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Exports of Agricultural Commodities

INDIA'S AGRICULTURAL EXPORTS: PERFORMANCE AND SOME POLICY ISSUES

Sucha Singh Gill and Ranjit Singh Ghuman*

India remains mainly an agrarian economy in spite of the planned efforts to industrialise it. In the agrarian economy, agricultural exports have a special significance. This is more so in the transitional period when the economy moves towards industrialisation. This paper is devoted to the study of agricultural exports of India. It is divided into two parts. Part I deals with the broad trends of Indian exports and covers the analysis of selected major agricultural exports. In part II certain policy issues have been raised.

I

TRENDS IN EXPORTS OF AGRICULTURAL COMMODITIES

Foreign trade of a country reflects its nature and level of economic development. Both imports and exports expand within the contours of economic development and factors operating in the international market. Till the end of the Second World War, there was an era of colonialism. During the period of British rule till 1947 Indian economy was transformed as a colonial economy. It was meant to supply primary commodities mainly food and raw materials and act as a market for British manufactured goods. In 1938-39, 68.4 per cent of Indian exports consisted of "food products and raw materials and 60.9 per cent of imports were that of manufactured items." With the achievement of political Independence and particularly with the initiation of planned economic development, Indian economy began to be transformed in a new direction. A phase of industrialisation was initiated and the economy began to experience around transformation. With the destruction of colonialism a new phase of international division of labour was started in which advanced countries began to allow the development of consumer goods industries in the under-developed countries. A new phenomenon of giant multinational corporations emerged and they played a decisive role in this process. Thus both internal and external factors operated to change India's pattern of trade. In the new pattern of trade the share of food and raw materials began to decline in India's exports and that of manufactured items began to increase over the time period. Table I reveals that the share of food products and raw materials decreased from 50 per cent during the First Five Year Plan to 40.8 per cent during the Fifth Plan period. The share of raw materials declined noticeably from 21.8 per cent to 13.1 per cent during

* Department of Economics, Punjabi University and State College of Education, Patiala respectively.

TABLE I—COMPOSITION OF INDIA'S EXPORTS IN SELECTED YEARS

Year/Plan	Food products	Raw materials	Manufactures
1938-39	23.3	45.1	30.0
1950-51	23.7	20.8	55.0
First Plan	28.2	21.8	50.0
Second Plan	30.1	28.1	42.0
Third Plan	31.9	19.6	45.2
Annual Plan (1966-67 to 1968-69)	29.3	18.8	48.8
Fourth Plan	32.0	21.1	47.1
Fifth Plan* (1974-75 to 1978-79)	27.7	13.1	58.8

Source: 1. Up to the Second Plan period data have been taken from Sumitra Chishti: *India's Terms of Trade*, Orient Longman Ltd., New Delhi, 1974, p. 18.

2. For the rest of the period, the sources of data are various issues of Reserve Bank of India's Report on Currency and Finance.

* Though the Fifth Five Year Plan was cut short by one year, that is, it ended in 1977-78, yet the year 1978-79 has been included in order to make the time period equivalent to five years.

the same period. But the share of food products increased from 28.2 per cent during the First Plan to 32.0 per cent during the Fourth Plan but declined to 27.7 per cent during the Fifth Plan. The decline in the share of raw materials has been replaced by an increase in the share of manufactured items from 50 per cent during the First Plan to 58.8 per cent during the Fifth Plan.

Our analysis of nine agricultural exports indicated that their share declined from 33.9 per cent during the Third Plan to 19.4 per cent during the Fifth Plan. Table II reveals that over the period of 19 years, the three commodities, raw cotton, wool and animal hair and hides and skins, which may be characterized as agricultural raw materials, declined in their importance. Their share came down from 4.5 per cent in 1960-61 to 0.61 per cent during the Fifth Plan period. This means that these raw materials are no longer a source of foreign exchange earnings. This is because of the fact that there has been growth of domestic cotton textiles, woollen and leather industries in India which use most of the local production of these raw materials. Tobacco unmanufactured is the only raw material whose share has almost remained stable. The other items come in the category of consumer goods. Of these five commodities, coffee is the only commodity which has improved its share from 1.2 per cent in 1960-61 to 2.5 per cent during the Fifth Plan. The remaining four commodities, namely, tea, cashew kernels, spices and oilcakes have suffered a decline in their share. The largest loss has been of the most important item, *i.e.*, tea. Its share came down from 15.9 per cent during the Third Plan to 6.9 per cent during the Fifth Plan. The share of cashew kernels rose up to the Fourth Plan but declined in the Fifth Plan. Spices and oilcakes have experienced a slow but continuous decline in their shares.

TABLE II—PERCENTAGE SHARE OF SELECTED AGRICULTURAL COMMODITIES IN TOTAL EXPORTS OF INDIA

Agricultural commodities	1960-61	Third Plan	Annual Plans	Fourth Plan	Fifth Plan
1. Tea	19.1	15.9	13.6	7.8	6.9
2. Cashew kernel	2.9	3.1	4.0	3.5	2.3
3. Spices	2.6	2.3	2.2	2.1	2.1
4. Tobacco unmanufactured ..	2.3	2.6	2.3	2.6	2.1
5. Oilcakes	2.3	4.2	3.8	4.2	2.9
6. Cotton (raw and waste) ..	1.8	2.2	1.4	1.3	0.5
7. Hides and skins	1.5	1.3	0.8	0.2	0.01
8. Wool and animal hair	1.2	0.9	0.5	0.3	0.1
9. Coffee	1.1	1.4	1.4	1.6	2.5
Total ..	34.8	33.9	30.0	23.6	19.4

In the case of tea, there is not only a fall in its relative share of Indian exports, but India's share of this item in the world market is also declining. It came down from 44.8 per cent during 1950-54 to 26.3 per cent during 1976-79. India's loss has been due to the gain of East African countries and China. It will be relevant to locate the causes of the fall in India's share.

One of the factors for the decline in the Indian share is the pressure of home demand. Table III reveals that the share of export in the total production in India is falling. It has declined from 47.55 per cent during 1970-71-1971-72 to 33 per cent during 1978-79-1979-80. This means that more and more share of output is being used in the domestic market which has been expanding over the time period. Domestic demand has grown almost with the growth of production and the quantum of export has remained nearly stable. This is in spite of the fact that India has maintained its leading position in productivity per hectare among the major tea exporters. India's per hectare productivity was 882 kg. in 1951-53 which consistently increased to 1,548 kg. in 1978. It increased from 643 kg. to 819 kg. in Ceylon and from 639 kg. to 1,296 kg. in East Africa.¹ This indicates that there is a possibility to increase India's share in the world market (or at least retain it) if either domestic consumption is not allowed to increase or domestic production is increased by bringing more area under tea plantation, or by taking steps in both the directions.

So far as cashew kernels are concerned, the problem is different. India imports a major part of cashewnuts and processes them and exports cashew kernels. India is increasingly depending upon imports of cashewnuts for her processing requirements. This dependence increased from 66.6 per cent in

1. K. S. Dhindsa: India's Export Performance: Some Policy Implications, Intellectual Publishing House, New Delhi, 1981, p. 62.

TABLE III—DOMESTIC PRODUCTION AND EXPORTS OF PRINCIPAL AGRICULTURAL EXPORTS

(thousand tonnes)

Year	Tea			Coffee			Tobacco unmanufactured		
	Domestic production	Exports	Exports as percentage of domestic production	Domestic production	Exports	Exports as percentage of domestic production	Domestic production	Exports	Exports as percentage of domestic production
1970-71	419	199	47.5	110	32	29.1	362	50	13.8
1971-72	435	207	47.6	69	36	52.2	419	61	14.6
1972-73	456	193	42.3	91	51	56.0	372	98	26.3
1973-74	472	192	40.7	86	53	61.6	462	81	17.5
1974-75	489	230	47.0	93	50	53.8	363	78	21.5
1975-76	487	212	43.5	84	59	70.2	350	79	22.6
1976-77	512	244	47.7	102	51	50.0	419	86	20.5
1977-78	559	224	40.1	125	58	46.4	494	93	18.8
1978-79	571	172	30.1	111	66	59.5	451	84	18.6
1979-80	548	197	35.9	150	62	41.3	N.A.	93	N.A.

Source: 1. Data on domestic production are from Reserve Bank of India: Report on Currency and Finance, various issues.

2. Data on exports are from Government of India: Economic Survey, various issues.
N. A. = Not available.

1961 to 75 per cent in 1967 and then declined to 70.5 per cent in 1970. Overall, the dependence on imports is growing. So far as domestic production is concerned, it has been fluctuating between 56,000 tonnes and 81,300 tonnes during 1961 and 1970. In due course of time exporters of cashew-nuts have developed their own processing industry and have entered the world market, causing a fall in India's share.² India's share in the world market declined from 95.8 in 1961 to 73.8 per cent in 1970. It is evident from this analysis that since domestic production of raw nuts is hardly 30 per cent of our processing requirements, our production and export of cashew kernels depend on the export of raw nuts by African countries, mainly Mozambique and Tanzania. As soon as they develop their processing industries they will displace India from the position of dominant supplier. The only way to save Indian position is to increase domestic production of raw nuts.

Coffee is the only agricultural commodity which has gained in its share over the time period. This is because the share of exports in the domestic production of this commodity has been improving, though fluctuating over time, as shown in Table III. The unit value of this commodity in the export market has also increased.³ This has enabled India to increase her share in the world market from one per cent in 1970 to 1.6 per cent in 1979. However, India's share in the world market has improved in the 1970s. On the basis

2. Deepak Nayyar: India's Exports and Export Policies in the 1960s, Cambridge University Press, 1976, pp. 115-116.

3. Reserve Bank of India: Report on Currency and Finance 1979-80, Vol. II, Bombay, 1981.

of past performance, it can be concluded that India can improve her share further in the world market. But to improve her share two things are needed. Firstly, India should take steps to stabilise her production of coffee as it has been subject to violent fluctuations. Secondly, attempts should be made to expand India's production so as to increase her capacity to export.

India's share of tobacco in the world market improved in the 1960s though it was fluctuating. But it has declined in the 1970s. Whereas it was above 5 per cent in the 1960s, it came down close to 4 per cent in 1970s. The decline in India's share is accompanied by a rise in the proportion of domestic production exported in 1970s. As revealed by Table III, the share of domestic production of unmanufactured tobacco exported increased from 13.8 per cent in 1970-71 to 18.6 per cent in 1979-80. The quantum of exports of this commodity is also rising. But India's overall position in respect of this commodity is falling. This is because Indian tobacco is fetching low prices. This also means that India enjoys advantage in price competitiveness. But this is neutralised by the relatively poor quality of tobacco produced in India. It is now generally accepted that Indian Virginia tobacco is relatively of poor quality compared with the American leaf. Its high dust content makes the matter worse.⁴ Therefore to improve India's share in the world market, India needs to produce better quality tobacco. In this case price can be a poor substitute for the quality.

The share of spices in the international market has been fluctuating throughout 1970s. This has varied between 12.7 per cent and 20.5 per cent in this period. This has been due to fluctuations in the quantum of exports of these items.⁵ This has been caused by fluctuations in the production of these crops. To increase the share of these exports in total Indian exports and in the world market, efforts are needed to regulate the supply and wipe out the fluctuations.

Apart from the supply and other domestic factors, the role of the Soviet Union's market for India's traditional exports has been very important. A study of selected Indian agricultural exports, namely, tea, cashew kernel, tobacco unmanufactured, spices and coffee shows that a sizable part of these exports has been sold to the Soviet Union. India secured this market in the mid 1950s and its potentialities have been fully exhausted in the early 1970s.⁶ This did contribute to resist the decline in the share of India's exports of agricultural commodities. But by the mid 1970s the share of the Soviet market for selected Indian agricultural exports began to decline, as shown in Table IV. This is one of the reasons for the steep decline in the exports of these commodities during the Fifth Plan period. This leads to the conclusion that for the maintenance of the share of these exports, India needs to make fresh efforts to explore new markets.

4. Angus Hone and V. K. Saxena, "Exports in Fourth Plan, 1969-74: Projections, Problems, and Possibilities", *Economic and Political Weekly*, Vol. V, Nos. 29, 30 and 31, Special Number, July 1970.

5. Government of India: *Economic Survey 1980-81*, Ministry of Finance, New Delhi, 1981, pp. 120-121.

6. Sucha Singh Gill: *India's Economic Relations with the Soviet Union since 1953*, Ph.D. Thesis, Punjabi University, Patiala, 1979 (unpublished).

TABLE IV—SHARE OF SOVIET UNION IN SELECTED AGRICULTURAL EXPORTS OF INDIA

(per cent)

Year	Tea	Cashew kernel	Tobacco unmanu- factured	Spices	Coffee
1970-71	18.9	28.2	17.6	11.5	27.5
1971-72	21.3	29.4	36.2	21.0	33.8
1972-73	22.3	34.9	48.1	23.0	34.7
1973-74	23.0	39.5	27.2	18.4	1.8
1974-75	26.9	61.6	21.4	21.9	36.5
1975-76	31.1	26.1	31.1	23.5	29.6
1976-77	18.5	27.8	24.8	24.9	23.7
1977-78	23.2	56.1	26.5	14.4	36.3
1978-79	17.3	30.5	21.1	10.7	23.1

Source: Government of India: Monthly Statistics of Foreign Trade of India, Vol. I, Directorate General of Commercial Intelligence and Statistics, Calcutta, various issues.

II

POLICY IMPLICATIONS

Dynamics of internal development of Indian economy have been to increase the role of processed and manufactured commodities in India's exports. The share of primary exports has been continuously falling. But all the primary exports have not been falling at a uniform rate. Some of the agricultural exports have been falling at a fast rate while others have been resisting the decline or are falling at a slow rate. Particularly, agricultural raw materials have witnessed a fast rate of decline. Three main items in this category, raw cotton, wool and animal hair and hides and skin, have been almost eliminated from the list of exports. This has been the result of industrial development during the plan period. Therefore, there is no need to make efforts to promote these exports. This does not mean that there should be no effort to increase their production. Their production must be increased to supply the raw materials to the Indian industries. This should also be the thrust of economic policy in the case of the remaining exports of agricultural raw materials, specifically tobacco unmanufactured.

In the case of non-raw material agricultural exports, such as tea, coffee, spices, cashew kernels there are policy implications specific to each commodity. In the case of tea there is greater pressure of home market on the total production. To increase the export of this commodity, the area under cultivation must be increased and specific measures should be taken to make the home market less attractive for the producers. At international level India has a capacity to compete with the rivals. In the case of coffee there is

enough scope to increase India's share in the world market as India has a very small share in the world export. But to accomplish this the country would have to increase the production of coffee and regulate its supply, may be through maintenance of buffer stocks. In the case of cashew kernels there seems to be a dark future. India is excessively relying on East Africa for the supply of raw nuts. It must be noted that these countries themselves have started processing their raw materials and in future the supply of raw nuts from this source will be less and less. Therefore, there is an urgent need to encourage domestic production. In the case of spices also efforts must be made to eliminate fluctuations in domestic production and work out a strategy for long-term expansion.

One set of policy implications for non-raw material agricultural exports is to remove the supply constraints in India and increase the size of exportable surplus. Other set of policy implications relates to the market performance. Since the mid 1950s, India got a secure and vast market of East European countries, particularly that of the Soviet Union. This led to a net expansion of India's exports of many agricultural commodities, which faced the problems of market at that time. Similar efforts are needed to secure new markets for Indian goods. Secondly, India must unite her efforts with other under-developed countries especially those which compete with her in the world market to eliminate price fluctuations in the market.

AN ECONOMETRIC ANALYSIS OF INDIAN EXPORT-SHARE OF CASHEW KERNELS IN THE WORLD TRADE*

H. K. Sandhu†

India is endowed with a potentially rich and suitable soil for efficient production of cashew. This resource had been once exploited fully when India had a unique and monopolistic position in production as well as export of cashew kernels in the world market. After the dawn of Independence in 1947, India should have taken measures to further strengthen its position in cashew trade, but the fact remains that whereas India was meeting almost the total world demand in 1947, its share had declined to half by 1980. The production of cashew kernels also fluctuated widely, varying from 13.5 per cent in 1972 to 50 per cent in 1955. The share of India in the world production of cashew was 31.6 per cent in 1947 and 36.9 per cent in 1980 (Table I).

* This analysis was done at Indian Institute of Management, Ahmedabad with Prof. C. D. Wadhwa in 1980-81. The author is thankful to him for his kind encouragement.

† Project Officer, Agricultural Finance Corporation Ltd., New Delhi.

Following studies may be referred to: "Study on Cashewnut in India", Committee on Natural Resources, Planning Commission, Government of India, New Delhi, 1969; "Export Trade in Cashew", Cashew Export Promotion Council, *Eastern Economist*, February 26, 1971, pp. 23-24; "Report of the Study Group on Financing of Cashew Industry", *Reserve Bank of India Bulletin*, May 1973; "Processing of Cashew for Greater Exports", Commodity Study Report, IIFT Commodity Series No. 8, Indian Institute of Foreign Trade, Delhi, 1975; "The Economic Times Special Survey", (Contd.)