

The Political Economy of Indian Food Exports

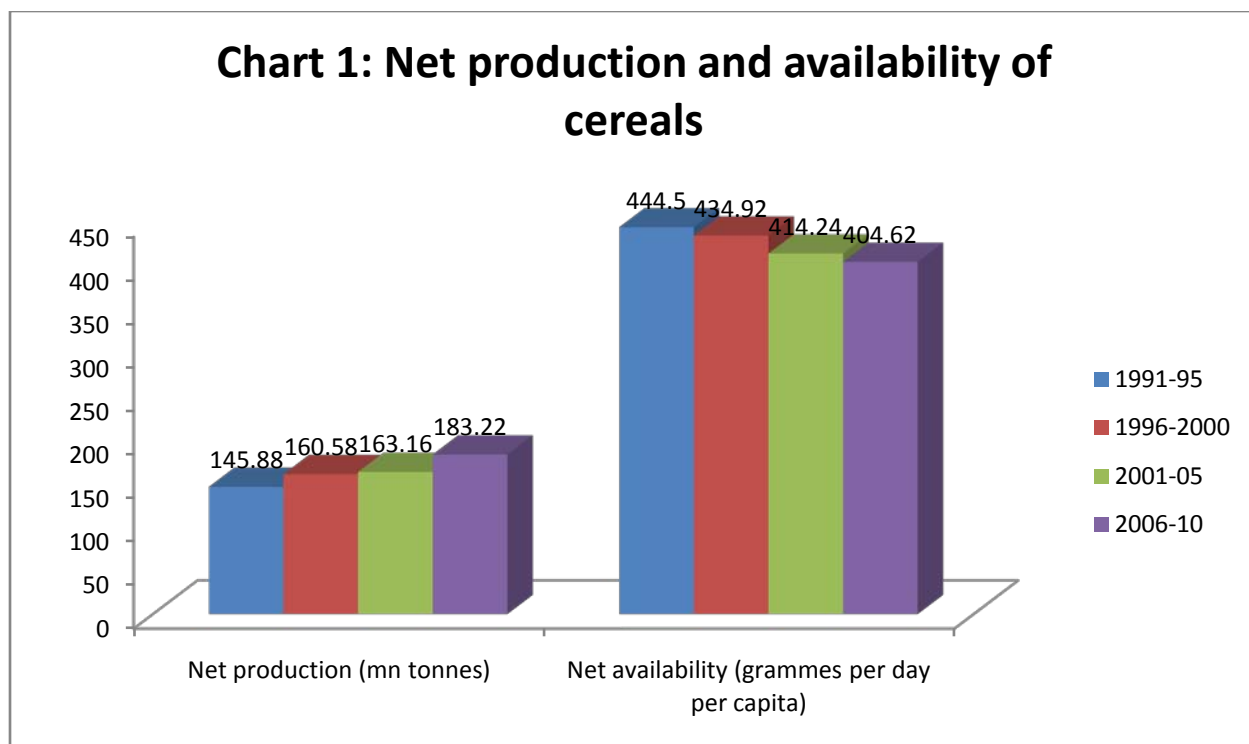
C.P. Chandrasekhar and Jayati Ghosh

The feel-good factor may be fading for Indian and foreign investors, and [the trade and balance of payments situation may look dire](#), but there are apparently some economic aspects in which India is still a “success story”. One of them is food exports: in the past few quarters, India has emerged as the world’s largest exporter of rice, possibly the world’s largest export of beef (buffalo) products and the fourth largest exporter of wheat, and is also becoming a major exporter of maize.

On current projections, total cereal exports for 2012-13 may cross 24 million tonnes, with rice exports coming to more than 13 million tonnes, wheat exports at around 6.5 million tonnes and other cereal exports at around 4.6 million tonnes.

Net exports, especially of food items, are usually taken as an indication of domestic plenty, of more than sufficient supply for meeting domestic needs. So these rising food exports may come as a bit of a surprise not just for the average Indian consumer, but for those who are aware of the country’s significant food deficits. After all, India still has some of the worst nutrition indicators in the world, on par with or below many Sub Saharan African countries. People in India are faced with accelerating prices of basic food items, which have made some food items increasingly unaffordable even for those above the income poverty line, and contributed to reduced calorie consumption of the bottom half of the population.

This has occurred even though net domestic production of cereals has increased over the past two decades (Chart 1). Despite this increase, per capita net availability of cereals has been declining in every five year period since the early 1960s, and certainly over the past two decades, as evident from Chart 1. To some extent this decline in the recent past also reflects increased public stock holding, especially in the very recent past which has witnessed significant increases in the grain reserves held by the Food Corporation of India. But this is clearly not the only reason, nor even the most important one.

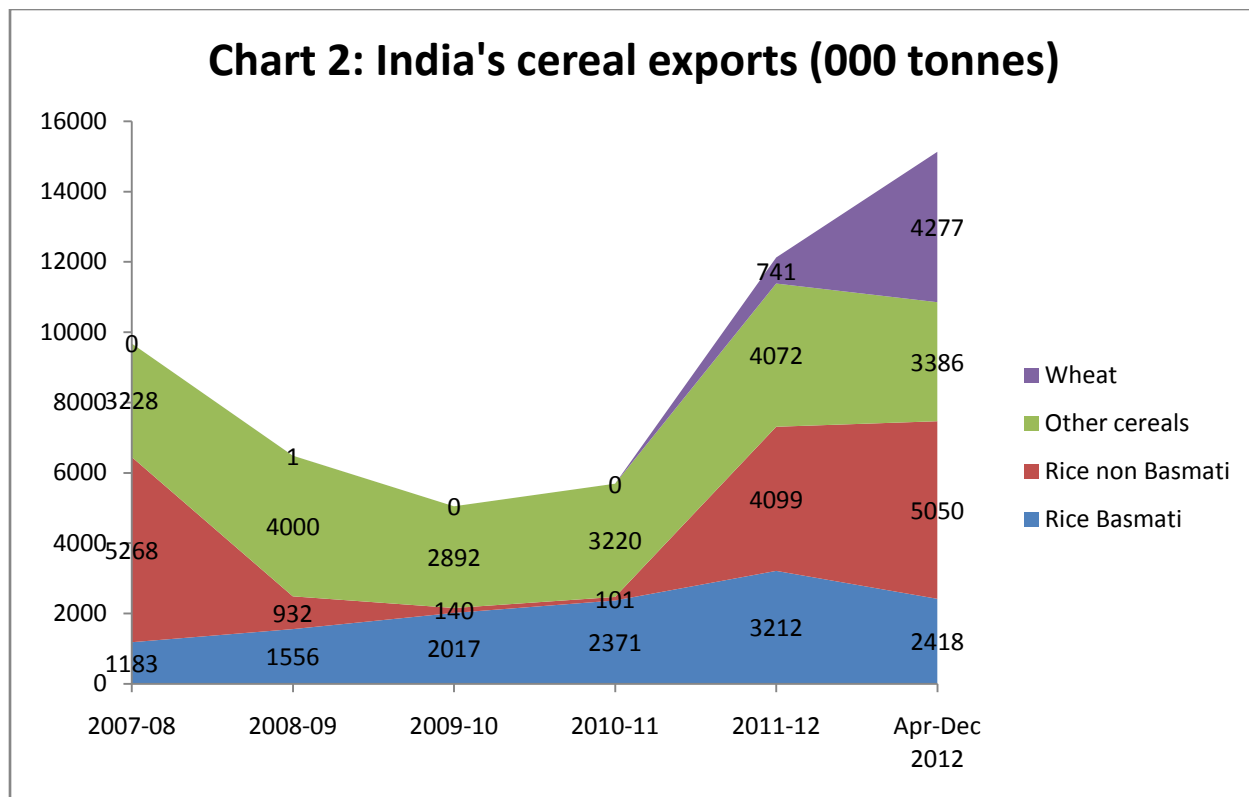


Source: Government of India, Economic Survey 2012-13.

Food price inflation is one reflection of the declining per capita domestic availability. That this is occurring in a context of persistent and widespread hunger among the population is the reason why food security has emerged as a major political issue. The public clamour for legislation to ensure food security has made it increasingly difficult for the UPA government to avoid at least partly trying to fulfil its own promises to the electorate in this regard.

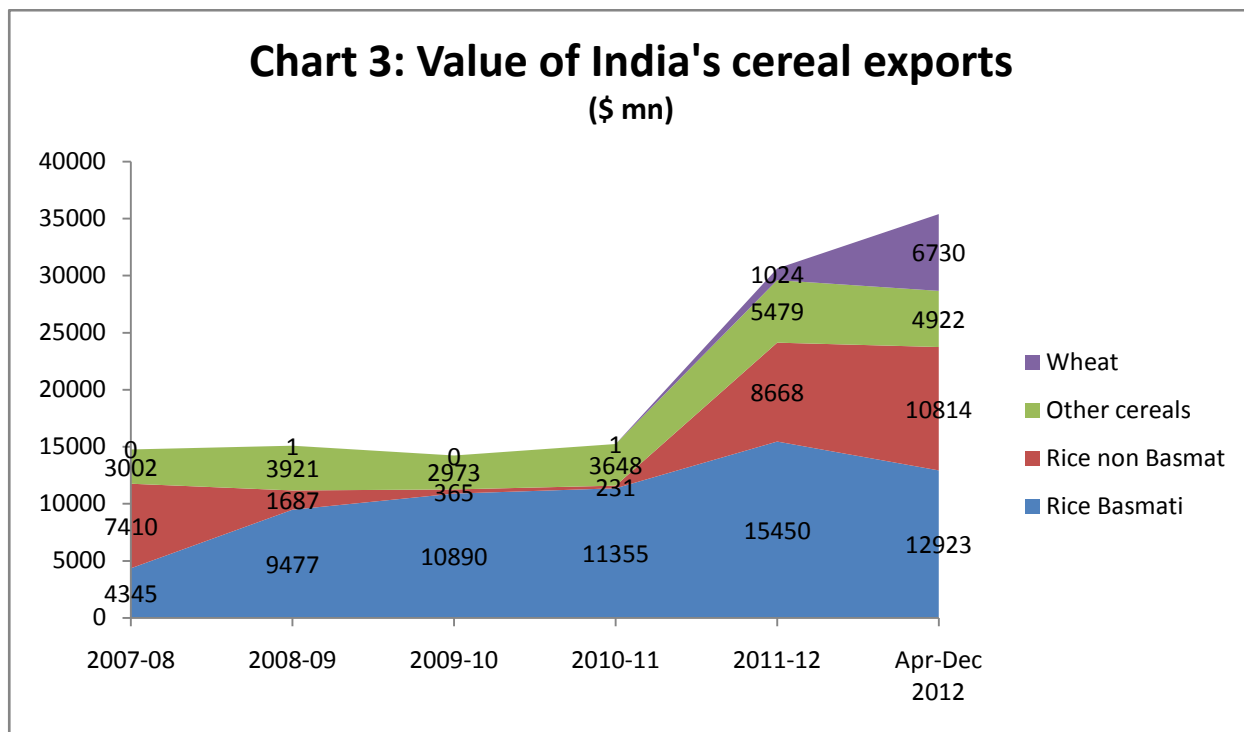
But one of the arguments that is most frequently made by those opposed to such legislation is about the difficulties involved of the government finding enough food grain to meet its obligations under the proposed legislation. “Where is the surplus grain?” they ask.

One answer to that question seems to be glaringly obvious from the external trade data: some of it is simply going abroad. Chart 2 shows how exports of non-basmati rice and wheat have exploded ever since the bans on such exports were lifted in 2011. Interestingly, “other cereals” also show significant increase in exports – mostly due to maize exports. Note that the data in Chart 2 provide export quantities only for the first nine months of 2012-13. The total for the year is likely to be significantly higher.



And exports are slated to go up even further in the coming year, certainly of wheat. The US Department of Agriculture report on India's grain economy (<http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual%20New%20Delhi%20India%202-15-2013.pdf>) suggests that in 2013-14, "wheat exports are forecast to increase to 8 million tons, including 5 million tones of government wheat." (Emphasis added.)

By contrast, rice exports may not increase as much. This will not necessarily be driven by tight domestic market conditions, since these have scarcely affected government policy in the recent past. Rather changing conditions in the world rice market may have an impact. Already India is supplying about one-third of the global rice trade. It became the largest supplier when Thailand cut back exports and increased its domestic stockpile by raising rice procurement prices for its own farmers, but there are indications that some of these stocks (possibly as much as 5 million tonnes) may be released on to the global market fairly soon. Vietnam and Pakistan are also emerging as major suppliers in the relatively thin world trade for rice.



Source: Agricultural Statistics of India, based on DGCI&S data.

Chart 3 shows that despite the rapid increase in non-basmati rice and wheat exports in the very recent past, basmati rice exports remain the single largest foreign exchange earner among cereals. However, if non-basmati rice exports continue to go up as they have done after the ban was lifted, the value of non-basmati rice exports in 2012-13 may exceed that of basmati rice exports to touch \$20 billion. The value of wheat exports may also cross \$10 billion in 2012-13.

Since India is such a large country (in international trade terms, which means that its entry or exit can affect global prices) in the global rice market, it is not surprising that its entry as a major exporter of non-basmati rice was associated with some decline in global prices even though Thailand had cut its own exports in that period. Chart 3 shows that the unit values of Indian exports of both types of rice and of wheat have fallen from their earlier peaks, and while there was some recovery in the prices of wheat and basmati rice, that of non-basmati rice remained flat through the period of massive increase in Indian exports.

Chart 4: Unit value of India's cereal exports
(Index, 2007-08=100)

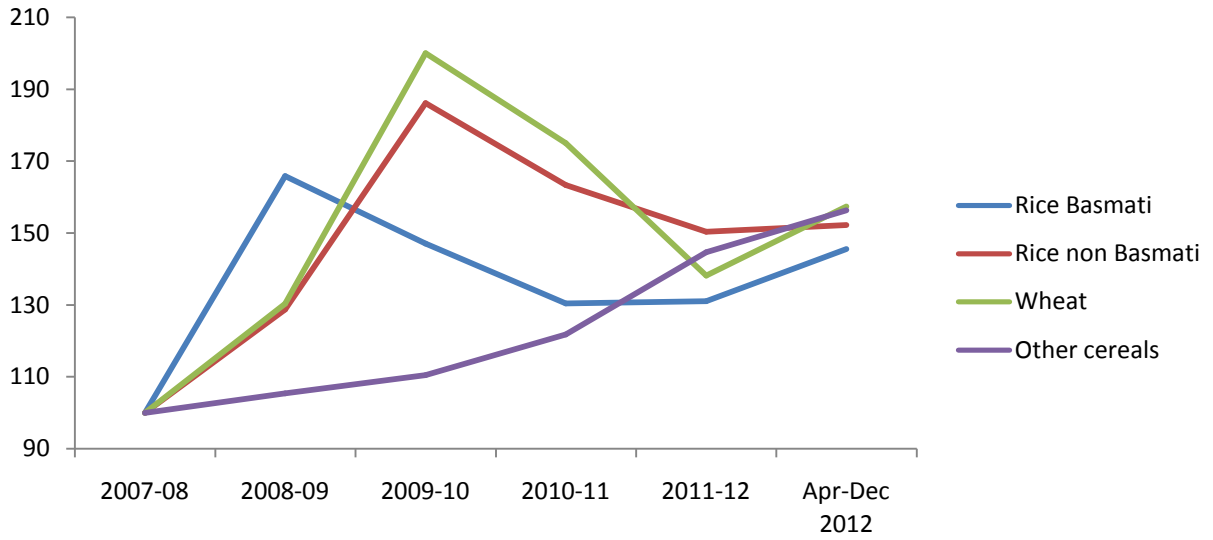
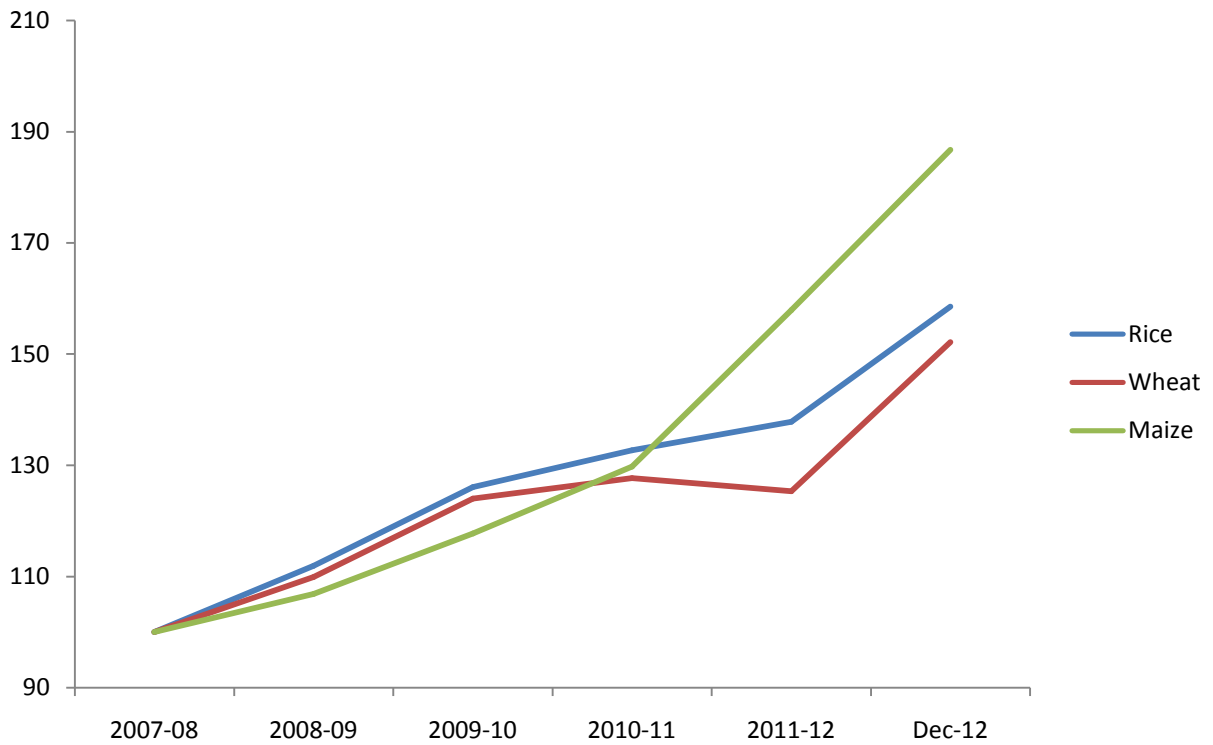


Chart 5: Index of cereal wholesale prices in India



Meanwhile, of course, domestic wholesale prices of these basic cereal items have been increasing continuously (Chart 5). The increases have been particularly sharp in the period after exports bans were lifted and exports of rice and wheat have ballooned. The consequences are evident in the very significant increases in retail prices and in consumer inflation indices, which are substantially driven in the recent past by food prices.

But cereal exports are not the only unexpected “success” of Indian trade policy. According to the US Department of Agriculture’s report of 13 March 2013, (http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Livestock%20and%20Products%20Semi-annual_New%20Delhi_India_3-1-2013.pdf), “India is on track to tie or possibly overtake Brazil as the world’s largest exporter of beef in 2012.” The USDA estimates India’s buffalo meat exports from the import data of other countries, and the export estimate for India for 2012 is currently at 1.45 million tonnes, representing a 14 per cent increase over 2011. The USDA expects Indian buffalo meat exports to increase by another 15 per cent in the current year, 2013.

Underlying all these trends is the basic stubbornness of the central government in holding on to its procured stocks of grain rather than releasing them on the domestic market so as to benefit consumers. This has led to the perverse situation whereby grain traders and livestock traders (and not farmers) benefit from being able to sell on the world market, while Indian consumers face rising prices.

Such patterns of food export in a context of domestic food deficiency could be expected in a colonial economy, or one in which a small elite is able to impose its will on the rest of the population because of authoritarian political control. They are certainly less easy to explain in a democracy, much less one that prides itself on becoming one of the most important “emerging nations” of this century.

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