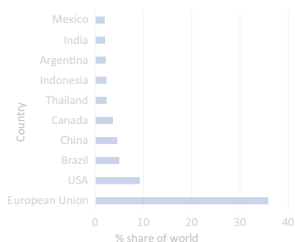




Agricultural Export, Value Chain and Doing Business: Critical Policy Issues and the Way Forward

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Introduction

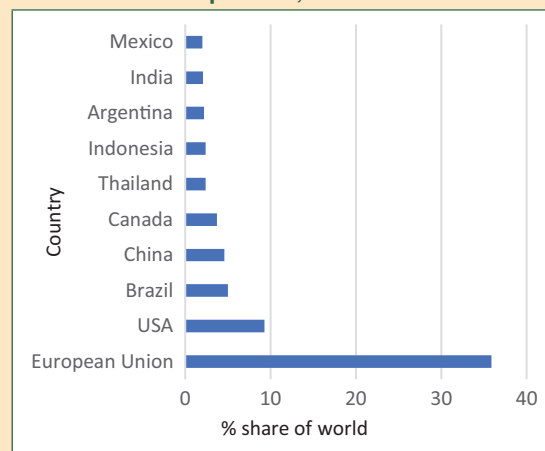
India is known to be one of the major producers of agricultural products in the world. However, its contribution to global agricultural exports is very meagre. On the one hand, this has been due to flaws in the Indian agricultural organisation and system. On the other hand, it is too fragmented for international trade and most exports lie on the low end of the value chain. Having understood the potential for making India a major agricultural exporter, the government has been proactively attempting to revamp the sector. Among other things, it includes a series of measures to revamp the sector through pushing for its greater participation in international trade. The most recent one such policy includes the first exclusive Agricultural Export Policy (AEP) proposed in 2018². The policy intends not only to improve India's share in world exports but also to double farmer income. For the purpose, the policy has provided a greater mandate for state governments in implementing the policy.

However, there is not any systematic study that tries to understand whether this new policy (AEP) is successful in addressing some of the fundamental problems faced by the sector in entering international trade. Also, whether the new policy has contributed positively in improving/streamlining the export-related value chain process and doing business issues with respect to agriculture exports or are there any flaws in its making. It is in this background that the study carried out at the ISEC with financial support from ICSSR attempted to examine the policy and the performance of agriculture exports in the country, besides outlining the value chain and doing business issues in the context of select agricultural products in the country³. The study is based on the available secondary data from FAO, APEDA and RBI statistics among others and also primary data collected during the fieldwork. While doing so, besides interacting and culling information from different stakeholders involved in executing and implementing the AEP, the findings of the study are largely drawn from the exporters and custom house agents (CHA).

Major Findings

- Though India stands second in terms of global agricultural production, in terms of its share in world exports it ranks in the 9th position (Figure 1). Agricultural exports' contribution to India's GDP is less than 2 per cent, which is far below that of other developing agrarian countries. For instance, Brazil and Indonesia ranked respectively 3rd and 6th position in terms of world agri-exports in 2016.
- The top-10 agriculture products exported in the world as of 2018 and India's share in those exports indicate that except for crude materials i.e. products that have not been manufactured or processed, where India's exports accounted for more than 3 percent of global exports, for the other top exported products, India's share is less than one per cent.

Figure 1. World's top exporters of agricultural products, 2019



Source: WTO World Trade Statistical Review, 2020

- The share of the agriculture sector in the country's total exports has declined marginally from 12.07 per cent (2016-17) to 11.76 per cent (2018-19). The reasons for such patterns may be attributed to lower prices and demand in the international market, unfavourable currency movements and international developments like sanctions against Iran and

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² This subsequently resulted in the closure of the existing Agricultural Export Zone Policy, which was proposed in the EXIM policy statement of 1997-2002.

³ The products covered in the present study include rice from Gujarat, spices from Kerala and fruits from Karnataka.

Russia. In addition to this, the gross value added from agriculture has declined from 17.83 per cent in 2012-13 to 14.9 per cent in 2017-18.

- With respect to the composition of agriculture exports, marine products followed by Basmati rice and oil meals are leading. Across Indian states, Gujarat, Maharashtra and Uttar Pradesh are top exporters. However, there exist discrepancies between major agricultural producing states v/s major exporting states. This is largely due to the way the APEDA maintains the data on agricultural exports, which is based on the state from which it is being exported and not necessarily whether or not it is being produced from the same state.
- Over the last ten years, Vietnam has emerged as one of India's main export partners. On the other hand, the UAE has become a less favourable destination, being a top destination for two products in 2018-19 versus six in 2009-10. Over ten years, the US grew from buying a tenth of India's marine exports, to close to 1/3rd of them in 2018-19 (Tables 1 and 2). Iran, which bought less than 20 percent of India's Basmati rice exports in 2009-10, was the destination for more than 43 percent of India's Basmati rice exports in 2018-19.

- In the Indian context, trade in agriculture is erroneously considered synonymous with India's entry to the WTO and subsequent reduction in tariff rate. The intensity of agricultural trade before 1995 was not very significant and hence, it was not in the policy discussions then. The possibility of government intervention to strengthen the supply side, specifically through improving the agriculture value chain as a trade commodity, was less focused/ thought of. As a result, much of the measures introduced in the late 1990s and early 2000s were largely meant to protect the farmer interest in lieu of India's entry into the WTO than capacity building the sector. It is in this context that the introduction of a new agriculture export policy in the year 2018 has led to high expectations both in its reach and outcome. Prima facie, the AEP, 2018 seems to be improved over the then existed AEZ policy but in the making of it, many elements are missing. They include:
 - o The policy has not given specific information when it comes to trade facilitation and allocation of funds, which is a central government subject and it could come across as an extension of the Agriculture Export Zone policy, which had been discontinued years before.
 - o It remains to be seen if state governments have taken the initiative to formulate their own state export policies, given that

Table 1: Top five destinations for India's top ten exports (share in %), 2018-19

Total exports in Million US\$	Marine Products	Buffalo Meat	Basmati Rice	Spices	Non-Basmati Rice	Raw Cotton	Sugar	Fresh Veggies	Coffee	Groundnut
	6796.37	4712.62	3587.15	3308.27	2999.51	2104.41	1491.73	1359.58	883.76	830.9
USA	34.3			16.1					5.5	
Vietnam	15.1	36.0		7.4		14.3				4.6
China	10.7			13.5		24.0				
Japan	6.2									
Thailand	4.7			4.0						3.1
Malaysia		7.8						5.9		3.6
Indonesia		6.9				2.6				23.3
Iraq		3.6	11.2							
Myanmar		2.6					8.4			
Iran			43.4	5.2						
Saudi Arabia			26.2							
UAE			8.3					8.4		
Yemen			5.9							
Nepal					9.3			4.9		
Benin					8.8					
Senegal					7.4					
Bangladesh					6.2	33.0		8.6		
Guinea					5.9					
Pakistan						16.0				
Sudan							18.8			
Somalia							10.5			
Sri Lanka							8.8	4.4		
Djibouti							6.6			
Italy									17.4	
Germany									8.0	
Russia									5.9	
Belgium									5.4	
Philippines										5.6

Source: APEDA (n.d.) ; Note: The numbers are the % share of exports to that country out of India's total export in that commodity.

Table 2. Top five destinations for India's top ten exports (share in %), 2009-10

2009-10	Marine Products	Buffalo Meat	Basmati Rice	Spices	Non-Basmati Rice	Raw Cotton	Sugar	Fresh Veggies	Coffee	Groundnut
Total	2095.28	1163.5	2289.35	1257.86	76.38	2050.7	23.2	637.16	429.74	302.42
Japan	11.7									
China	11.1			8.2						
USA	9.8			15.2			6.0			
Hong Kong	7.6					54.3				
Spain	6.9									
Vietnam		26.4								
Malaysia		11.4		8.7	10.3		19.1	13.8		18.9
Philippines		7.9								18.6
Egypt		7.0								
Kuwait		6.5								
Saudi			30.3		13.9					
UAE			28.5	4.7	11.4		5.9	11.5		2.8
Iran			18.7							
Kuwait			9.5							
Yemen			2.7							
UK				5.7						
Maldives					12.0		16.6			
Nepal					8.5					
Pakistan						11.3		5.9		4.6
Bangladesh						8.6		38.5		
Indonesia						4.5				39.2
Turkey						4.0				
Sri Lanka							14.9	7.1		
Italy									20.7	
Russia									14.3	
Germany									7.1	
Belgium									4.2	
Jordan									3.5	

Source: APEDA (n.d.)

only a few states have developed a specific action plan towards agricultural exports. Karnataka is one of those to come out with an elaborate report on enhancing the state's participation in international trade after the signing of the WTO.

- o Three, it is unclear what was the rationale that led to choosing the product under current AEP as against AEZs structure and also, the districts identified under each cluster in each state.
- The efficacy of the policy in facilitating AVC through the lenses of coordination, control and safeguard (CCS) framework indicate that
 - o Apparently there are many institutions in place for safeguarding the interests of the farmers as well the traders domestically, as well as those interested in entering the international market. But the real challenge lies in the coordination between different agencies and also many a time, these agencies are clueless about how to safeguard the traders'/exporters' interests, specifically whenever there is a border rejection.
 - o The issue of coordination, control and safeguard is highly product-centric – as the agencies involved and corresponding issues flagged by exporters varied across select agri-products. The role of the Custom House Agent (CHA) in agricultural

value chain governance and also in doing business with an agricultural product is immense. These agents through their network help immensely in getting the pertinent information both domestically as well as overseas.

- Doing Business (DB) and Trade Facilitation (TF) of agricultural exports through the lenses of the transaction costs approach indicate
 - o Doing trade differed across agricultural products. Though the documentation costs seem to be on par with the World Bank findings, with respect to days taken, it ranged from 4-10 days.
 - o There was noticed a difference in charges levied by different agencies for issuing the same certificate.
 - o Agricultural exporters from Karnataka complained about high inland freight costs involved as against their counterpart in Maharashtra.
 - o The traders 'community have invariably expressed no complaints with regard to availing information and documentation, but major issues are reported in availing various incentives. It is their firm opinion that instead of floating additional incentives in every budget, there is a need to ensure its access and actual utilisations are high.

- o The Covid-19 pandemic impacted agricultural exports in two ways: one, during the pandemic, there was an apparent shortage of labour and this has contributed to a considerable delay in shipment; two, it also resulted in a steep increase in shipping line/airway bill costs as against the earlier practice.

Policy Suggestions

1. Need to revisit the clusters and districts identified under AEP:

As the policy lacks logical reasoning and rationale of choice with the corresponding districts chosen for the same. For instance, in the context of Karnataka, many products that have a comparative advantage in terms of the scale of production/APY are not completely reflected in AEP, 2018 documents. Further, the districts identified for clusters formation pose another set of challenges in their implementation. For instance, pomegranate clusters were identified for Mysore and Bagalkot, whereas they flourish better in other districts.

- a. There is also a need to focus and exploit the potential that India has in respect of GI products - may be export in the whole form or in value added form.
- b. In addition to this, there is a need to focus on our traditional products which have a clear advantage in the global market, e.g., our spices are much better in quality and aroma. Rose onion from Bangalore is another such example.
- c. The world over demand for organic products is increasing steadily. The global demand for organic products has crossed USD 100 Billion, whereas India's share is only around USD 500 Million which is around half per cent (Spices Board). If so, a proactive step in the promotion of Exclusive Organic Clusters may facilitate agricultural exports in these products.

2. Vertical and Horizontal Coordination across departments has to be improved:

In the present study, there was found a lack of proper coordination between the APEDA (entity responsible for proposing AEP, 2018) v/s the implementing agency. For instance, the KAPEC -being the implementing agency from Karnataka - have been trying to include a few more products under clusters based on their comparative advantage and also change the district allotted for pomegranate clusters from Mysore and Bagalkot to other districts based on APY. However, it is not being approved by the APEDA so far, which apparently makes the implementation and success of AEP a very weak possibility. Much of this is attributed to the shortage of manpower in various branches of the APEDA, for example, Bangalore APEDA is being headed by one person who needs to look after the needs and requirements of four southern states (Karnataka, Kerala, Tamil Nadu and Puducherry).

3. Need to invest more in post-harvest infrastructure:

Based on clusters identified in each state and each district, the respective state implementing agency needs to make a quick assessment of the existing infrastructure and what more needs to be done.

In the context of Karnataka, some of the key issues flagged by the KAPEC include: Creating a world-class integrated post-harvest infrastructure facility (pack house, pre-cooling units, high humidity cold storages, grading, washing, waxing facility, hot water treatment and Vapour Heat Treatment for mangoes) to handle perishable cargo, both at the Bangalore International Airport (BIAL) and the Mangalore International Airport (MIA). One integrated facility for handling horticulture produce is being established by the KAPPEC near the BIAL at an estimated cost of Rs. 25 Crores.

- a. Need to subsidise inland freight costs for pomegranate and rose onion exports from Karnataka - as this adds substantially to their total transaction costs.

4. Need to map agricultural product with its export destination:

The Government of India should identify the countries where India has an advantage with respect to agriculture exports and designate an officer/officers there to continuously monitor the agricultural export trade from India and interact with the APEDA and with the state governments as well.

5. HS Code for rose onion:

As of now, rose onion does not have a separate Harmonised System Code. As a result, whenever there is a steep increase in the domestic price of onion - (due to mismatch between demand and supply), the government in the past has put restrictions on the export of onion and accordingly there are export restrictions on rose onion as well. Rose onion has hardly any domestic market, as a result of which both producers and exporters face a lot of difficulty in exporting it. It adds significantly towards their transaction costs of doing trade both in terms of costs and time taken for the same. Though the KAPAC has approached both the APEDA and the DGFT, the government is yet to intervene and take appropriate policy corrections.

Acknowledgement

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2. For a detailed account on Agricultural Export Policy 2018 refer: Tantri Malini L (2022) The Missing Thread in the Making of Agriculture Export Policy in India, *Indian Journal of Agricultural Economics*. Vol 77 No 2. Apr-June, pp 277-293.

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