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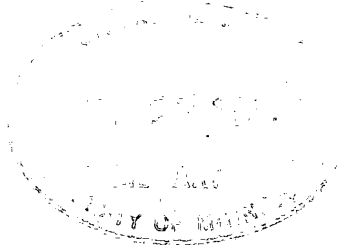
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# **Some studies in Indian Agricultural Economics**

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## INDIA'S EXPORTS OF AGRICULTURAL PRODUCTS

*A note on her trade with the United Kingdom*

THE importance to India of her export trade has never been greater. An increase in the value of her exports is essential to meet the costs (or at least a good proportion of the costs) of rising imports of food, raw materials and machinery. On this depend both India's political future and her capacity to promote a satisfactory rate of growth after the disturbances caused to her economy by the war with Pakistan.

At present the bulk of these exports is agricultural. Before Independence capital investment was largely centred on plantation industries established as a result of British initiative in the eighteenth and nineteenth centuries, part of a profitable two-way system whereby British machinery was exchanged for tea, tobacco, jute, cotton and so on. In the latter part of the last century the United Kingdom still bought some 90 per cent. of India's exports.

During the nearly twenty years since Independence, India has made great efforts to diversify both the pattern of her trade and its 'mix'. Her trade is now world-wide and she has developed an efficient network of commercial counsellors to supplement the efforts of private traders. Successes have occasionally, but only occasionally, been scored in non-conventional items. Some people look to a wide range of industrial exports as the main hope for an improvement in India's balance of payments. Nevertheless, agricultural products, and semi-finished goods only one stage away from them (such as jute piece-goods and textile yarns), still make up the bulk of her trade; and the United Kingdom, taking nearly a quarter of her exports, is still her most important customer.

The main items which make up India's exports to the United Kingdom are shown in Table I, which provides a comparison between the results of 1965 and those of the previous year.

During this period total exports to the United Kingdom fell by over 9 per cent. This was disturbing, particularly as it occurred at a time when world trade was buoyant, and when total imports into the

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U.K. rose nearly 10 per cent. The trend would have been worse if there had not been a considerable recovery in exports of animal feeding stuffs. This note will provide a brief analysis of the current position and the prospects for some of the main items composing this trade. But first the significance of Indo-U.K. trade must be put in perspective so far as the U.K. is concerned. Imports from India amount to only a little over 2 per cent of total U.K. trade, and exports to India to only about  $2\frac{1}{2}$  per cent. The U.K. has a small balance on this trade. The U.K. therefore is very much more important to India as a trade customer than India is to the U.K.

TABLE 1. *Main United Kingdom imports from India (c.i.f.)*

	<i>£thousand</i>	
	1965	1964
Tea . . . . .	51,574	57,932
Textile yarns . . . . .	21,573	29,067
Animal feeding stuffs . . . . .	15,103	12,322
Tobacco . . . . .	8,584	7,787
Leather . . . . .	8,969	9,832
Others . . . . .	22,603	24,404
Total . . . . .	128,406	141,344

### Tea

A previous issue of this Journal<sup>1</sup> has contained an analysis of the prospects for India's trade in tea. Fortunately consumption in the U.K. over the past few years has been a little better than one might have expected. Table 2 gives the most recent figures for imports from India and from her leading competitors. Total U.K. imports for 1965 rose in quantity by over 4 per cent., but fell slightly in value. A disturbing feature from India's point of view is that she has done considerably worse than her main competitor, Ceylon. The value of imports of Indian tea fell by nearly 4 per cent. while imports from Ceylon were worth 6 per cent. more.

TABLE 2. *U.K. imports of tea 1965 and 1964*

	<i>Quantity (thousand lb.)</i>		<i>c.i.f. value (£thousand)</i>	
	1965	1964	1965	1964
Total U.K. imports . . . . .	559,476	535,639	107,671	108,989
From India . . . . .	252,486	246,833	51,574	57,932
Ceylon . . . . .	175,942	166,424	35,816	35,029
Kenya . . . . .	25,996	26,819	4,573	4,500

<sup>1</sup> Volume IV, No. 4.

Consumption of tea *per capita* in the U.K. must have reached saturation point. There is no reason to expect any significant increase in the future. India's objectives should be three-fold. First to assist promotion of tea as a drink in the U.K. in order to avoid a reduction in consumption *per capita*. This she is now doing, in conjunction with Ceylon and the tea trade. An extensive sales campaign is under way under the slogan 'Join the Tea Set'. Secondly India must aim at least to maintain her share of the U.K. market and if possible to get back rather closer to the position that she enjoyed before the war, in relation to Ceylon, whose exports have increased far more than her own. And thirdly she should aim to get a better price per lb. for her export teas. There are two aspects to the last objective. In the first place, as a safeguard against the very real possibility that a relatively slight over-supply would lead to a drastic fall in prices she should take the initiative to promote a new International Tea Agreement which could be brought into action at short notice. And secondly every encouragement should be given to the industry to strengthen its selling position. Under normal circumstances the Indian tea industry is able to exert very little influence over its selling prices. In the U.K. and most other high-income countries tea prices could be raised without any significant effect on consumption. In the past both the main supplying countries have tried to raise their export prices through taxation. The industry has argued, fairly convincingly, that tea producers rather than foreign tea consumers have in fact been paying these taxes; and that the reduction in profit margins caused by this taxation has made it more difficult for producers to carry out capital improvements and to extend their planted acreage. This is a large subject, and outside the scope of this note. But at least any opportunity to exert greater control over selling prices should be welcomed by the tea industry and the Indian Government.

### *Textile yarns*

Strictly speaking these should not be included in a study of agricultural commodities. The reason for doing so is that the conversion processes which separate inexpensive cotton piece goods and jute fabrics from cotton and raw jute are so simple that the distinction between them and the agricultural product is fairly insignificant.

In concentrating on, for instance, jute manufactures and banning the export of raw jute, India is doing what any economist would recommend her to do. Unfortunately in the case of the U.K. this has

brought her up against the problem of an industry which is not only very highly competitive and in some respects declining, but is also able to exert a surprising amount of political influence. U.K. imports of both jute and cotton goods are controlled by quota (in the case of jute the Controller also marks up prices to protect domestic mills), and beyond sympathizing with India's predicament and urging a liberal outlook on the U.K. authorities there is very little that can be suggested.

As it is, Indian exports of textile yarns, fabrics etc. to the U.K. fell during the first seven months of 1965 by nearly one-third. Textile ~~fibres and waste were also very considerably~~ down, but their importance is not so great. At a recent (December 1965) meeting of the Geneva conference on GATT long-term arrangements for international trade in cotton textiles, Britain was severely criticised by representatives of underdeveloped countries exporting cotton textiles. But her trade policy was defended by the Secretary-General of GATT who described Britain as 'outstanding' among the major importing countries in terms of the proportion of domestic consumption supplied by imports from underdeveloped countries. Over the last decade a large increase in imports has been accompanied by a reduction in domestic production of about 40 per cent. and of exports of about 60 per cent. The British quota arrangements for cotton textiles will be further discussed in Geneva during 1966.

### *Animal feeding stuffs*

For commodities in this classification the roles are reversed. Here the U.K. is an open market but supplies to it are restricted by the Indian Government. The trade consists of a number of different types of de-oiled cakes, extractions of groundnuts, linseeds, copra and cottonseed; of these, groundnut extractions have been much the most important so far as Indo-U.K. trade is concerned. India entered the trade effectively from 1957 and during the following years built up a very considerable business.

During this period the business in groundnut extractions was worth up to £12 million a year—a valuable piece of trade. The sudden fall in 1964, which evidently caused some consternation among U.K. dealers, was produced not by lack of total supplies but rather by a switching to other purchasing countries. In particular Indian exports of groundnut extractions in 1964 increased very significantly to Poland, East Germany, Bulgaria and Czechoslovakia. These ex-

ports constituted the Indian side of barter deals with countries of the East European bloc. Shipments to France and Germany were also reduced but it was the U.K. that principally suffered. On the face of it this seemed rather regrettable, as the business was originally opened up for the U.K. market, which in 1961 was taking practically all that India exported. There was some recovery in this trade last year but the volume is still no higher than in 1961. The U.K. market for animal feeding stuffs will undoubtedly continue to be extremely important. Having built up a strong position in it India would be unwise to risk forfeiting it to her competitors such as Canada, Burma and Argentina.

TABLE 3. *U.K. imports of oilcakes and meal from India, 1958-65*

	<i>Value £ m.</i>	<i>Total quantity (millions of tons)</i>	<i>Of which ground- nut extractions (millions of tons)</i>
1958	6.08	0.21	0.20
1959	11.69	0.35	0.32
1960	10.20	0.32	0.29
1961	10.92	0.38	0.34
1962	13.49	0.42	0.39
1963	13.86	0.40	0.34
1964	11.52	0.33	0.25
1965	13.85	0.38	n.a.

n.a. = not available

In this case the answer clearly lies in efforts to expand domestic supplies. The exportable surplus of groundnut cake, the production of which already contributes more than half the total estimated production of oilseed cakes in India, must be increased as quickly as possible.

TABLE 4. *Estimated production of oilseed cakes in India. Thousand tons*

	1955/6	1956/7	1957/8	1958/9	1959/60	1960/1	1961/2	1962/3	1963/4
Groundnut cake .	1,202	1,432	1,518	1,646	1,488	1,499	1,587	1,641	1,812
Sesame cake .	213	296	165	238	183	150	176	211	192
Rape seed and mustard cake .	506	624	559	623	630	839	827	799	546
Linseed cake .	244	226	140	265	251	232	271	256	225
Copra cake .	51	67	64	103	103	53	60*	60*	60*
Cottonseed cake .	51	55	66	70	75	80	80*	80*	80*
Total .	2,357	2,610	2,512	2,945	2,730	2,853	3,001*	3,047*	2,915*

\* Approximate only.

The table illustrates the poor supply response in groundnut cake following the considerable increase in export demand from about 1956-7. According to trade sources further business could also be done in other oilseed cakes and especially linseed cake, the production

of which has been very static over the period covered by the table. A more vigorous planned export programme for oilseed cakes would include schemes to increase extraction and pelleting plants and the provision of proper modern handling facilities for this trade at Indian ports. At present Indian oilcake is shipped packed in sacks. This is an expensive procedure but bulk handling facilities are not available. Finally there are a large number of independent mills in this business in India (well over a hundred), some of which are handling no more than about 50 tons a day. The industry might well be able by means of rationalization to lower its costs. But in the short run the main objective should be to boost production so that a larger exportable surplus is available.

### *Tobacco*

The limitations on India's exports of tobacco are of two kinds. First the type she can most readily produce is not very high quality and is ordinarily used as fillings in Virginian brand cigarettes. Secondly the business was opened up mainly at the initiative of the British Imperial Tobacco Company, whose world-wide interests may provide little inducement for it to encourage the production of other and better types of Indian leaf which could disturb the existing pattern of world trade. On the other hand Indian exports have recently been fairly buoyant. Table 5 shows that in the period in question the value of exports to the U.K. rose a little while the total value of U.K. imports fell off. Indian trade may increase still further as a result of the disturbed political situation in Rhodesia. Nevertheless it would be wrong to be very optimistic about prospects here. The 1965 U.K. budget, which further increased taxation on tobacco, may dampen down demand. Besides, the great rise in the popularity of filter tips would be to the disadvantage of India as a smaller proportion of fillings is required for this type of cigarette.

TABLE 5. *U.K. imports of tobacco and manufactures, 1964 and 1965*

	<i>Quantity (thousand lb.)</i>		<i>c.i.f. value (£thousand)</i>	
	<i>1965</i>	<i>1964</i>	<i>1965</i>	<i>1964</i>
Total U.K. imports .	289,094	314,796	84,561	91,102
From India .	36,188	35,323	8,584	7,787
Rhodesia* .	109,605	104,832	24,647	23,850
Canada .	36,595	40,078	10,184	10,369
U.S.A. .	91,566	123,705	34,634	41,789

\* Malawi, Zambia and Rhodesia.



*Leather and leather manufactures*

The last item shown on Table 1 is leather. This is an important traditional export to the U.K. and calls for only a brief comment. Trade declined during the first half of 1965 (by as much as 17 per cent.) and for the whole year by 10 per cent. This quite unusual movement was due to a fall in total U.K. imports of about 10 per cent. which in turn was largely brought about by the imposition of the 15 per cent. import surcharge. India retained her share of total U.K. imports—about a third. It would be surprising if her trade did not return within a year or so at least to the level she had before the surcharge was imposed.

*Others*

The only agricultural products of importance among the 'other exports' of Table 1 are edible nuts, chiefly cashews and walnuts, the annual trade in which amounting to about £2 million a year shows no sign of increasing. These together with the more significant agricultural products already mentioned make up about 83 per cent. of Indian exports to her largest single customer, the balance being a wide range of goods, some of which are agricultural. It is worth mentioning raw sugar and molasses, governed by the Commonwealth Sugar Agreement, coffee, the export of which is largely limited by strong home demand, and wool (also the subject of agreement) and various types of wool and cotton wastes. After allowing for these and such products as essential oils, the export of some of which is now banned, and bristles, one finds that the value of the remainder, mostly industrial goods, is very small indeed.

*Summary*

This brief study confirms the overwhelming importance of agricultural products in India's trade with her largest and oldest trade partner. Unfortunately, for none of the items in this list is the outlook particularly bright. For some, such as tea, the future will largely consist of a holding operation. For others, such as cotton textiles and jute goods, prospects depend on negotiations at government level. For the very few, such as animal feeding-stuffs, for which one can be optimistic, competition from domestic demand and lack of production or handling facilities are important limitations. Some expansion in export earnings from the U.K. might be expected from a handful of

products which are at present of very minor importance. For instance it is surprising that more Indian oranges, which are of very good quality, cannot be sold in Europe. With adequate freezing facilities the outlets for frozen orange and other juices could be developed, and so could trade in shrimps and prawns. But unfortunately one cannot depend on items such as these to add very much of value in the short term and thus brighten significantly the prospects for Indo-U.K. trade.

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