in India transparent.

1.3 INDIAN TRADE POLICY REFORMS: AN OVERVIEW

In the late 1970’s and early 1980’s developing countries were hit by a series of severe external shocks due to rapidly changing oil prices, rising
interest rates, and worsening terms of trade as the international prices of primary commodities began to fall. In many countries, the initial response to the adverse balance of payments position was to tighten the imports. Whereas, several other countries undertook reform measures either voluntarily, or at the behest of the World Bank. Trade policy reforms primarily aimed at making their economies open and their domestic production more competitive.

In general, the most important features of trade reforms, include the following: First, a move from quantitative restrictions to tariffs; second, a reduction in the average tariff rates and their dispersion across sectors; third, a direct promotion of exports (e.g. by reduction in export taxes) to offset the bias arising out of import tariff. Fourth, simplification of bureaucratic procedures, such as rules, regulations, procedures, controls, red-tapism, etc., and Fifth, a move towards creating competitive and transparent environment for trade. Thus, trade liberalization constitutes the centerpiece of trade policy reforms.

Thus, the World Development Report (1998) argued: “… trade reform means policies that reduce protection. An open trading system is a powerful force for sustained growth and industrial expansion. With trade, enterprises are bound by narrow domestic markets, but can expand to sell their goods and services in the international market. The economic efficiency gains from trade liberalization in industrial countries are essential if output is to grow rapidly”.

In the Indian context, the liberalization of foreign trade policy that started in the early 1980’s continued through the late 1980’s as well. However, since July 1991, trade policy reforms were initiated along with the on-going national economic reforms with greater emphasis. These reforms
have two components. The first component is stabilization part and the second component is structural adjustment part.

The stabilization part is divided into: external stabilization and internal stabilization. The external stabilization aims at reducing the import demand and deficit in the trade account. The internal stabilization aims at reducing the domestic inflation.

The structural adjustment part aims at increasing the level of supply and the rate of growth of output through liberalisation, privatization and globalization in the medium and the long run.

Moreover, the Indian trade policy measures have different scales, phases and levels of implementation in each sector. The impact of the trade reforms also varies with respect to different sectors and sub sectors as India has a complex system of governance and approach towards the implementation of reforms.

1.4 INDIAN TRADE REFORMS AND FLORICULTURE INDUSTRY

The floriculture industry, which is one of the major sub sectors in India, has shown considerable growth after the Indian trade reforms (Subash 2010). Commercial floriculture industry began in the late 1800s in England and has now spread to other countries in the globe. The floral industry today has grown to larger proportions and offers wide scope for growth and profits (Santosh 2011). India is one of the active countries in international floriculture trade in the last three decades, especially after the Indian trade reform measures since 1991.
The trade policy measures for floriculture trade are unique in India. These measures have brought significant changes in the Indian floriculture industry and the international trade of floriculture products. Though there is a growth in the area of cultivation, production and export, the floriculture industry has not met the desired targets of the policy makers as well as the stake holders of the industry.

1.5 INDIAN FLORICULTURE INDUSTRY – A HISTORICAL PERSPECTIVE

India has a long tradition with respect to cultivation of floriculture products. References to flowers and gardens are found in ancient Sanskrit classics like the Rig Veda (C 3000-2000 BC), Ramayana (C 1200-1300 BC), Mahabharata (prior to 4th Century BC), Shudraka (100 BC), Ashvagodha (C 100 AD), Kalidasa (C 400 AD) and Sarangdhara (C 1200 AD). The social and economic aspects of cultivation of flowers were, however, recognized much later. The offering and exchange of flowers on all social occasions, in the places of worship, their use for adornment of hair by women and for home decoration, have become an integral part of human life style.

In most part of the country, flower cultivation is carried out on small holdings, mainly as a part of the regular agriculture systems for long years. However, the commercial floriculture has assumed importance only in recent decades with changing life styles and increased urban affluence. Appreciation of the potential of commercial floriculture has resulted in the blossoming of this field into a viable agri-business option. The availability of natural resources like diverse agro-climatic conditions permits production of a wide range of temperate and tropical flowers, almost all through the year in some parts of the country or other. The commercial activity of production and marketing of floriculture products is also a source of gainful and quality employment to scores of people.
The available literature shows that the richness of India's ecosystem and India's endemic species has increased the significance of Floriculture in India and the possibility of generating growth opportunities in the agriculture sector.

1.5.1 India's Ecosystem and the Richness

The Botanical Survey of India (1993) states that India is endowed with unique biodiversity as it is situated at the tri-junction of Afro-tropical, Indo Malayan and Paleo Arctic realms with rich variety of characteristics derived from this assemblage. It is one of the 12 mega-biodiversity countries of the world and harbors in excess of recorded 47,000 flowering and non flowering plant species (12% of recorded world's flora) and 81,000 animal species. With only 2.4 per cent of the world's land area, it holds 7-8 per cent of the global bio diversity on an overall basis.

1.5.2 India's Endemic Species

Endemism of Indian biodiversity is significant. About 4,900 species of flowering plants or 33 per cent of the recorded flora are endemic to the country. These are distributed over 141 genera belonging to 47 families. These are concentrated in the floristically rich areas of North-Eastern India, the Western Ghats, North- Western Himalayas and the Andaman and Nicobar Islands. The Western Ghats and the Eastern Himalayas are reported to have 1,600 and 3,500 endemic species of flowering plants respectively. These areas constitute 2 of the 18 hot spots identified in the world (MacKinnon 1986).

These naturally blessed components have increased the potentiality of Indian floriculture industry to the commercial viability of the international trade of flowers. The individual products under floriculture fall into many categories and varieties. Hence, it is essential to define the floriculture industry.
1.6 DEFINITION OF FLORICULTURE INDUSTRY

The floriculture industry involves the cultivation and distribution of bulbs, cut flowers, foliage and plants for both local and international markets. According to the Harmonised System (HS) Code followed in India, floricultural products are classified under the HS code 06 (live trees and other plants). HS code 06 is further divided into HS code 0601 (bulb and tubers), HS code 0602 (plant and cuttings), HS code 0603 (cut flowers and flower buds) and HS code 0604 (foliage and branches) (Foreign Trade On-Line 2004).

According to International Trade Classification (ITC), floriculture sector encompasses (a) bulbs, tubers and tuberous roots, (b) other live plants (including trees, shrubs, bushes, roots, cutting and slips), (c) cut- flowers and flower buds, fresh dried, dyed, bleached, impregnated or otherwise prepared, and (d) foliage, branches and other parts (other than flowers and buds) of trees shrubs, bushes and other plants and mosses, lichens and grasses, being goods of a kind suitable for bouquets or ornamental purposes, fresh, dried, dyed, bleached, impregnated or otherwise prepared. The Government of India has adopted a new Indian trade classification, which is based on Harmonized System (HS) of Commodity Description and Coding Systems (CDCS). HS Codes of government of India follow the Brussels Tariff Nomenclature (BTN). The following is the description of Indian classification:

a) Bulbs, tubers and Tuberose roots: These are products that may be planted in pots, boxes or similar containers.

b) Live plants: These are plants that are used for permanent or semi permanent decoration in offices, homes and buildings. These are whole plants, which are suitable for planting or for ornamental purposes.
c) Cut-flowers: These are flowers and flower buds with a suitable stem of varying length, which make them suitable for bouquets or for ornamental purposes. Examples of cut-flowers are roses, carnations, chrysanthemums, orchids, gladiolus, etc.

d) Cut foliage: These are leaves, grasses, shoots, etc. The economic value of these lies not in the decorative effect of the blossoms but in its colour and shape.

e) Others: These include dried flowers and foliage, propagation materials, tissue culture plants and starter and adult ornamental plants including houseplants. (Dattatreyyulu 1997).

1.7 STATUS OF INDIAN FLORICULTURE INDUSTRY

According to United Nations Comtrade database (2011), the total world imports of floricultural products were US$ 8.376 billion in the year, 2000 and it had risen to US$ 17.518 billion in the year, 2010. It indicates that the value of global trade of floriculture products had doubled in a span of ten years. But, the share of India in the world trade of floriculture products had increased marginally from 0.40 per cent in 2000 to 0.50 per cent in 2010. However, the global market share of Netherlands was 65 %. Columbia, Italy, Israel and Kenya had the global market share of 12%, 6%, 4% and 1% respectively in the year, 2010. In other words, in spite of the increase in world trade of floriculture, India’s exports accounted for just 0.5 per cent of the global trade of flowers compared to other flower exporting countries (Negi 2000). The reasons for the lack of performance of Indian floriculture exports need a detailed study.

Considering the immense export potential and growth opportunities for floricultural products in the international market, the government of India
has started offering many special initiatives and policy measures to enhance the institutional infrastructure to the growers and to facilitate the exporters to export floriculture products on large scale (Parliamentary Standing Committee 2005).

Hence, floriculture industry has been provided additional thrust in recent years by the central government and state governments in India. The plan outlays have been stepped up in successive plans for the development of floriculture industry.

Government of India has given 100% export oriented status to floriculture industry after 1991 policy. The floriculture business has become one of the important commercial trades in agriculture and emerged as a hi-tech activity. The flowers have been cultivated under controlled climatic conditions inside greenhouses. Floriculture in India is being viewed as a high growth Industry and gains importance from the export angle.

The liberalization of Indian trade policies paved the way for the development of export-oriented production of flowers. The new seed policy made feasible the import of planting material of international varieties. It has been found that commercial floriculture has higher potential per unit area than most of the field crops in India and is, therefore, a lucrative business to the Indian farmers. Indian floriculture industry has been shifting from traditional flowers to cut flowers for export purposes. In a nutshell, the liberalized economy has given an impetus to the Indian entrepreneurs to establish export oriented floriculture units under controlled climatic conditions through trade reform measures.

In the 8th five year plan, the central government has allotted a sum of ₹17 crores for the establishment of 11 Model Floricultural Centres (MFCs)
which have been opened in different states of India. In the 9th five year plan also, it was proposed to set up another 5 MFCs in addition to strengthening the existing ones with an outlay of ₹ 40 crores under the centrally sponsored schemes for the promotion of commercial floriculture. However, many of these are not operational till now (GOI 2008).

The Government of India had sanctioned 45 Agriculture Export Zones (AEZ) in 19 states which were to act as the rural motors of the export economy and were expected to be the vehicles of growth in the tenth five year plan. Out of these, 5 were exclusively sanctioned for floriculture with an outlay of ₹188.09 crores in the states of Karnataka, Tamil Nadu, Maharashtra, Uttaranchal and Sikkim, keeping in view the comparative advantage of the regions for the cultivation of flower crops. The floriculture AEZ in Hosur (Tamil Nadu) was capable of handling 67.5 million flower stems grown within the Hosur AEZ and another 27 million stems produced in the non-AEZ region. But, it was not operated to its full capacity till 2007 (GOI 2008).

Apart from the central government initiatives, many state governments have also started special programmes for the development of the floriculture industry. In Karnataka state, Karnataka State Industrial Investment Development Corporation Ltd., has accorded industrial status to the floriculture sector. Karnataka Ago-Industries Corporation has started floriculture auction centre on the lines of Dutch Model of auction center. As per the 1995 agricultural policy of the Karnataka state, the Government of Karnataka amended the land ceiling act and it allowed floricultural units to own maximum land of 20 units (108 acres) per grower (Government of Karnataka 2006).

The Maharashtra government is setting up flower auction centres to eliminate middlemen and to ensure remunerative prices to the growers at
Pune and Nasik. The Maharashtra Government has also started demonstration and training centres for gerbera, carnations, roses and coloured Capsicum at a cost of ₹3 crore to train farmers in floriculture cultivation.

Land acquisition has been made easy in Tamil Nadu. The Tamilnadu Industrial Development Corporation (TIDCO) has set up a floriculture incubator project, Tan flora, as a joint venture with Bangalore based CLL Flower Ltd. This park provides post-harvest and marketing infrastructural facilities for the growers. Tamilnadu also announced a Commercial Floriculture Policy in 1996. It offered attractive incentives to growers of export oriented floriculture products in Tamilnadu. In 1999-2000 a sum of ₹191.51 lakhs was spent by the government of Tamilnadu on various schemes relating to cultivation of flowers (Choudhary 2000).

The production of export oriented floriculture products requires protected cultivation. The total area under floriculture in India was 1, 90,896 hectares in, 2010 (NHB 2011). It was twice the area under flower cultivation in the year, 2000. In fact, the area under the floriculture production in India is relatively high compared to the major floriculture exporting countries. But, the area under protected cultivation is low in India. For example, the proportion of protected area to total area of floriculture cultivation is 99 per cent in Colombia, 70 per cent in Netherlands and 57.51 per cent in Italy. But, in India, it is only 0.56 per cent. In other words, the vast potential in the country does not seem to have been fully tapped till now.

Despite all these government initiatives, the actual exports still lag behind the targeted exports of ₹100 crores by the end of 8th plan, ₹200 crores by 9th plan, ₹700 crores by 10th plan and ambitious ₹1000 crores by 11th plan period (GOI 2008). It is also far behind the estimated potential of India’s floriculture export.
In spite of all the initiatives and reform measures, it is viewed that the majority of the flower growers are facing many problems while converting those potential opportunities to realities. Still, the floriculture industry has not attained the expected growth in the last two decades and is unable to attain the desired targets set by the competent authorities.

The detailed review of the literature related to international floriculture industry and the Indian floriculture industry is given in the second chapter of the thesis.

1.8 RESEARCH GAP

It is understood from the available literature on floriculture industry that the Indian trade reforms have brought prospects as well as problems to the floriculture industry in India.

The exports of floriculture products have grown during the trade reform period. But, the export targets of floriculture trade have not been realised by the Indian floriculture industry. No study has been found to identify the reasons for the underperformance of floriculture trade in spite of its immense potential for growth.

Although the Indian government has implemented the trade reform measures for floriculture industry in the last two decades, no research is found from the available literatures to know the effect of such trade reform measures on the performance of floriculture trade.

There are different perceptions about the reasons for the under performance of the floriculture industry in spite of huge potential for growth in India. The stake holders of the industry have different opinions about the
pitfalls in the trade policy measures and the initiatives of the government for the development of Indian floriculture trade.

Hence, the policy makers, stake holders, research community and interest groups of floriculture industry are desperately in need of a reliable source of knowledge about the impact of the trade reform and resultant changes in order to overcome the problems in availing the international trade opportunities for Indian floriculture products. So, there is a need to study the impact of the trade reforms on Indian floriculture industry.

The previous studies carried out in the floriculture industry have mainly focused on the taxonomic aspects, vitro propagation, seasonal variations in the yield, production, productivity, farm investment, profitability, cost of production, net revenue in farm economics, loss of flowers and plants due to various diseases, losses in post-harvest of floriculture products, techniques for the improvement of farm management, regional based domestic trade, etc.

However, there are few studies on floriculture export. They are focusing only on net revenue of exports of specific flower, export policy with respect to specific floriculture product (orchids) till 1992 (Chakrabarti et al 1995), cost of establishing export oriented floriculture units (Shukla and Jain 1996), etc.,

No study has been found with specific focus on export performance of Indian floriculture industry as a whole in the back ground of Indian trade policy reforms, the problems connected to reform measures and the government initiatives for the development of international floriculture trade of India in the reform period.
Considering the favourable agro-climatic conditions to floriculture and its immense potentialities in earning high profit, creating more employment and earning more foreign exchange from its exports, the government of India has started offering many subsidy schemes ensuring institutional infrastructure to the farmers and other form of support to the farmers who have ventured into this field. Many special initiatives and policies have also been introduced to tap the potential of this sector and promoting this promising industry by the government of India in recent years. Despite all these government initiatives, the actual achievements of exports still lagged behind the targeted exports of ₹100 crores by the end of 8th plan, ₹200 crores by 9th plan, ₹700 crores by 10th plan and ambitious ₹1000 crores by 11th plan periods (GOI 1996 to 2005). It is also far behind the potential exports.

Inspite of the increase in world trade of floriculture products, Indian exports accounted for just 0.5 per cent of the world’s trade of flowers compared to other flower exporting countries. The reasons for the lack of export performance are still to be studied. The area under protected cultivation is low in India compared to major flower production countries in the world. No study has been found in the literature to know the reasons for it.

The investments in floriculture sector and per capita consumption of flowers are also considerably low in India when it is compared to other developed countries like Western Europe, Japan and USA. In other words, the vast potential in the country does not seem to have fully tapped till now.

It is also viewed that a majority of the flower growers are facing many unique problems while converting those potential opportunities to
realities. The industry has not attained the expected growth in the last decades and is unable to attain the desired targets set by the competent authorities.

1.9 RESEARCH QUESTIONS

Therefore, the study is proposed to examine the impact of trade policy reforms on the floriculture industry. This study attempts to answer the following research questions.

a) What is the impact of Indian trade reforms in terms of growth rate and volatility of Indian floriculture export?

b) What is the change in product and regional / country composition of Indian floriculture exports after the Indian trade reforms?

c) What is the impact of Indian trade reforms on the competitive advantage of Indian floriculture trade?

d) What is the source of growth of Indian floriculture exports after the trade reforms?

e) What are the major determining factors for the performance of Indian floriculture trade?

f) What is the change in the trade intensity of India’s floriculture export with the major importing countries in the pre and the post reform period?

g) What are the major problems of the floriculture industry?
h) What are the perceptions of the stakeholders with regard to the special initiatives of Indian government to develop floriculture industry?

1.10 CHAPTER SCHEME

The thesis is organised into five chapters as detailed below.

Chapter 1 describes the background of the research and describes the Indian trade policy measures, status of Indian floriculture industry in the light of trade policy, research gap and research questions.

Chapter 2 provides the detailed review of literature of floriculture industry in the international and national perspectives as well as Indian trade policy measures since independence with special reference to floriculture industry.

Chapter 3 presents the objectives of the research, hypotheses and the detailed methodology adopted.

Chapter 4 analyses the results of the data analysis of both secondary and primary data and offers interpretation of the results.

Chapter 5 summarizes the findings and presents conclusions and recommendations.