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RAPPORTEUR'S REPORT

ON

INTERNATIONAL TRADE IN AGRICULTURAL COMMODITIES WITH PARTICULAR REFERENCE TO PRIMARY PRODUCING COUNTRIES

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The 13 papers under discussion fall broadly into three groups : (*i*) studies dealing with trade problems in general; (*ii*) commodity studies; and (*iii*) studies on international co-operation including bilateral trade. Quite a few of the papers in the first group contain a general discussion of the problems faced by the developing countries in their trade in primary commodities with developed countries. The issues involved in this area are treated more or less as settled in the literature on international trade. Baidyanath Misra discusses the impact of foreign trade on the growth of a developing economy. He advocates rational planning of foreign trade through a selective interference with the structure of exports and imports with a view to promoting greater technical progress and capital formation. M.L. Manrai provides a summary, largely based on the papers presented at the UNCTAD II, of the problems faced by the developing countries in their trade with the developed countries, specially in regard to the declining share of the exports of primary commodities in overall world trade consequent on the growing threat from synthetics and substitutes. K. S. K. Panicker argues that the high income countries because of their financial strength control the world market by manipulating the stocks. The market, therefore, ceases to be "free" for the developing nations. He pleads for a freer market which he believes can be promoted through the "liberal conscience of mankind." S. L. Shah examines the trends in the exports of some agricultural commodities and the changes in their unit values. His findings lend support to the hypothesis of stagnant demand and the deteriorating terms of trade for tropical beverages and agricultural raw materials. M. Srinivasan discusses the instability in export earnings from primary commodities and suggests several measures for overcoming such instability. On the export promotion efforts of the developing countries, he takes the view that South-East Asian countries offer the best scope for intra-regional and inter-regional trade.

The papers in the second group relate to export trade in individual commodities, namely, jute, tea, groundnut extractions and pepper. I. J. Singh and T. K. Chowdhury outline the major problems facing the exports of Indian jute goods—increasing competition from Pakistan, displacement of jute goods by the substitutes, etc., and suggest measures for export promotion, *e.g.*, reduction of export duties, modernization of industry and minimum support prices for jute fabrics. Goutam K. Sarkar in his survey of world tea exports examines, among other things, the sources of instability in earnings from tea. He finds a negative relationship between the prices and quantity which he suggests is indicative of the predominance of supply factor in inducing instability. He also found that fluc tuations in the value of exports were influenced more by fluctuations in the volum of exports than by price fluctuations. The high concentration of world tea exports deriving from the dependence of the tea exporting countries on the British market is found to be declining over the period due to increased diversification of tea markets. In view of the inelastic demand for tea in the developed countries, he suggests the need to stabilize export earnings through international agreements, preferably through an export quota scheme. In his survey of India's export trade in tea, Hiranmay Das observes that exports have been discouraged very much by the imposition of export duty on tea following devaluation and by the levy of various taxes on the production and distribution of tea.

P. P. Madappa and Madhukar H. Maharaja seek to explain fluctuations in tea prices by setting up a cobweb model. The idea is that the supply curve with a steeper slope than that of the demand curve would explain drastic fluctuations in prices induced essentially by variations in supply. Their results seem to lend some support to this hypothesis but since, as they themselves point out, the regression coefficients of the estimated demand and supply functions are not statistically significant, one cannot be conclusive on this issue. Also, one cannot be conclusive about the inferences unless the prices of tea are properly deflated and other relevant variables included in the estimating equations. Even then, it is necessary to bear in mind that the model under discussion is designed to explain a situation where the amplitude of fluctuations in prices is increasing over time. Fluctuations in prices can be explained in a cobweb framework, even when the demand and supply elasticities are the same. In any case, these models assume that there are no lagged responses to several year prices and that the factors like weather and input prices do not interfere with the situation.

They also study stock-price relationship taking the quantum of tea stored in the bonded warehouses of U.K. and find a significant inverse relationship between changes in prices and stocks at any point of time. They suggest that in order to stabilize the prices, the major producing countries such as India and Ceylon should create buffer warehouses with mutual co-operation to absorb excess production. It would have been useful if the authors had estimated the degree of instability in prices and its impact on the instability of earnings. Without ascertaining the contemporaneous rates of change in supplies and prices, it would be difficult to conclude that building the buffer stocks would stabilize earnings and not destabilize them.

A. G. K. Murty analyses the prices of groundnut expeller cake in an attempt to assess the export prospects of de-oiled or extraction cake. He takes the prices of oil to reflect the supply position of expeller cake as, according to him, the price of oil governs the supply of groundnuts and expeller cake itself contains certain quantity of oil. The prices of extraction cake in the world market are taken to represent the demand factor. His study indicates that both these factors mentioned above are significant as explanatory variables. Expeller cake prices are highly sensitive to the changes in the world prices of extraction cake, although the impact of the latter is reduced in the post-devaluation period. He concludes that with the same price relationship between the expeller and extraction cake, the incentives for the firms exporting on CIF basis (*i.e.*, exporter paying freight, insurance, etc.) to U.K., Continent and Japan are reduced because they have to pay higher freights now as compared to the pre-devaluation period. His study would probably have given a better picture if the supply position of expeller cake was represented by the supplies of groundnuts, as the latter are influenced by the demand for oil as well as the natural factors governing the supply. It is also necessary to ascertain India's share in the world exports of extraction cake, in order to see whether the world prices themselves are influenced by the expeller cake prices in India via the supply price of de-oiled cake.

S. B. Tambad and P. V. Subba Rao give a factual account of the trends in the production, exports, and prices of pepper from India vis-a-vis other exporting countries as also the trends in the regional distribution of world imports of pepper. It would be useful if the data presented in this paper are subjected to further analysis for identifying the factors responsible for the alleged decline in the prices of pepper as well as in its earnings, despite the increase in the volume of exports. Indeed, an explanation is necessary for the continued rise in the production and exports despite falling export prices and earnings.

The third group of papers deals with the role of international co-operation including bilateral arrangements in promoting and stabilizing exports from developing countries. T. R. Gupta gives a survey of international co-operation between the developed and the developing countries as well as among the developing countries. He explores the possibilities of promoting exports of primary commodities by the developing countries consistent with requirements of stability. Pushpendra Kumar and K. Subbarao examine the impact of India's bilateral trade with Eastern Europe on the stability of her export earnings. They conclude that this trade had a stabilizing effect on earnings of only 4 out of 8 commodities studied. They examine the sources of instability in earnings by studying the relationship between volume and unit values of exports, and observe that in the case of pepper and cashew kernels, demand factors seem to predominate over supply factors as these reveal a strong positive correlation between volume and unit values.

It is customary for economists to concentrate on those aspects of international co-operation and agreements which are designed to mitigate restrictions and secure preferences for the goods of developing countries in the markets of developed countries. Some even assume that the restrictive practices are against the interests of the developed countries themselves. While the developing countries should continue to strive through international forums for overcoming the difficulties such as stagnant demand and instability of export earnings, it would be useful if economists look ahead and concentrate on economic issues bearing on the long-run export potential of developing countries such as improving the competitive position of exports, their diversification consistent with comparative advantage, exploration of new markets, etc. If this area is considered promising for discussion it would be fruitful to focus on India's problems with regard to the exports of primary commodities in the context of her import requirements. Inevitably, the problems facing other primary producing countries, especially of those bearing on India's prospects, would figure.

The following issues may, therefore, be considered for discussion at the Conference :

1. A critical examination of the hypothesis suggested by Mac Bean that instability in export earnings is not a serious problem for developing countries. Measures to stabilize export earnings.

2. The problems of exploring new markets including bilateral arrangements for traditional export items.

3. Augmenting the supplies : (*a*) measures to expand the production of the primary commodities in general and of the commodities under discusion, in particular; (*b*) internal measures to augment the export surpluses of these commodities and measures to make such exports competitive.

4. India's Bilateral Trade with Eastern Europe : Gains and losses in terms of expansion as well as stability. Consistency with considerations of comparative advantage. Limits of dependence on this trade.

   Possibilities for co-operation between India and other developing countries.