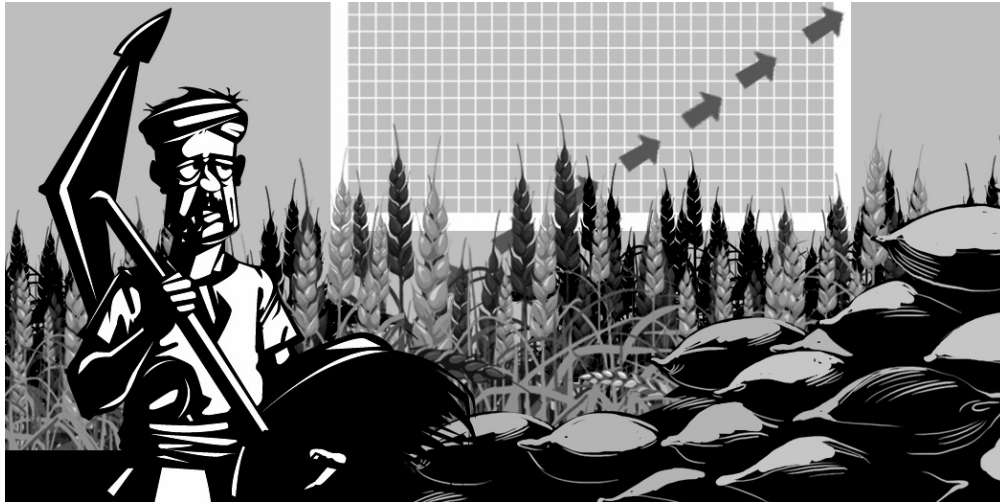


ILLUSTRATION: AJAY MOHANTY



India: Agricultural trade powerhouse

What many of us have not noticed is that agriculture now yields greater exports than automobiles or garments plus textiles

The mentality of food scarcity is increasingly out of touch with modern India. As yields grow, the only way to prevent local price collapses is to integrate into the global economy. India's agriculture exports are at about \$40 billion a year, which is larger than (say) our exports of textiles and garments put together. Our worldview in agriculture policy needs to shift towards a much more international orientation.

Our self-image in India is that of a country with a high population and food scarcity. While that was the case many decades ago, things have changed. India has a lot of arable land, particularly considering that the weather supports multiple crops a year. We started from very poor yields, with potential gains of two to five times from improved practices.

Yields are getting better, and population growth is steadily declining. It is not possible for us to consume our output domestically; this is part of why we are seeing domestic softness of agricultural prices. These developments gave a great phase of exports of agricultural products. By 2013, India surpassed Australia in agriculture exports, with the highest growth rate in the world over the preceding decade. The trade/GDP ratio for agriculture went up from 11.8 per cent in 2008-09 to 15.2 per cent in 2018-19.

Discussions of Indian labour-intensive exports tend to centre around fields like automobiles, garments, etc. What many of us have not noticed is that a labour-intensive industry — agriculture — now yields greater exports than automobiles or garments plus textiles.

And yet, in recent years, growth has stalled. From the 2001-04 numbers to the 2011-14 numbers, we added about \$34 billion a year to the revenues of agriculture. That growth did not take place in the following years. This may be one element shaping farm distress in the country today. Consistently being part of the export market effectively gives us a minimum support price, the world price.

Unilateral full integration into the world — regardless of protectionism or subsidies in other countries — is now our opportunity. There are four themes about such internationalisation, which are well understood in other industries, that now apply to agriculture.

The first theme is that of specialisation. India is good at doing software and bad at doing hardware or running data centres. Hence, the efficient organisation of the world is for India to make and export software, while renting data centres elsewhere in the world.

In similar fashion, integration into the world economy will profoundly reshape Indian agriculture. Under conditions of trade, we will shift away from producing the things that are best done elsewhere in the world (capital-intensive crops grown on large areas, e.g. sugarcane or wheat) and specialise in doing things that we do uniquely well (labour-intensive small holdings, e.g. fruit and vegetables). This is an old idea that goes back to Ricardo.

The second theme is that of political economy. The domestic policy process can degenerate into a dysfunctional political economy, where special inter-

est groups dominate. Integrating into the global economy helps create a new dynamic. It becomes easier to form coalitions in India, across many different special interest groups, aligned around success in exporting. Agriculture in India has long been stuck in terms of policy progress. Now that the trade/GDP ratio in agriculture has reached 15 per cent, and exports have reached \$40 billion a year, there are new possibilities for re-imagining the politics of agriculture policy.

Internationalisation solves some domestic puzzles. As an example, it is hard to make commodity futures markets work in India. But once we internationalise, India will be able to free ride on these markets outside India. Persons in India will look at the futures price outside India and make sowing or storage decisions. Internationalisation helps us sidestep domestic policy problems.

The third theme is that of trade within South Asia. Physical proximity is extremely important for international trade. The most important international trade opportunities for us in India are within our region. This may apply even more for agriculture, given the costs of transportation. We need to create the institutional conditions for intra-South-Asia trade, to obtain the gains from trade in all fields, and particularly with agriculture.

The fourth theme is that of sustained engagement. Many have commented on how India is seen as an unreliable seller owing to periodic bans on export. The problem runs much deeper than this. Exporting is not a simple matter; it requires developing complex organisational capital and business relationships.

Imagine a world where garment or automobile component exports are banned every now and then. This would greatly deter investments by firms in export capability. This includes investments in organisation and process design, business relationships spanning the globe, establishment of offices overseas, products and technologies that cater to the world market, etc. For Indian firms, embarking upon international activities involves complex project planning spread over many years, starting from a few meetings in India with foreign buyers all the way to outbound FDI to establish business operations all over the world.

This same problem applies, equally, for foreign companies who may think about doing business with India. When India vacillates on bans, those companies will be reticent on investing in building an India business. This hampers India's ability to export, as about half of global trade takes place within multinational corporations. For India to export, we need global firms that will commit to growing roots in India.

Our instincts for bans and un-bans are born of the age of food insecurity. The world has changed. India's population is not able to consume the food that India grows. Gains in yield in the future will further exacerbate the problem. We tend to think of agriculture policy as a contest between consumers (who favour low prices) and farmers (who favour high prices). Once we change gear and participate in the global market, this configuration changes. All Indians benefit when we are able to organise ourselves to export more. Land use will shift from low value products to high value products.



SNAKES & LADDERS

AJAY SHAH

The writer is a professor at National Institute of Public Finance and Policy, New Delhi