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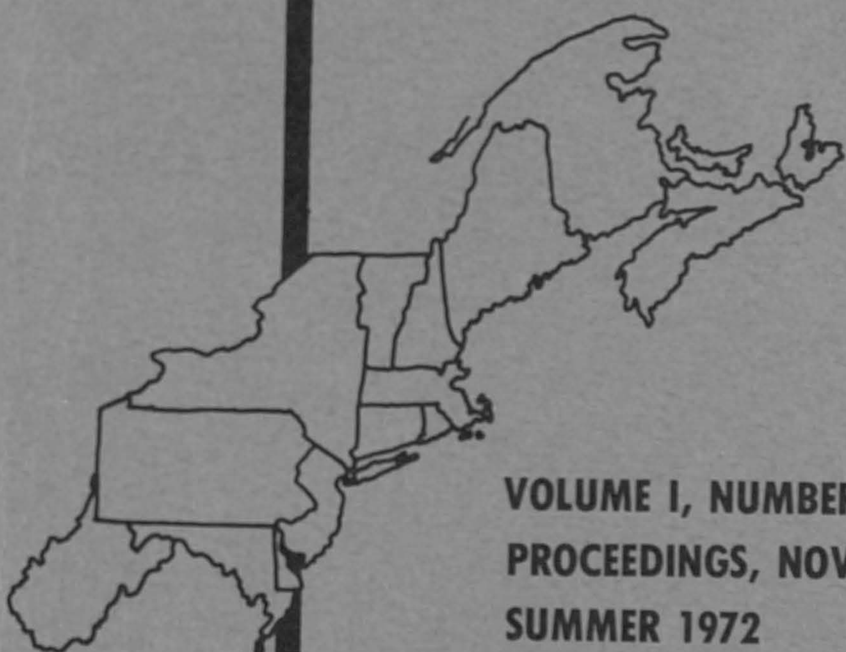

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PLANNING AGRICULTURAL EXPORTS IN A DEVELOPING COUNTRY: THE INDIAN CASE

by

Tridib K. Mukherjee
Assistant Professor
Department of Economics
Appalachian State University

John R. Moore
Professor
Department of Agriculture
and Resource Economics
University of Maryland

Objective - This paper reports findings of a study of how India has planned her agricultural exports, the problems she has encountered, and the lessons she has learned in the process of value to other developing countries.[1/] The problems and lessons are discussed in detail after a general overview of India's planning system and trade situation.

Introduction - India gained independence in 1947 and has since followed a socialistic economic policy. Such a policy has proven rather difficult, however, due to a lack of government finances and ownership of most means of production. To help make and implement her economic policies, the Indian government has established a planning commission. It is responsible for drawing up the country's five-year plans and seeing they are implemented by the government's various executive ministries. India is currently in her fourth five-year plan (1969-1974).

India has been running a sizeable deficit in her balance of payments since her independence. This is expected for a country in her stage of development, but, of course, does limit her imports and thus her rate of development. India has tried to improve her balance of payments through an increase in both her traditional agricultural exports and new industrial products. Agricultural production in India has gone up since 1968 by about 5 percent a year compared with 2.5 percent increase for her population. However, most of the increase in agricultural production in India has been import substituting

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1/ The authors obtained the data for the study from secondary sources and from personal interviews with Indian officials and university economists in Delhi, Bombay, and Calcutta. The study was financed in part by the Agricultural Development Council. The authors are grateful to Professor Dean A. Dudley for several helpful suggestions which improved their exposition.

rather than in export items. Her efforts to increase agricultural exports have generally failed, while her non-agricultural exports have been showing impressive gains. As a result, India's agricultural exports are a declining portion of her total exports.

The above facts are reflected in Table 1. Between 1960-61 and 1969-70, India's total exports increased from $1.4 billion to $1.9 billion, or 36 percent, while her agricultural exports for the two fiscal years were almost identical at slightly less than $1 billion. As a result, agriculture's share of India's total exports in this ten-year period dropped from 71 to 52 percent. This stagnation in India's agricultural exports is disconcerting to a government that desperately needs foreign exchange to achieve her planned goals. The objective of this paper is to explain, in part, why the planned increases in agricultural exports have not materialized and to point up the lessons from this experience for other developing countries. The problems encountered fall under the general headings of (1) lack of government control over production and export, (2) lack of central government control over state government plans and activities, (3) a rapidly expanding population, (4) unpredictable weather and foreign demand, and (5) lack of systematic framework of analysis. The lessons learned for other developing countries are classified into 11 categories.

I. Problems Encountered in Planning Agricultural Exports

The above parameters of constraints in planning agricultural exports in India are discussed below:

1. Lack of Government Control Over Production

Export production and export trade in India are largely in private hands, particularly agricultural production and agricultural export. The Indian Government is relatively powerless to push private firms into action; rather they must rely on coaxing them through various types of incentives. The government's inability to direct agricultural production and export materially weakens the role that planning can play.

2. Lack of Central Government Control over State Government Plans and Activities

India's constitution delegates control over agricultural production to the state governments. The states also control irrigation, some fertilizer plants, and the flow of agricultural commodities across their boundaries, thus preventing commodity movements that might be in the national interests. The Central Government must not only coax agricultural producers, processors and exporters, they must also somehow gain the cooperation of the state in plans and programs to increase agricultural production (including state expenditures for these purposes), to grow the products that are needed nationally instead of trying to be

Table 1

India's Principal Agricultural Exports, 1960-61 to 1969-70[2]

Commodity	1960-61	1967-68	1968-69	1969-70
	(Million U. S. Dollars)			
Jute Manufactures	284	312	291	275
Tea	295	240	209	166
Cotton Fabrics	121	87	94	93
Cotton Yarn & Mfrs.	18	17	18	18
Oil Cakes	30	61	66	55
Leather & Leather Mfrs.	52	71	97	109
Cashew Kernels	40	57	81	76
Tobacco	33	47	45	44
Coffee	15	24	24	26
Sugar	5	21	13	11
Pepper	18	17	13	22
Hides, Skins, Furs	20	10	7	11
Raw Cotton	18	20	15	20
Fish & Preparations	10	24	30	42
Vegetable Oils	26	10	21	12
Total Agr. Exports	985	1,018	1,024	980
Total All Exports	1,386	1,598	1,810	1,884
% Agr. of Total Exports	71.1	63.7	56.6	52.0

[2]Source: Government of India, Economic Survey, 1970-71 (New Delhi: Government of India Press, 1971), pp. 146-47.

self-sufficient and to permit the flow of agricultural products from surplus to deficit states. This lack of control over state government activities also hampers central planning and plan execution.

3. A Rapidly Expanding Population

India's population is developing at a rapid rate. This increase in population, coupled with increases in income, have resulted in domestic demand that consumes almost everything that is produced, leaving relatively little to export.

4. Unpredictable Weather and Foreign Demand

Planning exports under any domestic circumstances is difficult because of the unpredictable nature of foreign demand and the unpredictable nature of the weather. India's export projections are like outlook projections in many developed countries. Estimates are made of expected demand, and production projections are based on "normal" weather. Questions may arise, however, about the definition of "normal" weather.

5. Lack of Systematic Decision-Making Framework

India's planners do not use a systematic framework of analysis for determining the value of the general welfare of a marginal unit of agricultural production, either for domestic use or for export. Consequently, very crude priorities are used in planning the allocation of acreage, fertilizer, and subsidies to the various agricultural items. As a general rule, it was learned from interviewing different Indian officials that the priority system, to be used in the draft Fourth Plan, was that no more land was to be diverted from domestic agricultural production to export production and that the export crops were, along with the Intensive Agriculture District Program, to receive all the fertilizer requested by them. The remaining crops were to receive what fertilizer was left, but not less than in previous years.

Prior to the rupee devaluation in June, 1966, there were many promotion schemes and subsidies to increase agricultural exports. No systematic procedure could be found for determining how much to subsidize the various items except to use the amount needed to find a market for the various products. This could vary greatly by product and resulted in some cases of tremendous rupee costs per unit of foreign exchange earned. The only explicit priority for subsidizing exports obtained by interviews was a lone Planning Commission official's statement that no exports would be subsidized more than 25 percent. Though this was the type of priority the authors sought from interviews, it only seemed to be known by one person.

II. Recommendations

There is obviously no blueprint to a quick success for India's agricultural export problem. The problem is complex. The following recommendations are offered by the authors for accelerating agricultural exports of India. The recommendations are tentative and subject to error, but based on authors' best judgment at this time. The findings of the study made by the authors would suggest that the Indian Government:

(1) emphasize the importance of agriculture and agricultural exports,

(2) maximize the use of infrastructure already built in India to step up agricultural production and export,

(3) take greater advantage of the situations where India as an exporter is either in a monopolistic (as in cashew nuts) or in an oligopolistic (as in tea and jute manufactures) world market for agricultural commodities,

(4) work out a policy for transferring much more effective planning and operational control to the Central Government from the state governments over aggregate agricultural production and distrilention,

(5) bring tea, jute, and cotton under the operational jurisdiction of the Ministry of Food and Agriculture instead of keeping them under multiple jurisdiction of two or more ministries,

(6) bring agricultural export operations under the operational jurisdiction of the Ministry of Food and Agriculture from the Ministry of Commerce where agriculture production and export are not coordinated, under the present set-up,

(7) use a two-price system for some of her agricultural exports,

(8) discontinue the practice of imposition of export levies on several agricultural exports as was done following the 1966 rupee devaluation,

(9) take more vigorous export promotional measures,

(10) operate the State Trade Corporation, a government agency, on a less beaurocratic and more businesslike manner,

(11) research the investment problem in the tea industry,

(12) bring different measuring and accounting units and terms under a uniform standardized system,

(13) estimate external or foreign demand elasticities for commodities like jute manufactures, lac and cashew nuts where India has a near monopoly in the world market, in order to realize or approximate maximum foreign exchange from their exports.

III. Lessons for Other Developing Countries

No two countries have identical problems and prospects. It would be a mistake to assume that India's experience represents that of every developing country. Any lesson from India's agricultural export planning experience has to be modified and localized before using it to help plan agricultural exports for other developing nations. It would be well worth the effort, however, to try to learn certain lessons from India's experience as described in this study. The lessons suggested here are subject to error, but based on the authors' best analysis and judgment at this time.

(1) Planning agricultural exports is extremely difficult when production and marketing are largely in private hands and when the weather and foreign demand are unpredictable. In such a case, no government can exercise too much control over agricultural exports because control of the relevant variables is out of their hands.

(2) Someone at a high level in the government must determine the value of foreign exchange to the country's growth and then specify the amount by which the government is willing to subsidize exports in order to obtain the needed foreign exchange.

(3) There is a need to coordinate various agencies involving agriculture, perhaps by putting them in the same ministry; otherwise, production and export programs might conflict.

(4) It appears that the central government is going to have to take control of the movement of agricultural products in a country if agricultural exports are to be maximized. Individual states within a country cannot be allowed to interfere a great deal with the movement of agricultural products if maximization is to occur.

(5) A devaluation of a developing country's currency should be carefully planned and changes in regulations made definite and clear so as not to cause confusion and uncertainty and thus discourage exporters from handling various export items in the months surrounding the devaluation. The

devaluating government should have clear in her mind what she is going to do about export subsidies and export taxes.

(6) It appears that the returns from export quality control are very high (for example, tea and sugar exports of India) and are well worth the effort.

(7) Though the direct evidence is not completely clear, it would appear that export promotional boards and council and trade missions, if not too extravagant, are important and worth the time and money spent.

(8) Since national planning tends to be a political document by its nature in a democratic developing country, the planners must be careful not to overestimate the plan targets and not to provide inflated expectations. This care is also necessary in estimating expected agricultural production of the country. Repeated failures to reach development promises or to fulfill production and export targets only frustrate the citizenry and cost confidence in the plans and their planners.

(9) A developing country is an export-hungry country in great need of foreign exchange to purchase the capital goods and material necessary for economic development. Agriculturally based exports have traditionally been her main source of foreign exchange earnings and most developing nations must continue to rely heavily on them for the bulk of their foreign exchange earnings for some time to come.

(10) In various international negotiations, the developing countries may have to ask for unilateral trade concessions from the developed countries. While on the one hand the developing countries have to radically increase their exports, they cannot permit any more than what John P. Lewis calls in his book, <u>Quiet Crisis in India</u>, a "programmed expansion in their imports." Actually what the poor countries are asking for is the rich countries to accept a double standard. Sometimes a rich country like the United States herself may have a balance of payments problem. In this case, any unilateral tariff reduction on her part would make her balance of payments situation even worse. However, as John Lewis suggests that it should be recognized that the balance of payments problem encountered by a developing country normally is much more extreme than those of the developed ones that they deserve a distinctly more liberal treatment from the rich countries whose grants cannot be equally reciprocated. Moreover, it should be mentioned that the level of economic activity, national income, and per capita income are so very high in the developed nations than in the less developed ones that the desired trade adjustments will require a very small quantitative impact on the former in order to bring about the desired effect on the latter.[4]

(11) Economic development is a slow, painful process. A developing country has to be on guard not to be carried away by the popular appeal of industrialization. Rapid industrialization programs frequently would mean a disproportionate neglect of agriculture in a developing nation. Insufficient progress in agriculture will give rise to higher agricultural prices. High agricultural prices will discourage a country's agricultural exports on one hand and trigger discontent among the industrial labor force on the other hand. Cost of neglecting agriculture in a developing country could be very high.

IV. Summary and Conclusions

India is a developing country in great need of foreign exchange to purchase the capital goods and materials necessary for her economic development. Agriculturally based exports have traditionally been India's main source of foreign exchange, and India must continue to rely heavily on them for the bulk of her foreign exchange earnings for some time to come.

Agricultural production in India has gone up since 1968 by about 5 percent a year, compared with about 2.5 percent increase for her population. However, most of the increase in agricultural production in India has been import substituting rather than in export items. Her efforts to increase agricultural exports have generally failed in recent years, while increase in her non-agricultural exports have been impressive. As a result, the rise in her agricultural export earnings compares unfavorably with the rise in total export earnings.

This paper has attempted to analyze why the planned increase in India's agricultural exports have not materialized, make some recommendations for accelerating her agricultural exports and point up lessons from Indian experience for other developing countries. Although this study by no means has addressed itself to all the problems of a developing country in relation to her agriculture export, it does contain some new analysis, suggestions and lessons that India or other developing countries might want to consider.

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