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[Back](#) Global crisis and farm exports

SHASHANKA BHIDE

Farm exports are more dependent on small producers than other sectors. They need the benefits of scale, diversification and investments in market development to minimise their exposure to risk.



In India, pushing farm exports has been a strategy not only to increase export earnings but also to find more remunerative markets for the produce.

The ups and downs in global commodity prices remain a source of concern for the farm sector, which also has to bear with uncertainties of weather at home. Constrained by the availability of key inputs such as land and water, there is little room for immediate and significant responses to deal with large fluctuations in output prices and supplies, other than stocking up supplies or releasing them for consumption.

Trade cooperation is supposed to spread risk and available supplies. The steep rise and fall of international commodity prices in recent years points to both the benefits and risks of liberal or protective trade regimes. The experience has also shown that a liberal trade policy regime itself becomes vulnerable in times of crisis. This balancing act will continue, but the need to expand markets is also here to stay.

For India, pushing farm exports has been a strategy not only to increase overall export earnings but also to find more remunerative markets for the produce where domestic markets are limited. Spices, cashew, oil meal perhaps were driven by the latter imperatives. The overall consideration has been the need to balance domestic needs and the need for export earnings.

EXPORT BEHAVIOUR

Trade in the farm sector is seen as a residual activity rather than driver of the sector. The on-and-off nature of our farm-related exports is well known. This approach has not paid off either as an efficient use of scarce resources or as a driver of productivity. Though not quite linked to the marginal role of exports in the farm sector, the share of our farm exports has also declined in total merchandise exports, as the economy changed over the years. Farm exports now account for only 10 per cent of our total exports; they were half the total exports, in terms of value, in the early 1960s.

Farm exports have diversified to some extent and are a driving force behind manufactured exports such as cotton textiles. Although farm exports may have lost their significance in the overall export earnings of the economy as a whole, they remain important in sectors where they are a source of 'remunerative prices'.

The swings in the export market prices can have a significant impact on the 'margins' of the farm sector.

It was expected that the demand for agricultural produce would be relatively stable as these exports meet some 'essential requirements' in the export destinations.

However, it was not unusual to see large changes in demand when exports were specialised, and were dominated by a few markets. The oil-rich, Gulf market has been relatively stable for farm exports, except when regional conflicts broke out.

IMPACT OF CRISIS

The rapid growth of global trade in the few years up to 2007-08 also helped farm exports to grow, but at a slower pace. Rising internal demand may explain the slower increase in exports.

Nevertheless, a more liberal trade regime also helped. There were attempts to ease import and export restrictions. The improvement in foreign exchange reserves helped reduce uncertainty over the nation's ability to import essential consumption needs of the population.

However, this situation of comfort in external balances was somewhat dented by the global economic crisis. How did farm exports fare during this period? The slump in world trade that followed and created recessionary conditions in many of our main export destinations, affected not only trade in items such as auto parts or other engineering goods, but also textiles and farm exports. Nothing was spared.

During the crisis years of 2008-09 and 2009-10, the share of agricultural exports remained at about 10 per cent of the total exports, the same as in 2007-08, even as the total exports declined.

Some of the decline was due to the fall in prices and not only quantities. Nevertheless, a sharp contraction in global trade affected our farm exports.

COPING WITH RISK

The lessons for farm exports are perhaps no different from exports of the other sectors. The global economy is now again set to recover and the growth in trade will follow. There will, however, be a need to improve the ability of the farm sector to bear the risks of market.

Farm exports are more dependent on small producers than many other sectors. They need the benefits of scale, diversification and investments in market development to minimise their exposure to risk.

For that, exports would have to be given higher priority than just being seen as a residual activity.

(The author is a Senior Research Counsellor, NCAER. The views are personal.
blfeedback@thehindu.co.in)

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