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THE STRATEGY OF AGRICULTURAL EXPORT IN INDIA'S ECONOMIC DEVELOPMENT

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The broad objectives of this paper are : (*a*) to reflect the nature of relationships between agricultural export and India's planned development, (*b*) to identify the trend in India's agricultural exports in relation to the world commodity markets, and (*c*) to suggest the areas of study in order to work as a guideline for steps to be taken to promote the future export markets.

In order to get out of economic transition, the general technical requirement is to apply quick yielding changes in productivity to the most accessible and naturally productive resources. In other words, agriculture needs some degree of modernization. Modernization takes a lot of working capital; and a good part of this working capital must come from rapid increases in agricultural supply achieved by higher productivity in agriculture and the extractive industries. It is in the context of obtaining large volume of capital supply that the role of agricultural export becomes strategic in the process of economic development. In the transitional period, industry is not likely to have established a sufficiently large and productive base to earn enough foreign exchange to meet the increments in country's capital goods. The rate of increase in output in agriculture may set the limit within which the transition to modernization proceeds.[1] The access to foreign exchange leads to build in modernization on items of capital for agriculture, *e.g.*, farm machinery, fertilizers, advanced implements, irrigation techniques, etc. In short, a tempo of rising real incomes in agricultural sector, rooted in increased productivity, is a stimulus to new modern industrial sectors essential to the pace of sustained economic development. Rising productivity in agriculture pushes up the level and direction of exports which, in turn, gives a conspicuous momentum to the economy and helps it on its way to industrialization and opens new opportunities of specialisation and development.[2] In a predominantly agricultural country, rapid growth of population unaccompanied by proportionate growth in demand for its agricultural products will, under free market conditions, bring spontaneously into action forces tending to industrialize the country, by making agricultural products relatively less remunerative. The examples of Soviet Union, Canada and the U.S.A. in this connection are very relevant. Their take-offs have had a high component of foreign capital and payments were made through agricultural exports. As a matter of fact, export trade proved an instrumental force in the resource plough back process of economic development.

In the process of India's planned development, it seems crystal clear that export trade has not vehemently supplemented in the plough back process and this could be attributed to the slow process of modernization in agriculture. Lack

1. W. W. Rostow : The Stages of Economic Growth, Cambridge University Press, 1960, pp. 21-23.
2. A. K. Cairncross, "International Trade and Economic Development," *Economica*, August, 1961, p. 235.

of modernization has been due to scarcity of capital goods. Foreign exchange needed for importing essential capital goods is estimated to be the scarcest amongst India's required resources for development planning.[3] Here lies the significant strategy for agricultural exports in development process. Increased exports seems to be the main channel for procuring foreign capital goods which could make possible an increase in production several times as great in value and, by raising income, raise savings and investment and thus the rate of economic development. The gains from export trade is not the question of appraising the single round of production, export and import, rather it is the chain process of development which sometimes our planners forget to identify. It involves the improvement in the allocation of resources, conversion into superior products through trade specialisation, creating more income and ploughing back the income into further productive investment in the process of development.

We may now briefly analyse the contribution of exports to economic development. During the period 1948-49 to 1960-61, while net national income (at current prices) increased by 64 per cent, or on an average, by 5.3 per cent per annum, exports increased only by 37 per cent over the period or by 3 per cent per annum, on an average. Thus the rate of growth of exports has been out of line with the rate of increase of national income. In order to keep up the pace of development, it is estimated that Indian exports would have to rise by 8 per cent per annum compared with an average increase of 5.3 per cent in the national income.[4] Analysing the trend in exports and imports, it is revealed that in 1948-49, the percentage share of exports and of imports to national income stood at 6 and 8.8 respectively. The share of exports increased to 7.7 per cent of the national income at the beginning of the First Plan but it gradually declined to 7 per cent in 1955-56 and to 5.1 per cent in 1960-61. Though the share of imports to national income was larger than that of exports in value terms, there were erratic fluctuations in imports during the two Plan periods. It increased to 9.4 per cent in 1951-52 but declined to 7.7 per cent in 1955-56 and 1960-61 with a sharp increase of 9.4 and 10.2 per cent during 1956-57 and 1957-58.[5] The gap between exports and imports has been widening and to bridge the gap, there is paramount need for increasing exports, so strategic from the view-point of industrial development. The declining rate of export earnings can be attributed to the increasing consumption demand for rapidly growing population, high raw material demand for domestic industries and high income demand generated through industrialization and urbanization. If the pattern of consumption is unchecked, its rate of increase may catch up with the rate of increase in national income by changes in the structure of internal production through shifts from production of goods of low income elasticity of demand to production of goods of high income elasticity of demand with consequent pressure on internal price level and our terms of trade with the outside world.[6]

The main difficulty with India has been that it has not oriented its export policy to specialisation and comparative advantages. In addition, its major

3. Sir D. MacDougall, "India's Balance of Payments," *Economic Weekly*, Annual Number, July, 1962, p. 1193.
4. Estimates of National Income, 1948-49 to 1960-61, Central Statistical Organisation, Government of India, New Delhi, February 1962, pp. 1-7.
5. *Ibid.*
6. K. S. Rao, "Operational Dimensions of India's Agricultural Exports," *Agricultural Situation in India*, January, 1962, p. 989.

agricultural exports lie in few selected commodities for which there are either low income and low price elasticity or lots of competitive markets and product substitutes. The major export commodities for India are shown in Table I.

TABLE I—ESTIMATES ON INDIA'S AGRICULTURAL EXPORTS

(Rs. in crores)

Commodities	1950-51	1955-56	1958-59	Annual percentage changes from 1950-51 to 1958-59
I. *Food, Drink and Tobacco*				
1. Tea	81.82	134.97	126.05	+ 6.8
2. Fruits and Vegetables	3.16	14.02	19.83	+65.9
3. Tobacco (unmanufactured)	12.51	12.76	14.27	+ 1.8
4. Spices	22.34	10.64	10.75	— 6.5
5. Grain, Flour and Pulses	0.01	—	0.02	+12.5
Total	119.84	172.39	170.92	+ 5.3
II. *Agricultural Raw Materials*				
1. Gums, Resin and Lac	11.52	8.19	31.34	+21.5
2. Cotton (raw)	19.23	27.75	16.56	— 1.7
3. Vegetable Oil	2.93	28.65	9.89	+29.7
4. Wool (raw)	5.49	6.11	9.87	+10.0
5. Hides and Skins (raw)	7.76	7.08	9.61	+ 3.0
6. Seeds	11.06	3.15	2.56	— 9.6
7. Jute (raw)	5.27	—	1.88	— 8.0
Total	63.26	80.93	81.71	+ 3.6
III. *Manufactured Agricultural Commodities*				
1. Jute Yarns and Manufactures	164.20	122.77	103.38	— 4.6
2. Cotton Yarns and Manufactures	86.70	69.31	57.38	— 4.2
3. Hides and Skins (tanned)	21.89	21.63	24.12	+ 1.3
4. Coir, Yarn and Fabrics	5.77	—	7.54	+ 3.8
5. Wool Yarn and Manufactures	5.03	2.86	—	—
Total	283.59	216.57	192.42	— 4.0
Total Agricultural Exports	466.69	469.89	445.05	— 0.6

Source : Annual Statements of Foreign Trade of India.

Table I reveals the trend in India's agricultural export performances during the last decade. Since tea, jute, cotton, spices and vegetable oils are the major export commodities, it seems that their scores in terms of exports have been almost static. Only tea registered some increase during the last decade while there has been a decrease in all other major export commodities. Comparing India's share in world trade, the overall performance does not appear to be bright. Tea and pepper are the only two products which took substantial share of the total world market. The other products showed a decreasing trend (Table II).

TABLE II—INDIA'S SHARE OF AGRICULTURAL EXPORT IN WORLD COMMODITY TRADE BY MAJOR EXPORT COMMODITIES

(in thousand metric tons)

Commodities	1948-52	1954	1956	1958	1961
1. *Sugar**					
(*a*) India	30.2	†	—	42.1	325.2
(*b*) World Trade	11,191	12,961	13,893	14,645	18,065
(*c*) India's percentage share	0.27	—	—	0.29	1.80
2. *Coffee*					
(*a*) India	1.8	10.3	7.5	14.9	31.1
(*b*) World Trade	1,942	1,797	2,341	2,221	2,704
(*c*) India's percentage share	0.09	0.57	0.32	0.67	1.11
3. *Tea*					
(*a*) India	193.1	204.1	237.7	229.7	207.2
(*b*) World Trade	408	524	532	537	537
(*c*) India's percentage share	47.32	38.95	44.68	42.77	38.59
4. *Pepper*					
(*a*) India	13,637	15,653	12,393	14,359	17,469
(*b*) World Trade	61,300	115,200	129,000	105,461	113,181
(*c*) India's percentage share	22.24	13.59	9.60	13.61	15.43
5. *Cotton (raw)*					
(*a*) India	53.0	27.1	71.3	72.8	53.7
(*b*) World Trade	2,406	2,811	2,971	2,654	3,246
(*c*) India's percentage share	2.20	0.97	2.06	2.74	1.65
6. *Linseed Oil*					
(*a*) India	15,626	2,996	46,425	—	—
(*b*) World Trade	221,800	520,800	230,600	—	—
(*c*) India's percentage share	0.70	0.05	2.02	—	—

Source : F. A. O. : *Trade Year Book*, 1957 through 1962.
* Raw equivalent to refined sugar.
† Not available.

Looking at the level of sugar production in the country, it seems sugar could have taken the relatively visible share of world trade, but it did not in spite of determined governmental efforts. Sugar has a high income elasticity of demand. The world sugar market has two highly differentiated components[7]: (*a*) the relatively steady preferential market accounting for about two-thirds of international trade in sugar ; the market is concentrated around U.S.A. and its allies (Puerto Rico, Philippines, etc.); (*b*) the residual free market—the market of the British Commonwealth under the arrangement of long-term bulk purchase contracts. In trade relations with preferential market countries, Indian sugar did not compete with other exporting countries in this area because Indian sugar price has been comparatively higher. Sugar from other allied countries have been given preferential treatment and hence, there is cut-throat competition.

7. B. Datta : Economic Development and Exports, World Press, Calcutta, 1962, pp. 189-95.

In addition to external factors, sugar export in India has suffered due to internal factors too. The large increase in domestic demand has maintained a high and rising level of prices and in this situation the private producers' incentive to export has been low.

As regards coffee, India exports a small quantity. In recent years, her share in the world market is estimated to be not more than 2 per cent. The prospect is, of course, there for increasing world consumption and if planned wisely, India could encroach further in the world share. The main visible prospects for increase seem to be in U. S. A. and Eastern Europe where per capita rise in income will tend to shift the consumers' preference for coffee.

World export in tea is estimated to be about 408 thousand metric tons during 1948-52 in which India's share was 193 thousand metric tons, that is, roughly more than 47 per cent. Table II suggests that since then, India's share has declined to about 38 per cent in 1961 in spite of the fact that there has been increase in the volume of world export. From 1948 onwards, the cost of tea production has increased and this tended to weaken India's competitive position in the world market as the increased production could not be successfully sold. In addition, the internal market, which is growing so rapidly, is absorbing an increasing share of total production. As it is evident, high income countries of Europe, North America, and Oceania account for over 70 per cent of world imports of tea. In the U. K., which is a major market for Indian tea, price control and rationing affected demand for tea. In the U.S. market, demand decreased due to levy of sales tax, deterioration in quality and loss of competitive advantage due to the incoming of few active exporting countries in the world market. Ceylon, Indonesia, Japan, China and few East African countries outbidded the score of Indian tea export during the last decade. Tea is a very labour intensive industry and the advantages to these countries are that they could procure labour at a very low wage rate and thus, could reduce the unit cost of production and sell at low prices in the world market. Though in 1959 the average price of Indian tea was lower than that of Ceylon by 11 cents, in 1960 and 1961 it was 30 and 24 cents higher respectively.[8] Countrywise statistics show that except Australia, the unit value has been higher for Indian tea for every other importing country during the last decade or so. Its implication could be directly observed through the rate of U. K.'s tea import from India and other exporting countries.

TABLE III—PROPORTIONAL DISTRIBUTION OF TEA IN THE TOTAL IMPORTS OF TEA IN U.K.

Year	East Africa	Ceylon	India
1948	2.97	24.96	65.59
1949	2.72	25.04	67.18
1950	2.82	25.45	64.87
1951	3.90	23.74	59.49
1952	5.49	23.61	61.26
1953	4.38	23.56	63.98
1954	5.09	24.77	59.30
1955	7.75	24.43	56.76
1956	9.19	24.49	58.53
1957	8.56	23.52	58.63
1958	8.16	27.36	55.37

Source : International Tea Committee : *Bulletin of Statistics.*

8. See Tea Statistics, 1961.

Table III suggests that India has lost its relative ground in the U. K. market, whereas Ceylon and East Africa have been more active and this could be very well attributed to India's increasing cost of tea production. India could now compete in the world market only under conditions of increased efficiency which would tend to reduce the cost of production and allow sale at lower prices.

World trade in pepper does indicate that India has an enlarged export market. During recent years its share has relatively increased in the volume of world trade. If export drive is initiated carefully, India's pepper export along with other varieties of spices could be further enhanced, particularly in U. S. and few East European countries.

With regard to cotton, India is now considered to be the marginal exporting country. Although there has been increase in the volume of production, rapidly growing population and increase in the level of per capita income have led to a reduction in the export of cotton and cotton textiles. The cotton textile industry, as a matter of fact, is facing difficult problems arising from increased costs of production and changes in the pattern of consumers' preferences both inside and outside the country. These factors have led to a shrinkage in the export earnings of cotton goods from Rs. 138 crores in 1950-51 to Rs. 52 crores in 1958-59.[9]

The post-war trade policy has started with few remarkable features. Every country now intends to be self-sufficient in order to conserve the foreign exchange for meeting development needs. This resulted into formulation of measures with a view to either imposing import restrictions or establishing their own indigenous industries. These factors affected India's export trade in cotton and jute textiles very much. Indian cotton fabrics were very popular among the African countries but recently Chinese exports affected our share to a large extent. In comparative terms, the volume of world trade in cotton textiles in 1961 fell by 6.31 per cent, while Indian textile exports fell in the same year by approximately 17 per cent. In spite of the vigorous attempts made by the Government of India since 1962, export of cotton textiles tended to decline. The main factor attributable to this nature of trend could be the rise in the costs of production—increase in prices of cotton, labour costs and working capital. Similar declining trend is observed in jute export. The value of exports of jute manufactures has declined from Rs. 113 crores in 1950-51 to Rs. 102 crores in 1958-59.[10] There is stiff competition from Pakistan, which has affected the quantum of export of jute manufactures from India to a great extent. Middle Eastern countries till recently were our main customers. But the foreign exchange problem in these countries which are in the process of industrialization has encouraged them to set up their domestic jute manufacturing industries.

India used to have had some place in world trade of vegetable oils but during the recent decade she has started losing her ground. With reference to groundnut oils, the EEC countries have imposed heavy tariff restrictions and discriminated our products in favour of imports from the African countries. India's exports for some of these commodities depend upon the trade and tariff policies adopted by the EEC countries because they are our potential customers. India will have

9. B. Datta : *Op. cit.*, p. 60.
10. *Ibid.*

to very strongly compete with several African countries in the case of few traditional trade commodities.

The trend in the last decade of export trade in India leaves a very gloomy picture for appraisal that export sector could be the potential source of earning the foreign exchange required for India's rapid process of economic development. This could be attributed to the lack of long-run vigilance on the part of our national planners. In order to derive the maximum advantages out of the foreign trade, there is searching need to understand the phenomena occurring inside the country, such as, the rate of population growth, rise in per capita disposable income, the direction of changes in consumers' preference and tastes, the nature of competition between internal and external demand for various types of strategic products, the impact of technology on the level of production in relation to market demand, the nature of change in the quality of the product, etc. On the external side, effort is needed to examine the factors associated with the import demand abroad—their national income, the share of imports in national income, the tastes and preferences of the consumers in importing countries, etc.

In terms of reorientation on export promotion policy there is growing emphasis on subsidising production of those commodities which are likely to offer a good market abroad. Professor B. Datta[11] suggests that a subsidy based on total output (combined with facilities for the import of necessary capital goods and materials) would go in securing an expansion of scale. Along with this, the State Trading Corporation should undertake to purchase all the surplus that remains after normal domestic sales and private exports.

One significant problem in India's export is that of spatial imbalance. India's major efforts are concentrated to few selected countries and this gives rise to India's export fluctuation. It becomes ancillary to the variations in the economic activities and policies of those countries with which India has strong trade relations. There is great scope for promoting non-traditional items of export. India needs to exploit her trade contacts with centrally planned economies where there are great potentialities in consumers' demand for Indian products. Till now, the trade policies in these countries centred on importing capital and intermediate goods and restricting very severely all other forms of imports. These policies are now emerging to change and India could take earliest opportunity of it. One of the advantages that India possesses is in terms of its access to produce a variety of products for which there are visible preferences in consumers' demand in various countries of the world and if organised systematically, they could earn substantial foreign exchange. There are many minor crops in which lies substantial potentiality for export promotion.[12]

Finally, India's present resource position suggests that it is difficult to step up the pace of her economic development unless her economy is capable of appropriating an increasingly substantial share of the imports made by advanced Western countries, countries with centrally planned economies, and part of Middle East and Africa. Rough estimate suggests that if the nation has to start with

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11. *Op. cit*
12. For detailed discussion on it, see K. S. Rao's "Possibilities for Promotion of India's Exports of Minor Crops," *Agricultural Situation in India*, September, 1962, pp. 633-44.

strong base in the next Fourth and Fifth Five-Year Plans, with independence of foreign trade and yet maintain rapid growth rate, it would roughly involve export earnings at the beginning of the Fifth Plan of as much as Rs. 1,500 crores per annum, more than twice the present rate (about Rs. 650 crores).[13] With the increasing pace of economic development in Asia, Middle East, and Africa, there would be good prospect for Indian exports due to her comparative advantage in terms of the variety and quality of products, low transport costs and softness of the Indian currency. It is now for the Indian planners to foresee these future prospects and develop the means to make the Indian products more and more competitive in world trade.

AGRICULTURAL EXPORTS AND ECONOMIC GROWTH

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In a low income predominantly agricultural country, the rate of growth of the economy is a function of the rate of growth of the agricultural sector.[1] Indeed an agricultural revolution precedes industrial revolution. The agricultural sector has to provide (*a*) labour, (*b*) raw materials, (*c*) food, (*d*) foreign exchange, and (*e*) market for the industrial sector. Economic growth, however, requires a two-way traffic between the agricultural and industrial sectors. Industrial sector has to absorb the marketable surplus of agriculture and has to provide fertilizers, chemicals and agricultural implements. In the open economies, however, there is a third sector—the export sector—which has to play an important part.

The export sector has to provide leverage for economic development. An underdeveloped country cannot develop wholly by its own for obvious reasons. The need for the import of tangibles and intangibles is quite glaring. Unfortunately, a thickly populated country like India with a severe demographic pressure (even with 70 per cent of its population engaged in agriculture) needs a sizeable import of foodgrains to maintain price stability and to meet physical shortage. All these have to be paid for by exports unless the imports are received as gifts or loans, or as in the case of P. L. 480 imports payments can be made in rupees.

But, no country can finance all its imports by loans or gifts. Hence the capacity to import will, to a large extent, depend upon the capacity to export. Import substitution and export promotion appear to be two important planks in any growth policy. Apart from its role in import financing, a buoyant and vigorous export sector is by itself a powerful lever of economic development because of its

13. D. MacDougall : *Op. cit.*, p. 637.

1. W. A. Lewis : The Theory of Economic Growth, London, 1963 ed., p. 278.