Chapter-6
6.1 CONCLUSION

In 1991 India was caught in a situation of severe foreign exchange crisis. India was on the verge of default. To overcome this situation it sought financial assistance from IMF. It got the required assistance only when it agreed to bring about Structural Adjustment Programme (SAP). SAP involved opening up of foreign trade of India. In such a situation India had to follow a policy of export promotion.

Since India traditionally has been an exporter of agricultural products therefore boosting of agricultural exports became more important.

India has been gifted with diverse agro-climatic conditions, which allows it to be a world leader in the production of many products. India is the largest producer and consumer of tea in the world accounting for about 28% of world production and 14% of world trade. India has emerged as the largest producer of coconut, arecanut, cashewnut, ginger, turmeric, black pepper and the second largest producer of fruits and vegetables. India ranks first in the production of mango, banana, sapota and acid lime, and in recent years recorded the highest productivity in grape. All these things give a comparative advantage to India in the exports of agricultural products.

In 1991-92 the value of agriculture and allied exports of India was US $ 3521 million, which increased to US $ 6734 million in
2002-03. Still the share of agricultural exports in total exports of India dropped from 17.9% to 12.8% during the same period. Though the percentage share of agricultural exports has declined yet its significance from the prospective of foreign exchange earnings has increased. Agricultural products have very less import content. Even the imports of agricultural products are very less as compared to exports from this sector. Agriculture is thus a net foreign exchange earner.

India's foreign trade is deeply associated with agriculture sector. For a number of year exports of agricultural commodities contributed to major share in total export earnings. Tea, coffee, tobacco, raw cotton and spices have been traditional items of exports.

Agricultural products are basically exported in three forms raw materials, semi processed products and ready to consume products. Raw products exported are essentially of low value high volume nature, while semi processed products have intermediate value and limited volume, and processed ready to consume products have high value but are low in volume. During the initial years of our planning period tea and mate contributed to major share in our agro-exports value. The share of fish and fish preparations export was just US $ 10 million in 1960. Till the close of 1960 the export of Indian marine products mainly consisted of dried items like dried fish, dried shrimp, etc. Till the end of 1980s fish and fish preparations had occupied a dominant place in agro-exports.

During the 1990s many new items started increasing their share in export earnings. Floricultural products, fresh fruits and fresh vegetables whose share was very small during the pre-reform period have now emerged as important foreign exchange earners. In 2002-03
tea, coffee, rice, wheat, sugar and molasses, tobacco, spices, cashew, oil meals, fruits and vegetables, meat and meat preparations and marine products together contributed 85% in the export value of agro-products.

India exports its agricultural products to a number of countries. During the pre-reform period major destinations of India's agro-products were USSR, Canada, Czechoslovakia, Poland, UK, USA, GDR, FRG, Japan, Iran, Singapore, Sri Lanka, Bahrain, Kuwait and Saudi Arabia. During the 1980s the share of USSR in total agro-exports of India had remained around 20 percent to 30 percent. UK whose share had been around 30 percent to 40 percent during the 1960s came down to around 3 percent to 6 percent during the 1980s.

In 1991-92 major destinations of agro-exports were Russia, Japan, USA, Saudi Arabia and UK with Russia topping the list. From 1998-99 till 2002-03 USA was the largest importer of our agro-products.

A number of factors both on the demand as well as the on supply side influence our agro-exports. Agricultural exports were often influenced by supply constraints since agriculture in India had been a gamble of monsoon. Therefore good monsoon led to bumper crops. Increased supply of agricultural products led to increase in exportable surplus and thus more exports. Since the early years of our independence food security had remained a major concern for our planners. There were many restrictions of one form or the other on the exports of food grains even during the 1990s. Restrictions in the form of quotas were imposed on the exports of some of the agricultural products, which affected the performance of exports. International prices of the products also determined the export
quantity. Quality of the product in relation to the quality of our competitors' product also determined the export competitiveness. Now a days sanitary and phytosanitary measures also influence the performance of our agro-exports. Export import policy of the government played a major role in deciding our exports. Infrastructural constraints like lack of cold-storage facilities, lack of transportation facilities, lack of research and development facilities etc. also comes in the way of exports. Apart from this in many areas the cost of production is very high, which leads to adverse effects on the competitiveness of agro-exports.

Exports of coffee have often been influenced by world coffee prices. International prices have been determined by the demand and supply situations. Brazil had remained a major player in world coffee market. A decline in Brazilian coffee crop led to increase in international prices and vice versa. For a number of years export of coffee was regulated by quota restrictions. In 1996, trade in coffee was totally deregulated. Since the late 1990s there has been a sharp fall in international coffee prices due to surplus coffee supply, which has adversely affected the Indian coffee exporters.

In the early 1980s international trade in tea was suffering from a situation of oversupply and falling prices. Kenya, China and Sri Lanka were giving stiff competition to Indian tea. Apart from this in certain years India had to face shortage of exportable surplus due to drought conditions. Export quotas were determined by the government, which depended on the domestic availability of tea. During the 1990s and early 2000 India tea continued to face problems of increasing cost of production, declining export volume and price realization.
Rice exports often faced a fall due to a shortage in rice production in the country. Rice has an important role in food security, as it is the staple diet of most of the people of the country, so it is subject to much government intervention. Developing countries are major players in world rice trade. Recently with the increase in production of rice in the world there has been a fall in its international prices.

Similarly almost all agricultural exports had to face the problem of either a short fall in production or a shortage of demand. Some of the agro-products became uncompetitive in price due to their higher cost of production. Low level of technology and low investment in agricultural sector affected the quality of its products. Conflicting domestic policies often resulted in poor performance of Indian agriculture. This naturally affected the exports from this sector.

Now the trade in agriculture is being dominated by WTO guidelines. Agreement on Agriculture (AoA) covers three broad areas of agriculture trade policy: market access, domestic support and export subsidies. Market access involves opening of one’s market to the exports of other countries. This involves removal of quantitative restrictions on exports and imports of agro-products and reduction of tariff rates. WTO guidelines required a reduction in domestic support if it is greater than 10 percent of the total value of agro-products for developing countries, and 5 percent for developed ones. While calculating Aggregate Measure of Support (AMS) certain relaxations in form of green box and blue box measures have been allowed by WTO.
If a country fears that the import of agro-products from a particular nation may pose threat to the health and environment then it may ban imports from that country subject to such claims being made on scientific grounds. Measures to protect public interest such as health, safety and environment are termed as technical barriers to trade (TBT). Imposition of TBT and sanitary and phytosanitary measures have brought about an element of subjectivity in WTO guidelines. Though it is expected that these measures are not imposed to restrict the imports from a particular nation, but the imposing nations often deliberately set higher norms to protect their domestic producers. Because of these measures developing nations in general and India in particular are facing problems as there is high cost involved in adhering to it.

India has maintained zero or low tariff on most of the imported product as compared to the WTO permissible rates. This has provided market access to developed nations. Developed nations on the other hand have manipulated WTO provisions to serve their interests.

One encouraging feature of India's agriculture trade is that despite the removal of quantitative restrictions on agro-imports there has been not much increase in the import value. The percentage share of agro-imports in total imports of India had been 3.7 percent and 4.5 percent in 2000-01 and 2001-02 respectively.

With the signing of AoA, it was expected that it would lead to a decline in developed country exports of agricultural commodities and an increase in the volume and prices paid for agro-exports from developing countries. In reality this did not happen and commodity prices underwent a long run decline. Even after implementation of AoA; developed countries tend to gain more.
During the period 1990 to 2001 share of India’s agricultural exports to world agro-export remained more or less constant at around 1.1 percent India’s share in world exports of meat and meat preparations had been around 0.44 percent to 0.57 percent during 1990 to 1996. From 1997 to 2002 it has been 0.4 percent to 0.7 percent. Thus India’s share is too small to influence the world trade. Trade reforms initiated in 1990s helped in improving the exports of these products.

Share of India in world exports of fish crustaceans and molluscs and preparations had been around 2.5 percent during 1997 to 2002. Though India does not have a substantial presence in its world trade, yet opening up of India’s large fisheries sector to world trade can have much effect on world prices. India currently faces the problem of high cost of investment and dictatorship of buyers while exporting its marine products.

India has an impressive presence in world trade of rice. It has increased its share to 18.1 percent in 2002 in international market.

India has been showing a decreasing trend in its share in world tea trade for most of the period 1990 to 2002. Major reason for this fall is the decrease in demand for Indian tea in Russian market.

In the first half of 1990s world demand of coffee was higher than its world production. Soon production started increasing putting a downward pressure on the international coffee prices. India is only a small player in the world coffee market. In 2002 the share of coffee and coffee substitutes exports from India in world export was 2.3 percent. An encouraging feature of Indian coffee is that its Robusta variety is considered to be the best in the world.
Around 30 percent of the world production of tobacco is traded in the world market. India's share in world tobacco market had been quite small. Exports from India often faced problems because of its difficulty in confirming to higher sanitary and phyto-sanitary standards been set by the developed importing nations.

For most of the years in 1990s sugar economy continued to be a highly controlled one. For most of the years India's share in world exports of sugar, sugar preparations and honey had been quite negligible. Recently even with the rise in sugar production India cannot hope to increase its share in international trade due to global glut, which has resulted in low global prices. The cost of producing sugar in India is quite high which makes its export highly uncompetitive.

India occupies an important place in world trade of spices. For most of the years in the period under study (1990 to 2002) the share of Indian spices export in its world export had remained around 10 percent or more. Recently India is being hit hard due to fall in international prices of pepper, which is the single largest item among spices to be exported by India.

Due to its diverse agro-climatic conditions India has become a natural home for the production of fruits and vegetables. Though India's share in world trade is small yet it can hope to increase it manifold because of the continuous increase in the production.

Nine product/groups have been selected to study the Revealed Comparative Advantage (RCA) of agricultural exports. Of these nine products/groups India had high comparative advantage in export of six products/groups i.e. fish, crustaceans & molluscs and preparations, rice, vegetables & fruits, coffee & coffee substitutes.
tea & mate and spices. Only three products/ groups i.e., meat & meat preparation, sugar, sugar preparations & honey and tobacco & tobacco manufactures indicated comparative disadvantage for most of the years during the period under study.

Agriculture is very significant for the Indian economy. Exports of agro-products are making significant contribution in earning foreign exchange. Though India is facing a variety of problems in exporting its agro-products, yet it can increase its share in the world trade by adopting suitable measures to tackle them. Role of government in providing the necessary infrastructure to help exports of agro-products needs to be highlighted.

6.2 SUGGESTIONS

Indian agriculture has vast potential of exports, yet it has not been able to exploit it fully. The share of India in world export of agricultural products has remained more or less static at around 1.1 percent during the post reform period. Exports of agricultural products are currently facing a number of obstacles both on the domestic and international front, which is putting a limit on India's exports of agro-products. The following measures may be taken up to improve the performance of India's agro-exports and to increase its share in global market.

- Agricultural exports often face problems due to infrastructure constraints. Government should make large amount of investment on building up adequate infrastructure. The cold storage facilities are inadequate which leads to large amount of post-harvest losses and thus reduction in the volume of exports. There is an urgent need to build up more cold-storage chains.
Many products face problem of low productivity. Increase in productivity is must to gain fruitful results. A lot amount of research in the field of agriculture is needed to evolve techniques, which can lead to increase in productivity levels. More agricultural research institutes need to be established to do research in this direction.

Cost of production is very high in India. Because of this reason prices of many agro-products become high as compared to the prices of their competitors. India needs to become competitive in prices. India needs to use modern techniques of production to bring down the cost of production. For this purpose scientific techniques need to be encouraged.

The government to make the scientific approach to farming more popular and widespread should effectively use mass media. Information related with better and efficient techniques should be broadcast and telecast on radio and television respectively.

Most of the people engaged in agriculture are either illiterate or less educated. These farmers should be imparted education through Adult Education Centres so that they become capable of using new techniques. Educated youth should be encouraged to take up agriculture as a profession.

Most of the farmers are unaware about the harmful effects of pesticides and fertilizers. They often use them in greater or lesser amounts than the prescribed limit. This results in loss of the optimum production on the one hand and harmful effects on the environment on the other. These farmers should be taught about the optimum use of these chemical substances so that the desired results are obtained.
• Many of the agro-products of India face problems in the international market due to high level of pesticide residue. To tackle this problem Integrated Pest Management (IPM) schemes should be made widespread. IPM would help in making popular the use of safer pesticides including botanicals (*neem* based) and bio-pesticides. This will be able to derive dual benefits: protection of environment and increase of exports especially to those regions, which set higher environment related standards.

• There has been a decline in the share of investment in agriculture as percent of GDP from 1.92 percent in 1990-91 to 1.27 percent in 2002-03, which is a matter of great concern. This trend is observed due to stagnation or fall in public investment in agriculture. Public share of investment in agriculture has fallen down from 29.6 percent in 1990-91 to 23.9 percent in 2002-03. Government should take up necessary steps to bring about a reversal in this trend.

• Over the years the government has relied heavily upon subsidization to increase the production. This approach cannot lead to sustainable increase in agriculture production. Instead of using such short-term measures the government should do more investment in the field of agriculture research and irrigation (especially in those areas where the rainfall is inadequate) etc. Investment rather than subsidy is a better option, which can help in increasing production and productivity and thus can help in increasing exports.

• Demonstration farms should be built up at district level to teach farmers about better production techniques and about the type and variety of crop that is best suited to the climatic and soil
conditions in that area. This will help in increasing productivity as well as in decreasing the cost of production.

- Farmers should be encouraged to diversify their crop. So that financial losses due to a particular crop failure may be reduced as the production of other crop may provide income cushion to the farmers. This income safety will help in encouraging the farmer to produce that crop in future. This will help in reducing the risk of uncertainty of income.

- Research is required in the field of global market government should take up necessary market research to find the products that have high global demand and also the markets where remunerative prices may be obtained for them.

- Research should also be done to find out the variety and quality of the product that is more in demand.

- Today the global market is dominated more by demand factors rather than the supply factors, as there is a situation of global over supply in many products. Under this situation quality of the product may play a key role in deciding about the volume of exports. Thus India should take up steps to improve quality of its products to match the international standards. India needs to work harder in many areas to obtain quality competitiveness. Today the consumers are quality conscious, they do not mind paying a higher price if the product is of superior quality.

- India should make deliberate efforts to increase the oil meals output, as there is a growing demand for Indian oil meals in world market. Global market is flooded with oil meals of Genetically Modified (GM) oil seeds. India has a distinct
advantage as its oil meals are of non-GM nature. India should try to exploit this opportunity to the fullest by investing in oilseeds sector.

- Indian agro-exports are often reduced whenever there is a shortage in the domestic economy e.g. there was a fall both in the volume of rice exports and its share in agro-exports in 2003-04 in view of the decision of the government to ban fresh export of food grains from the FCI since August 2003, in the light of the declining stock of food grains (Economic Survey 2004-05). This trend is not favourable for exports as too much fluctuations in the supply of the products makes a country unreliable supplier and thus leads to a shift in preference to some other country. India should try to build up adequate stocks to meet global demand so that India may be treated as a reliable exporter.

- India should not rely upon only a few markets to sell its products. If there is some problem with one country or some ban is imposed due to which imports from India are reduced then there will not be much effect on its volume of exports as it may be directed to other destinations. Thus diversification of market can help in maintaining India’s share in international market. One such example is that of the ban imposed upon the exports of marine products from India by EU during August 1, 1997 to December 23, 1997. The exports to EU declined while to Japan increased significantly during this period.

- India needs to take steps to enforce standards of hygiene in the products to be exported.

- India should emphasize on the proper grading of the product so that better prices are fetched in the global market.
Fruits and vegetables are highly perishable products. Better transport facilities and cheaper airfreight is needed to deliver them on time. Airfreight charges should be made affordable so that more amounts of these products may be supplied even to far off destinations without a major loss in its value.

Today there is a situation of global glut in the coffee market. India has to face stiff competition from low-cost robusta producer like Vietnam. Research needs to be done to bring down the cost of production so that India is able to supply coffee at lower prices. Since Indian robusta is considered to be the best in the world therefore lowering its price will help in increasing the volume of exports to a large extent. Even if the prices are not much attractive right now, yet India should not let go of markets where it has a presence. If the markets are once lost it will be very difficult to win them back. More attention should be given on maintenance of quality consistency. Advertising of our best quality coffee should be done to enlarge the market. Market research needs to be done to find new markets. By giving a taste of our coffee new markets may be created.

India needs to focus on agro processing industry to add value to our agro-products. Processed products not only have the advantage of increased shelf life, but also of wider market. Government should invite and encourage FDI in this sector as agro-processing is capital intensive and it may not be possible to invest heavily by the domestic investors.

Since many farmers in India own very small pieces of land therefore cooperative farming should be encouraged so that economies of scale are derived. This will make use of modern
technology affordable and will bring down the cost of production.

- Sugar industry in India suffers from the problem of high cost of production. The techniques of products are old which leads to high cost and thus sugar become uncompetitive in prices. Breakthrough in technique of production, which is price efficient, is required. Scientists should focus on the evolution of such techniques.

- Government should take steps to encourage increase in flow of institutional credit to agriculture sector.

- There is a growing demand for flowers in the international market. India should encourage the export of flowers by building up infrastructure so that consignments are timely completed and better prices are fetched in the market. India should ensure that these are free from insects so that the export is not rejected.

- Animals should be vaccinated so that the diseases are controlled. Meat and meat preparations require strict hygiene standards observance before they can be exported. Government should take up steps to ensure that hygiene is maintained in slaughterhouses.

- Proper diet care of the livestock should be taken so that there is increase in production and productivity. This will also ensure better quality.

- Russia is the most important buyer of Indian tea. Russian buyers prefer the medium teas, as against the Japanese and Europeans who buy high grown leaf tea. Medium variety is produced in south India but it is of poor quality. India needs to improve the quality to increase its exports. Of these two varieties i.e. CTC
and orthodox tea, the latter is preferred over the former. Fall in export has also been due to low orthodox tea production in India. The government should provide support and incentives to the tea producers to shift from CTC to orthodox variety. Apart from this, India has to lower the prices of its product to keep a hold in the market especially when cheaper tea is available from Sri Lanka and other such markets.

- The prices of spices are falling in the international market if India wants to increase the value of exports then it must adopt stringent quality checks on its products before they are exported. Organic spices should be produced as they are in demand. India should promote knowledge about the 'neutraceutical' quality of spices (combining the properties of food and drugs). This will also help in increasing exports.

- India needs to join hands with like-minded nations to perceive the developed countries not to set sanitary and phytosanitary and technical barriers to trade at a higher level than that prescribed by WTO norms.

- India needs to jointly do efforts to convince the developed countries to provide greater market access to the products of developing nations.

- After signing of AoA, it was expected that prices of agricultural products would rise and would benefit developing countries in general and India in particular. The observed trend has been quite opposite of this phenomenon. This has been because the developed countries continued to provide high level of support to their farm products. The level of support in the base period was too high so even after making reduction commitments, a
substantial amount is left which allows the developed nations to produce higher levels. Therefore, fall in the output of developed nations did not take place, which led to glut in global market and thus slide in prices adversely affecting the producers like India. India should raise these issues in the next ministerial conference of WTO.