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## UNIT 26 FOREIGN TRADE IN AGRICULTURAL GOODS

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### 26.0 OBJECTIVES

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After reading this unit, you will be able to:

- discuss the factors influencing international trade in agriculture;
- analyse the trends in India's agricultural exports/imports;
- specify the classificatory framework for agricultural exports/imports as provided in the India Trade Classification (ITC) Harmonised System (HS);
- distinguish between the trade policy instruments of 'quantitative restrictions' and 'tariffs' for their relative efficiency vis-à-vis their economic implications;
- state the major agricultural trade agreements signed by India; and
- indicate the elements of New Trade Policy (2009-14) highlighting the measures initiated for boosting our agri-exports;

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### 26.1 INTRODUCTION

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In the previous units of this course, you have read about the importance of agriculture in India's exports. For instance, in Unit 7 (section 7.4.3) you have read that the export earning from agriculture was more than 50 percent of our total export earnings but has come down in the recent years. This decline was despite an increasing trend in the total

volume of exports and imports in agricultural goods over time attributed to economic growth and diversification of the economy. Again, in Unit 20 (section 20.2.7) we noted that the global market for agricultural products is a different platform than the domestic market as the domestic producers need to conform to higher quality standards demanded by consumers in other developed markets/countries. In light of this, while it is important to adopt measures for boosting our agricultural exports, it is equally necessary to focus on strategies that are in consonance with the limitations and potential of our agriculture sector. Against this background, in the present unit we begin by taking a general look at the factors that govern the environment for international trade in agriculture. In doing this, we shall familiarize ourselves with the conditions that influence the international trade in agricultural goods impacting on the demand and prices of agricultural products. This is followed by a study of broad trends in our exports and imports of agricultural products. Subsequently, we shall study the priorities identified by the government to reorient our export of agricultural products under its New Foreign Trade Policy for Agri-exports aimed at boosting the share of Indian agricultural exports.

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## **26.2 FACTORS INFLUENCING TRADE IN AGRICULTURE AND ITS IMPLICATIONS**

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In order to understand the factors that influence trade between two nations we must first know about why countries trade? Countries engage in trade for a number of reasons. **One**, a country may be deficit in a particular resource or raw material (e.g. oil) which it attempts to make up through imports from countries rich in that resource in order to facilitate production of other goods or services that use the resource. **Two**, it could be the lack of capital and required technology in a country to produce value-added products like processed foods or machinery, equipments and industrial products and technology products (like cars, construction equipment and software). Countries which are abundant in labour tend to produce labour intensive products like clothing and consumer goods which are imported by countries that lack labour and where labour costs are high. Similarly, countries which have abundant land tend to produce land-intensive commodities like agricultural products. In short, countries tend to produce commodities in which they have a relative advantage and trade in other commodities.

Thus, (i) the diversity in natural resources, (ii) differences in consumer tastes and preferences, and (iii) differences in costs of production are the major factors that drive trade between nations. These factors that influence trade can therefore be broadly classified as (i) economic; (ii) policy related and (iii) institutional factors. These factors together determine the competitiveness of a country which affects its trade. Further, as these factors are dynamic and change over time, they result in changes in the types of commodities traded and the sources of imports and destinations of exports.

With the policies of globalisation, there has been a rapid growth in processed and high-value agricultural food products. This has in turn led to a revolutionary spread of retail super markets across countries. While this is described as a ‘second wave’ of globalization in the modern era, this has also given rise to issues connected with: (i) environmental degradation (i.e. air, water, bio-diversity, etc.), and consumer (including animal) welfare, (iii) climatic change, etc. These issues, coupled with the scope for using agricultural crops for biomass fuel, have kept the issue of agricultural trade high on the international agenda. In this scenario, major factors affecting international (or foreign) trade in agriculture can be broadly identified as follows.

### **26.2.1 Economic Factors**

Factors such as the levels of income and production as reflected by the gross domestic

product of a country, the level of prices in an economy, demand for commodities, cost of production of commodities and exchange rates are the major economic factors that influence trade between nations.

**Gross Domestic Product:** The gross domestic product (GDP) of a country reflects the level of economic activity (i.e. total goods and services being produced in an economy) and income in the country. This influences consumption levels and thus the demand for commodities. It is also an indication of the extent of industrialisation in the country and the level of development of infrastructure. A high GDP, therefore, implies high levels of income and production in the country. As GDP rises, imports may rise because: (a) demand for foreign consumer goods rises; and (b) foreign inputs may be a part of the goods produced in a country. This, in turn, drives exports. The GDP, in turn, is affected by trade as net exports are one component of a country's GDP ( $\text{GDP} = \text{consumption} + \text{investment} + \text{government expenditure} + \text{net exports}$ ).

**Demand, Supply and Prices:** The demand for agricultural commodities is influenced by the consumers' tastes and preferences. The supply of agricultural commodities depends upon the availability of resources and the production capabilities in terms of available technology. The prices of agricultural produce are influenced by demand-supply situation and efficiency of the markets. While the supply constraints (i.e. limited land area) in the face of demand growth (i.e. due to population and rising per capita income) contribute to pushing-up the farm product prices, productivity growth lowers the costs of farm production. However, for the productivity growth to result in lower prices for consumers, it is necessary that the productivity growth should out-pace the growth in food and non-food demand for agricultural produce. Further, inefficiencies in the markets affect the efficient distribution of agricultural produce (across regional and international boundaries) contributing to volatility in prices. In recent times, this feature has given rise to food-riots in countries experiencing food shortage. This is described as the 'corrosive economic impact of market instability'. These issues call for policy attention for facilitating agricultural trade barriers. Demand being dynamic, it is influenced by increased exposure and growing awareness induced by developments in communications. All these factors have resulted in rapid growth in processed and high-value agricultural food products in the recent decades. This has led to a revolutionary spread of organised retailing in food products across countries. So much so, this has been described as a 'second wave' of globalization in the modern era. This has also positively impacted imports of processed food products.

**Exchange Rates – Costs of Imports and Prices of Exports:** The exchange rate is the price of a currency in terms of another currency. Demand for a particular currency leads to fluctuations in the exchange rates. Exchange rates influence the costs of imports and the prices received for exports, thus affecting the terms of trade and the balance of trade. The relative prices of foreign and domestic commodities determine the demand for imports. If the price of a domestic commodity rises relative to the price of the same imported good because the country's currency exchange rate appreciates, then the demand for the foreign commodities increases. Similarly, a country's exports will depend upon the importing country's output and prices relative to those commodities.

**Commodity Prices and Terms of Trade:** Due to the perishable nature of goods and poor storage facilities in developing countries, the gains of rise in agricultural productivity do not get passed on to producers/consumers to the extent it is warranted by higher productivity. The lacuna on this front results in the appropriation of productivity gains by the processors who in most cases are industrialists with capital and storage facilities. This is not so for industrial goods as the markets for these goods are not only imperfect but the products can easily be stored due to their non-perishable nature. This allows

the manufacturers to retain the benefit from productivity increases. In other words, there is a tendency for the 'terms of trade' to go against the 'rural periphery' and in favour of the 'industrial centres'. Due to these reasons, the upward movement of agricultural prices (witnessed in the recent past for many years at a stretch), is feared to prevail on a long-term basis. Globally, this upward trend is attributed largely to three main phenomena viz. (i) rapid growth in emerging countries (like China, India and Brazil) with its implication for dietary improvements; (ii) volatility in oil prices raising energy costs in agriculture which in turn have led to governmental subsidies for bio-fuel manufacture; and (iii) the apparent stagnation in technical progress in agriculture due to declining research expenditures. With the highly populous and emerging economies becoming food self-sufficient, their need for food imports would be minimised. This would have implications for food prices in international markets.

### **26.2.2 Policy Related Factors**

Policies are formulated and implemented by countries to facilitate or to restrict trade and also to meet international commitments. The instruments used are various forms of taxes or other barriers to encourage or restrict trade. Restrictions on trade are usually necessitated by the need to protect domestic producers or industries. Relaxations are provided to encourage exports and generate a conducive environment for industries producing for the export markets. Certain policies are necessitated by the need to meet international commitments such as market access and tariffication under the WTO regime which are discussed in more detail in the next Unit.

**Taxes and Tariffs:** Taxes are an important policy instrument used to regulate trade. A tariff is a tax that is imposed on an imported commodity. A tariff applied on a commodity that is also produced domestically generates revenue for the country which can be used for government expenditure. In situations where domestic producers are likely to be negatively affected by imports, high tariffs are applied in order to make the imported commodity more costly and discourage such imports. The opposite is the case for a commodity which is not produced in adequate amounts required for domestic consumption. For instance, in the case of edible oils the government of India has kept the tariffs low as domestic production of oilseeds and edible oils is insufficient to meet the demand. Through such a policy, not only the interests of domestic producers are safeguarded but they are also motivated to increase the domestic production.

**Non-tariff Barriers to Trade:** Non-tariff barriers can take several forms such as: (i) a complete ban on imports; (ii) import quotas and quantitative restrictions; (iii) and food safety and quality restrictions. When a particular commodity or industry needs to be protected or when the domestic consumers' welfare is at stake, a complete or partial ban may be imposed on exports or imports of a commodity. Among agricultural commodities in recent years, this measure has been resorted to from time to time in case of rice exports. Quantitative restrictions in the form of limits on quantities that can be imported in a given year have been used to restrict imports of commodities in order to protect domestic farmers. Under the WTO stipulations, however, all member countries have to remove all quantitative restrictions in a phased manner and undertake tariffication.

An important form of non-tariff barrier that has emerged after the WTO came into existence relates to restrictions of imports on grounds of safety and quality. Another contentious issue is the use of subsidies for promoting exports. Many countries continue to subsidise exports thus making their products cheaper than the importing countries domestic commodities.

**Export Policy and Market Instability:** Discouraging agricultural imports with a view to protecting the domestic cultivators against undesired imports (a phenomenon called ‘dumping’ by countries with excess production not only to off-load food stock but also as a result of aggressive export policies of selling goods below the production cost to capture markets) and encouraging subsidised exports for achieving an export-push have been policies pursued by many countries. In India, higher exports of foodgrains have been a feature since the 1990s. This has been despite the fact that the prices that our grains have received in the global market have been much less than the standard international prices. For instance, in 2001, wheat was sold for \$103 per tonne whereas the ruling price at that time was \$130. A surprising feature of export-push policy is that such exports are heavily subsidised. For instance, in 2001, the economic cost for a tonne of wheat was Rs. 8300 to the FCI while it was exported at a price of Rs. 4000 per tonne. More recently, in 2012, a decision to export excess stock of wheat at a huge subsidy of Rs. 1 billion was taken. Such a move has raised concerns by some activists who are against such exports in the face of serious malnutrition existing within the country. However, the ‘economic rationale’ of such policies are linked to factors like: (i) the estimated loss (at Rs. 20,000 crore) to the exchequer on account of loss of foodgrains stored unscientifically due to rodents, moisture, etc. is huge; (ii) the contribution to inflation is assessed as more from the supply/price of commodities like sugar, cereals and vegetables and least from foodgrains like wheat/rice due to which export of surplus wheat is considered prudent; and (iii) internationally, there is a deficit in supply due to chronic drought experienced in some of the wheat exporting countries like USSR. Further, the requirement to meet the commitments of the National Food Security Act (vide unit 19, section 19.5.4), is much less than the current stocks in the FCI godowns. Nonetheless, it is a fact that countries adopt practices of levying export taxes for maintaining stability of supply within a country and impose high tariffs to protect the domestic producers from such imports. Such practices, however, lead to international market instability by creating a situation of surplus farm products in some countries and shortage of foodgrains in some other countries. In other words, besides lowering the transmission of price movements between domestic and international markets, the very rationale for production of goods by a country with comparative advantage for optimum welfare is defeated by such policies.

**Domestic Concerns Versus International Trade Compulsions:** Policies for establishing a balance between the domestic objectives of food security, market stability and minimising macroeconomic imbalance (caused by heavy agricultural subsidies) with those of easing trade barriers for international trade in agriculture have to contend with domestic political compulsions. Further, the domestic policies of countries have been influenced by significant sums of money spent by lobbyists standing to gain from policies of protectionism. Studies have established close links between the compulsions for policies to cater to domestic agricultural concerns on the one hand and the negative spillovers of such policies to the preferred environment for international trade in agriculture on the other. A critical dimension for the establishment of required equation between the two is that of ‘how crude oil prices influence food prices’. To establish a threshold price of crude oil at which food prices become further unaffected by it, the prospects of bio-fuel from agriculture has surfaced as a potential variable into the trade equation.

### 26.2.3 Institutional Factors

Infrastructure for trade, both imports and exports, plays a major role in determining the level of trade of a country. In case of agricultural trade, infrastructure gains importance because of the perishable nature of the commodities. Efficient transportation and handling facilities are essential pre-requisites for agricultural trade. So is efficient communication

infrastructure. In the case of commodities like fruits and vegetable and flowers, cold chains play a very important role in maintaining the quality of the produce and enhancing its shelf life.

Along with the physical infrastructure, facilities for treatment of commodities for ensuring certain quality parameters also influences international trade. For example, several countries require fruits to be vapour-heat- treated before they are accepted.

**Check Your Progress 1** [answer in about 50 words using the space given]

- 1) State in brief the two reasons why countries engage in foreign trade.

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- 2) What are the major factors which influence foreign trade in agricultural goods?

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- 3) State the condition which needs to be met in order that the benefit of productivity increase in agriculture can reach the consumers in the form of lower prices.

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- 4) Which phenomenon of recent occurrence is described as the ‘corrosive impact of market instability’? What are the economic factors that have primarily contributed for its occurrence?

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- 5) Which are the features of product/market, distinguishable between agricultural and industrial goods, that affect the terms-of-trade to go against agriculture?

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- 6) State the three main global phenomena which are feared to keep the upward trend in agricultural prices to continue to prevail. How would this affect the food prices in the international market?

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- 7) What is dumping? What is the main reason why it is practiced?

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- 8) What has been the concern of activists on the recent decision of Indian government to export subsidised foodgrains? What economic rationale could you indicate for such a decision?

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- 9) State the two consequences of curtailing exports/imports of agricultural products by taxes/tariffs on international markets?

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- 10) What dimensions of domestic concerns have had to be contended with in evolving policies required for the establishment of a preferred environment conducive for international trade in agriculture?

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- 11) How are institutional factors especially important in international trade in agriculture?

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## 26.3 INDIA'S AGRICULTURE TRADE

For analysing the changing trends in India's agricultural trade, we need to know about the sources of data on India's exports and imports. The Directorate General of Commercial Intelligence and Statistics (DGCIS) under the Ministry of Commerce compiles the data on trade. These are published regularly in monthly and annual time series. Annual data are also available on the website of the Ministry of Commerce. Publications of many other organisations like the RBI, Ministry of Finance (MoF), Central Statistical Organisation (CSO), etc. also report trade data. In particular, the RBI publishes the data on trade in its publication on the Handbook of Statistics on the Indian Economy, the MoF in its Annual Economic Survey reports and the CSO in its annual publication Statistical Abstract. While these publications contain mostly broad annual data, detailed information by commodity (called HS data outlined below) and sources of imports and destination of exports (which indicates direction of trade) are available in the DGCIS publication. The data on exports of agricultural and allied products are published for 15 principal commodity groups, viz. (i) tea, (ii) coffee, (iii) rice, (iv) wheat, (v) cotton, (vi) tobacco, (vii) cashew, (viii) spices, (ix) oil, (x) fruits and vegetables, (xi) processed fruits and juices, (xii) marine products, (xiii) sugar & molasses, (xiv) meat products, and (xv) other agricultural products. The corresponding data on import of agricultural and allied products are published under four broad commodity heads viz. (i) cereals and related products, (ii) edible oils, (iii) pulses, and (iv) sugar. While these relate to goods classified under 'bulk consumption goods' (like food, agricultural raw materials, cotton tobacco, etc.), a few other agri-items imported like paper, crude rubber and pulp are separately published under 'other bulk items'. In the analysis of India's imports discussed in section 26.3.2 below, the above three items are clubbed under 'others' making the imported items under agriculture and allied products a total of five commodity groups. The data on both exports and imports for these specified commodity items are published separately in rupees and dollar terms. Analysis of trade may also require trade data for other countries. Such international data on trade are available from the World Bank and the Food and Agriculture Organisation (FAO). FAO's website carries data on various aspects under the name of FAOSTAT. Commodity-wise and country-wise data can also be accessed at the website of the International Trade Centre, Geneva.

From the point of view of data/information on trade statistics, the publication on 'India Trade Classification (Harmonised System)' [ITC (HS)] of exports and imports [published by the Directorate General of Foreign Trade (DGFT), Ministry of Commerce] is another important source of data. For agriculture and allied products, we can illustrate the classification made in the ITC (HS) at two levels viz. sections and chapters. At the broad 1-digit sectional level, the ITC (HS) makes four classification for agricultural and allied products viz.: I – live animals, animal products, etc.; II – vegetable products; III – animal or vegetable fats and oils, etc.; and IV – prepared food stuffs, beverages, etc. At the second level (at 2-digit level) of disaggregation, called HS chapters, the agricultural products are further distributed into eight processed food products (codes within brackets) viz.: (i) dairy products, eggs, honey, etc. (04); (ii) animal & vegetable fats and oils, etc. (15); (iii) preparations of meat, fish, etc. (16); (iv) sugar and sugar confectionery (17); (v) cocoa and cocoa products (18); (vi) preparations of cereals, starch or milk, pastry cook products (19); (vii) preparations of vegetables, fruits, nuts, etc.; and (viii) miscellaneous edible preparations (21). At the highest level, the commodities are classified at the 6-digit level in the ITC (HS). The ITC (HS) codes are modified and updated from time to time to account for change in technology/products.

We shall now study the trends in India's agricultural exports and imports with a focus on understanding: (i) the trends in exports of agricultural commodities as a ratio of total exports/imports i.e. exports/imports in agriculture plus non-agricultural commodities; (ii) the leading products which dominate the exports in terms of their relative share/rank; and (iii) the growth rate in exports/imports over specified 5-yearly time periods of 1990s/2000s.

### 26.3.1 Trends in Exports

Over the period 1996-2011, there is a declining share in the total value of agricultural exports expressed as a percentage of total exports for 'all products' (Table 26.1). The decline is from 20.5 percent in 1996-97 to 9.7 percent in 2010-11. There is an increase in this respect to 12.3 percent in the year 2011-12. While this decline is in relative terms, in terms of absolute values (and at current prices), however, there is a steady increase in the total value of agricultural exports by more than 4.5 times (from Rs. 243.6 billion in 1995-96 to Rs. 1103 billion in 2010-11) over 1996-2011 and by 7.4 times when we consider the provisional figures for 2011-12. The other inferences that can be drawn from the data in this regard are as follows.

**Table 26.1: Export of Principal Commodities in Agricultural and Allied Products – 1997-2012**

(Rs. in billions)

Commodity	1996-97	2000-01	2005-06	2010-11	2011-12
1. Tea	10.4	17.9	17.3	33.5	41.4
2. Coffee	14.3	11.9	15.9	30.1	45.3
3. Rice	31.7 (III)	29.3 (III)	62.2 (III)	115.9 (IV)	241.2 (II)
4. Wheat	7.0	4.2	5.6	0.01	10.2
5. Cotton	15.8 (V)	2.2	29.0 (V)	131.6 (II)	216.2 (III)
6. Tobacco	7.6	8.7	13.3	39.9	40.1
7. Cashew	12.9	20.5 (V)	25.9	28.5	44.5
8. Spices	12.0	16.2	21.2	80.4	131.8
9. Oil	35.0 (II)	20.5 (IV)	48.8 (IV)	110.7 (V)	117.6
10. Fr. & Veg. (F&V)	5.8	8.4	21.3	49.1	57.1
11. Processed fruits/juices	10.9	13.2	15.9	36.7	54.6
12. Marine products	40.1 (I)	63.7 (I)	70.4 (II)	119.2 (III)	165.9 (IV)
13. Sugar & Molasses	10.8	5.1	6.0	56.3	89.8
14. Meat and related	7.1	14.7	27.5	89.6	141.1 (V)
15. Others	22.5 (IV)	36.6 (II)	72.0 (I)	181.5	396.5
<b>A: Total (1 to 15)</b>	<b>243.6</b>	<b>272.9</b>	<b>452.2</b>	<b>1103.0</b>	<b>1793.3</b>
Share of Top Five Ranking Products (%)	145.1 (59.6)	170.6 (62.5)	282.4 (62.5)	658.9 (59.7)	1160.9 (64.7)
<b>B</b> Total Exports (Agricultural + non-agricultural)	1188.2	2035.7	4564.2	11429.2	14592.8
<b>A as % of B</b>	<b>20.5</b>	<b>13.4</b>	<b>9.9</b>	<b>9.7</b>	<b>12.3</b>
Agl. exports indexed to 1995-96 = 100	100.0	111.9	185.4	452.2	735.3
<b>5-yearly Growth Rate (%)</b>	<b>-</b>	<b>2.3</b>	<b>10.6</b>	<b>19.5</b>	<b>-</b>

**Source:** RBI, Handbook of Statistics on the Indian Economy, 2012.

**Note:** (i) Roman numbering within brackets denote the top five products in value terms.

(ii) Figures for 2011-12 are provisional.

- 1) The top five leading products which together account for nearly 60 percent of agricultural exports include: rice, cotton, oil and marine products. The other product in this group is that of the miscellaneous items clubbed under 'others' whose share in the overall agricultural exports have steadily increased over 1996-2012 to occupy the top position among all the commodity items in agriculture. The top position had been attained by this 'other products' group by the year 2005 and has since increased steadily by 5.5 times over the years 2006-12.
- 2) Other products which have steadily increased their exports are: tobacco, cashew, spices, fruits & vegetables, processed fruits and juices and meat & meat products.
- 3) Indexing the value series (to 1995-96 = 100 by applying the multiplying factor  $100 \div 243.6$  i.e. the value for the base year) for enabling the temporal comparison of growth rates over the three five-year periods of 1996-2000, 2000-05 and 2005- 10 (or 1997-2011 by taking the terminal year points), we see that the agricultural exports over the period 1996-2010 have steadily grown at a compound annual average of 2.3 percent, 10.6 percent and 19.5 percent respectively. By these trends, the period of 2005-10 has been the most productive for agricultural exports.
- 4) The long term average compound annual growth rate in agricultural exports over the 15-year period of 1997-2011 is 10.6 percent and over the 16-year period of 1997-2012 it is 13.3 percent. Such a long term growth rate evens out the year-to-year variations and provides a more balanced picture of the export performance. By this yardstick, the Indian agricultural exports have performed steadily better particularly over the later years of 2000.

### **26.3.2 Trends in Imports**

The trend in the value of agricultural imports has increased from Rs. 75.3 billion in 1996-97 to Rs. 866.2 billion in 2011-12 (at current prices). The increase is by 11.5 times over the 17-year period of post-reform years i.e. over 1996-2012 [Table 26.2]. However, as a proportion of total agricultural imports with that for 'all products', it has declined from 5.4 percent in 1996-97 to 3.7 percent in 2011-12. In terms of commodity products, bulk of our imports is for 'edible oils' followed by other agri-products (i.e. 'others') and pulses. The relative shares of cereals and sugar are very small. In particular, in 2011-12, the combined relative share of cereals and sugar has shrunk from 5.3 percent in 2010-11 to less than 1 percent in 2011-12. [Note: These percentages, not reflected in Table 26.2, can be calculated by taking the totals in **A** as 100]. Converting the value of agricultural imports to a constant base (of 1996-97 = 100) so as to off-set the effect of rise in prices and afford temporal comparison, we can draw three other inferences as follows.

- 1) The 5-yearly average annual growth rates in agricultural imports have increased from 7.2 percent over 1996-2000 to 14.4 percent during 2000-05 and to a further high of 24.9 percent over 2005-10;
- 2) The percentage of total agricultural foreign trade (i.e. imports + exports) to total agricultural & allied GDP exports (last row: Table 26.2) has increased from 9 percent in 1996-97 to 18.8 percent in 2011-12. These trends are indicative of the gradually growing liberalisation of trade regulations in agriculture; and
- 3) Comparing the two totals in agricultural exports and imports (**C** and **A** in Table 26.2), we see that India has consistently been a net-exporter of agricultural commodities (i.e.  $C - A > 0$ )

**Table 26.2: Import of Bulk Consumption Goods in Agricultural and Allied Products – 1997-2012**

Foreign Trade in  
Agricultural Goods

(Rs. in billions)

Commodity	1996-97	2000-01	2005-06	2010-11	2011-12
1	2	3	4	5	6
1. Cereals and related	4.9	0.9	1.6	5.5	3.4
2. Edible oils	29.3	59.8	89.6	298.6	462.4
3. Pulses	8.9	5.0	24.8	71.5	87.7
4. Sugar	0.03	0.3	6.5	27.9	3.1
5. Others	32.2	40.4	85.5	228.9	309.6
<b>A: Total (1 to 5)</b>	<b>75.3</b>	<b>106.3</b>	<b>208.0</b>	<b>632.4</b>	<b>866.2</b>
<b>B Total Imports (All Products: Agl. + non-Agl.)</b>	1389.2	2308.7	6604.1	16834.7	23459.7
<b>A as % of B</b>	<b>5.4</b>	<b>4.6</b>	<b>3.1</b>	<b>3.8</b>	<b>3.7</b>
Agl. imports indexed to 1995-96 = 100	100.0	141.4	276.7	841.1	1152.0
5-yearly Growth Rate (%)	-	7.2	14.4	24.9	-
<b>C Total Agl. Exports</b>	243.6	272.9	452.2	1103.0	1793.3
<b>Total Trade (A + C)</b>	318.9	379.2	660.2	1735.4	2659.5
<b>D Agl. &amp; Allied GDP</b>	3531.42	4606.08	6377.72	12698.88	14173.66
<b>Ratio of C to D (%)</b>	<b>9.0</b>	<b>8.2</b>	<b>10.4</b>	<b>13.7</b>	<b>18.8</b>

Source: RBI, Handbook of Statistics on the Indian Economy, 2012.

Note: Others include: paper, rubber, pulp, etc. agri-products

**Check Your Progress 2** [answer in about 50 words using the space given]

- 1) Which three government sources publish data on India's agricultural trade? Which is the principle agency that collects this data?

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- 2) What are the first two levels in which the ITC (HS) publishes the data on trade called as? State the names of the eight agricultural products that are included in the ITC (HS) in its second level of classification.

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- 3) State the principal agricultural and allied commodities for which data on exports is published.

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- 4) What are the five broad commodity heads on which data on import of agricultural and allied products published?
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- 5) Over the period 1996-2011, what has been the trend (in percentage terms) in our agricultural exports?
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- 6) Identify the five top agricultural commodities which have together dominated and led the Indian exports? Which of these have steadily improved its rank/share in the recent years?
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- 7) For making temporal comparison of agricultural growth over different time periods, what particular precaution needs to be taken by way of computational need? Illustrate how this adjustment is effected in a data series for the data on agricultural imports presented in Table 26.2.
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- .....
- .....
- 8) In terms of growth rate in agricultural exports, over the period 1996-2012, which particular sub-period has been the most productive for the Indian agricultural exports?
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- 9) Over the long term period of 1997-2012, what has been the rate of growth in agricultural exports? What does this growth rate indicate on the overall export trend for agricultural products in India?

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- 10) Indicate the broad trend in agricultural imports over the period 1997-2012.

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- 11) In terms of commodity groups, in the years 2010-11 and 2011-12, what has been the trend in the combined share of cereals and sugar imports?

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- 12) What does the trend in the ratio of 'total agricultural foreign trade' to 'total agricultural & allied GDP' convey for the period 1997-2012?

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## 26.4 TRADE POLICY

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The trade policy in India is governed by the provisions specified in the export-import policy (or the EXIM Policy) announced by the Ministry of Commerce and Industry. The broad EXIM policy is announced once in five years. The present EXIM policy covers the period 2009-14. The EXIM policy is updated every year on the 31<sup>st</sup> of March and the modified procedures announced become applicable from the 1<sup>st</sup> of April of each year. Such modifications incorporate the announcement made in the general budget in which measures like: (i) slashing/increasing of customs duties to make imports cheaper/costlier; (ii) levying of additional duties or its lowering to make the exports costlier/cheaper; (iii) changes inbound tariff rates; etc. are announced. Having followed a closed door import-substitution policy till the beginning of 1980s, India entered into a partial phase of trade liberalisation first for industrial goods in the 1980s and later towards the second half of 1990s for agricultural goods. In view of this, our

focus on studying the liberalisation policies in agriculture would be confined to measures initiated in the post-1990s. Further, in view of the two specific instruments viz. imposition of: (i) quantitative restrictions; and (ii) tariffs [commonly used in controlling the foreign trade], we shall mainly focus on the changes in these two respects. The other area of policy pursuit relates to bilateral and multilateral agreements reached between countries to promote trade. In light of this, we shall be including in our review in this section an illustrative account of some specific agreements.

### **26.4.1 Quantitative Restrictions and Tariffs**

Conceptually, quantitative restrictions usually refer to ‘quotas’. The economic impact of import quotas, in particular, is to make domestic prices for imported goods costlier. Tariffs on the other hand impose a duty or levy on the imported or exported goods without restricting the quantity of imports or exports. Thus, while the effect of imposing a ‘tariff’ on the price of the commodity is similar to quotas, there is also a major difference between the two. The difference is that while the tariff yields revenue to the government, quotas do not yield any revenue. On the contrary, if it is an import tariff it helps importers to earn higher profits at the cost of a distortion in price levels. This is particularly true in the case of monopoly in the market as an ‘import quota’ results in higher domestic price than with an ‘import tariff’. In other words, the cost of quota for the importing countries is higher than that of tariffs. The revenue generating function is thus the distinguishing characteristic of tariffs in addition to the fact that it is an easier instrument for use in trade negotiations.

The pace of reforms in agriculture picked up in India after 1993-94. The taxation on agricultural imports in India consist of three components viz. (i) a basic duty, (ii) an additional countervailing duty (equal to VAT and other taxes applicable to similar products produced domestically), and (iii) a surcharge of 2 percent (the revenue from which is used for primary education funding including mid-day meals to school children). The rates of tariff on these three components have varied over the years. In keeping with the WTO guidelines, the quantitative restrictions on the import of agricultural commodities like: (i) wheat and wheat products; (ii) rice; (iii) pulses; and (iv) oilseeds were removed soon after 2000. By the year 2005-06, the average tariff for the eight HS-chapter agricultural products (indicated above) had been substantially reduced with the average tariff for the ‘eight processed food HS-chapters’ being brought down to 37.6 percent. In terms of the rates for specific products, however, the total import tariff applied for food products (in 2005-06) ranged from 30 percent (for cocoa and cocoa preparations and miscellaneous edible preparations) to 75.5 percent (for animal & vegetable fats and oils) [Table 26.3].

Import of food products were particularly encouraged in two situations viz. (i) continuous shortage in the domestic supply of certain food items (e.g. pulses) or (ii) a temporary disruption in the supply disturbing the functioning of domestic processing industries (e.g. cotton and sugar). Although the reduction in the total import tariff was substantial for food products (compared to the levels prevailing before: e.g. the peak average tariff for agricultural commodities in 1986 was 150 percent and in 1992 it was 115 percent), considering that in 2006-07 nearly 90 percent of industrial tariffs were at 12.5 percent, the tariffs for agricultural products (at 37.6 percent) were still three times higher than the average level of tariffs applicable for non-agricultural goods. The margin of difference in this respect between the agricultural and non-agricultural goods was consistent with the facts that: (i) the opening up of the markets for industrial goods was begun earlier; and (ii) the agricultural markets were not only opened up a few years later but was meant to be kept insulated from competitive pressures by a policy of gradual opening-

up of the sector in stages. The latter, in particular, is due to reasons of domestic concerns peculiar to the agrarian character of Indian economy where a majority of workers are not only dependent on subsistence agriculture but the institutional support systems required for improving their efficiency/productivity levels are as yet not adequately developed.

**Table 26.3 Average Tariffs (%) for Processed Food Products in India :  
2005-06**

<b>HS Chapter Code</b>	<b>Description of Food Product in the HS Chapter</b>	<b>Average Tariff (%)</b>
04	Dairy products, eggs, honey, etc.	34.1
15	Animal & vegetable fats and oils, etc.	75.5
16	Preparations of meat, fish, etc.	34.1
17	Sugar and sugar confectionery	35.4
18	Cocoa and cocoa preparations	30.0
19	Preparations of cereals, starch or milk, etc.	31.2
20	Preparations of vegetables, fruits, nuts, etc.	30.2
21	Miscellaneous edible preparations	30.0
	<b>Average of 8 processed food chapters</b>	<b>37.6</b>

Source: WB, 2008, p-12.

## 26.4.2 Trade Agreements

Trade agreements are contractual arrangement between two or more states. They are called bilateral trade agreements (BTAs) if the involvement of countries are limited to two and multilateral trade agreements (MTAs) if the number of countries involved are more than two. In most countries, international trade is regulated by barriers like tariffs, nontariff barriers like QRs, etc. Trade agreements aim at reducing such barriers establishing the required 'level playing field' for trade related benefits for the countries involved. The extent of concessions decided determines whether the agreement is a free trade agreement or a preferential trade agreement. In view of the fact that neither of the countries would become a signatory to a trade agreement unless there is a perceived gain, *reciprocity* is a necessary feature of all trade agreements. Another common feature is that of the most-favoured nation (MFN) clause which prohibits the possibility that a signatory to the agreement can later offer a lower tariff benefit to another country. Trade agreements usually also include the 'national treatment of nontariff restrictions' clause by which is meant that the countries involved would not undo the offered tariff benefits with the imposition of non-tariff barriers like: (i) discriminatory regulation; (ii) selective excise taxes; (iii) quotas; or (iv) special licensing requirements.

India has so far concluded more than 40 trade agreements of which about 11 (or 27 percent) are MTAs and 30 (73 percent) are BTAs. For instance, the agreements SAFTA (South Asia Free Trade Agreement) and APTA (Asia Pacific Trade Agreement) are MTAs. Another example of a MTA is the Mercosur Preferential Trade Agreement (MPTA) signed between India and the group of four Latin American countries (viz. Brazil, Argentina, Uruguay and Paraguay) in which 14 agro-food commodities exported from Mercosur countries to India and 11 agro-food products exported from India to the Mercosur countries are accorded preferential treatment. Among the BTAs, the Comprehensive Economic Cooperation Agreement (CECA) between India and

Singapore is an example where agro-food items have been included for liberalised tariff treatment. Significantly, in the CECA between India and Singapore, out of a total of 11,666 products, as many as 1446 (i.e. 12.4 percent) products are agro-food items.

### **26.4.3 New Foreign Trade Policy (2009-14) and Agri-Exports**

The new Foreign Trade Policy announced for the period 2009-14 has two main objectives viz. (i) doubling of India's exports of goods and services by 2014; and (ii) doubling of India's share in global merchandise (which was about 1.5 percent in 2008) by 2020. The policy seeks to encourage exports through a mix of measures like: (i) fiscal incentives, (ii) institutional changes, (iii) procedural rationalisation and (iv) efforts to enhance market access by diversification of export markets. In particular, to boost India's agri-exports, a special scheme by the name of 'Special Agriculture and Village Industry Scheme' (or Vishesh Krishi and Gram Udyog Yojna: VKGUY) has been launched. To accommodate the policy's objective of promoting employment generation in rural and semi-urban areas, the VKGUY aims at exporting the: (i) agriculture produce and their value-added products; (ii) minor forest produce and their value-added variants; and (iii) other products as notified from time to time. Further, to reduce transaction and handling costs, a single window system to facilitate export of perishable agricultural produce has been introduced under the new trade policy.

### **26.4.4 Adverse Impacts**

There are also adverse impacts of trade policy aimed at boosting exports. These are experienced in the short run when the institutional systems are not well established to support and protect the small farmers. Such impact arises due to change in tastes and preferences of people leading to rise in demand for specific type of goods, switchover in cultivation practices due to expected demand but a sudden dip in demand/prices due to change in conditions, etc. For instance, misleading price signals contributed to cropping pattern shifts for vanilla in Kerala, soyabean in Maharashtra, etc. In fact, the prices of all other crops grown in Kerala was falling while only that of vanilla was rising. The abnormal increase in the price of vanilla was due to a sudden fall in production in Madagascar (the highest vanilla exporting country). However, with the production getting resumed in Madagascar the change in situation reduced its price steeply with the domestic producers in Kerala who had switched over to produce vanilla, not being able to switch-back their production to their earlier crop (coffee). Such situations lead to undue hardship to mitigate which a well charted and deeply penetrated crop insurance scheme supplemented by other institutional systems are needed. As noted in the previous units, many such support systems are developing gradually but are not as yet well developed in India. These and other matters of international relevance need to be duly catered to by suitable policy and institutional mechanisms. We will study more about them in the concluding unit (unit 27) of this course.

**Check Your Progress 3** [answer in about 50 words using the space given]

- 1) What are the two specific instruments used for regulating foreign trade? Which one of these is more preferred and why?

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- 2) Which particular feature of 'tariffs' distinguishes it from 'quantitative restrictions' (QR)? How does an 'import tariff' influence the price levels?

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- 3) For which four specific products the QRs on agricultural imports were removed by the year 2001 in India?

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- 4) By the year 2005-06, to what extent the average tariff for the 'eight processed HS-food chapters' had been brought down in India? Despite this reduction, how did it compare with the corresponding level of tariff for non-agricultural goods?

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- 5) In which two situations, import of food products are particularly encouraged in India?

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- 6) Do you think that the differential in tariff rates between the agricultural and non-agricultural goods was consistent from a policy angle? If so, what rationale could you suggest in support of this?

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- 7) Distinguish between the BTAs and MTAs. What is the general aim of trade agreements? What is a necessary feature of all trade agreements?

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- 8) What is meant by the MFN status? What does the inclusion of MFN clause essentially imply for a signatory country?

- 9) State one example each of BTA and MTA concluded by India in agriculture.

- 10) Mention the two specific objectives of India's New Foreign Trade Policy (2009-14)? Which is a particular scheme introduced in it to boost India's agri-exports?

- 11) Mention the situations under which the policy of promoting agri-exports could work against the interests of some farmers. What measures are required to protect them from such situations?

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## 26.5 LET US SUM UP

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Theoretically, in periods of high economic growth, the pace of foreign trade also is expected to increase. Consistent with the high growth rates experienced by the Indian economy, this expectation is borne true in respect of foreign trade in Indian agriculture for the period 1996-2012. India has adopted the policy of gradual opening up of its agricultural sector to foreign trade. In its first phase of liberalisation of the sector, it removed the quantitative restrictions on agricultural commodity imports by the year 2001. Later, import tariffs for agricultural products was reduced. The long term average growth of agricultural exports over the period of 1996-2012 is 13.3 percent and that in agricultural imports 11.5 percent. Considering the combined volume of exports and imports, and relating it to total agricultural GDP, the extent liberalisation of trade achieved in Indian agriculture over the period 1996-2012 is seen to be a significant

two times i.e. from 9 percent in 1996-97 to 18.8 percent in 2011-12. Further, the government has instituted a 'Special Agricultural Produce Scheme' and taken measures to set up exclusive Agricultural Export Processing Zones for promoting the agricultural exports from the country. By these measure, it aims at doubling its current share of global exports by 2020. The government has also concluded many bilateral and multilateral trade agreements in which the share of agricultural commodities is gradually increasing. While these steps are expected to increase India's share in global trade, there would be adverse impacts of such policies too in the short run. To counter such adverse impact, expansion of institutional support systems on the fronts of agricultural insurance and strengthening the various other support services are needed.

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## 26.6 KEY WORDS

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- Tariffs** : Tariffs are customs duty levied on imported goods. They give a price advantage to locally produced (i.e. domestic) goods over similar goods which are imported. They also provide revenue to the government. The 'Uruguay Round' of WTO talks committed the countries to cut 'tariffs' and 'bind' their customs duty to rates beyond which their increase would not be a unilateral affair. The subsequent round of talks in Doha continued the efforts in this direction on 'agricultural and non-agricultural' market access.
- Quantitative Restrictions (QR):** Commonly refers to 'import quotas'. They restrict the volume of goods that can be imported by laying a ceiling on the quantity that can be imported. The effect of QR is the same as that of import tariffs i.e. higher domestic prices for imported goods.
- The ITC-HS System** : Refers to the 'harmonized commodity description and coding system' for trading commodities. As trade between countries expanded, the need for such a harmonised or uniform classification was felt. As a result, in 1988 the HS system was evolved as a system of six-digit classificatory framework for commodities that are traded between countries. It is thus a classification assigned to goods along with a tariff rate. The HS classification are reviewed on a regular basis so as to keep pace with technological development. The signatories to this international convention are not allowed to modify the scope of the 'sections, chapters, heading or sub-headings of the harmonised system'. This is done with the objective of maintaining a uniform administration of the HS. The abbreviation ITC-HS stands for India Trade Classification – Harmonised System.

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## 26.7 SOME USEFUL BOOKS AND SELECT REFERENCES

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- 1) Economic Survey 2012, Ministry of Finance, Government of India.
- 2) Handbook of Statistics on the Indian Economy, RBI, Government of India.
- 3) OECD (2007), Agricultural Policies in Non-OECD Countries, Chapter 5 – India, pp 92-94.
- 4) World Bank (2008), Trade Policy Overview Report, Chapter 3. [<http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/223546-1168296540386/ch3.pdf>]
- 5) Understanding International Trade in Agricultural Products: One Hundred Years of Contributions by Agricultural Economists, American Journal of Agricultural Economics, Vol. 92 (2), January 2010, pp 424-446.

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## 26.8 ANSWERS/HINTS FOR CYP EXERCISES

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### Check Your Progress 1

- 1) See section 26.2 and answer.
- 2) See section 26.2 and answer.
- 3) See section 26.2.1 and answer.
- 4) See section 26.2.1 and answer.
- 5) See section 26.2.1 and answer.
- 6) See section 26.2.1 and answer.
- 7) See section 26.2.2 and answer.
- 8) See section 26.2.2 and answer.
- 9) See section 26.2.2 and answer. [international market instability and lowered transmission of price movements between domestic and international markets].
- 10) Food security, market stability, macroeconomic balance and bio-fuel subsidies.
- 11) See section 26.2.3 and answer.

### Check Your Progress 2

- 1) See section 26.3 and answer.
- 2) See section 26.3 and answer.
- 3) See section 26.3 and answer.
- 4) See section 26.3 and answer.
- 5) See section 26.3.1 and answer.
- 6) See section 26.3.1 and answer.
- 7) See section 26.3.1 and answer.

- 8) See section 26.3.1 and answer.
- 9) See section 26.3.1 and answer.
- 10) See section 26.3.2 and answer.
- 11) See section 26.3.2 and answer.
- 12) See section 26.3.2 and answer.

**Check Your Progress 3**

- 1) See section 26.4 and answer.
- 2) See section 26.4.1 and answer.
- 3) See section 26.4.1 and answer.
- 4) See section 26.4.1 and answer.
- 5) See section 26.4.1 and answer.
- 6) See section 26.4.1 and answer.
- 7) See section 26.4.2 and answer.
- 8) See section 26.4.2 and answer.
- 9) See section 26.4.2 and answer.
- 10) See section 26.4.3 and answer.
- 11) See section 26.4.4 and answer.