India’s Trend in Rice Exports

What is the issue?

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- India has been the world’s top rice exporter since the beginning of this decade.
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- But this boom has benefited only merchant capitalists, not consumers and producers
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What is the status of India’s rice trade?

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- India emerged the world’s largest rice exporter in 2011-12, displacing Thailand from its leadership position.
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- As opposed to exports of around 1,00,000 tons of non-basmati rice in 2010-11, exports soared to 4 million tons in 2011-12.
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- Exports of basmati rice in those two years stood at 2.3 and 3.2 million tons respectively.
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- The continuous increase in exports of non-basmati varieties since then, to 8.2 million tons in 2014-15.
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- After a fall to 6.4 million tons in the subsequent year, a rise again to 8.6 million tons in 2017-18.
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- The consequent increase in domestic prices obviously reduced the incentive to sell in export markets rather than to the government or in the local market.
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- India was a major beneficiary, recording a sharp increase in exports of non-basmati varieties.
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- India’s share in world exports in recent years (2014-18) has stayed at 25-26 per cent, Thailand’s has fluctuated between 22 and 25 per cent, and Vietnam’s between 13 and 16 per cent.
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What is the reason behind such trend?

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- Union government at 2011-12, decide to lift a four-year ban on exports of non-basmati varieties of rice, paving the way for a rise in exports of those varieties.
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- The then Thai government also decided to favor farmers by strengthening a Rice Pledging Scheme under which it promised to procure unlimited stocks at an enhanced price that reflected a 50 per cent increase over 2010.
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- Despite significant price difference between basmati and non-basmati rice varieties, the difference in foreign exchange earned from exports of these varieties has narrowed considerably.
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- The increase in non-basmati exports occurred despite the fact that the enhanced pledging scheme in Thailand was suspended in early 2014, that production in India did not rise much till 2016-17.
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What are the significant outcomes?

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- The exports to production ratio for rice in India rose from 2.4 per cent in 2009-10 to 6.8 per cent in 2011-12 and 9.6 per cent in 2012-13, after which it has fluctuated between 9.9 and 11.3 per cent.
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- In normal circumstances, this should have resulted in a degree of price buoyancy in domestic markets, and discouraged exports.
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- But the incentive to export seems to have remained high and persistent.
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- Due to this over a relatively long period domestic demand for rice has remained below domestic availability, even after taking rising export ratios

into account.
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- The minimum support price (MSP) (adjusted for the paddy to rice conversion) at which rice was procured by the government, presumably setting a floor to market prices, rose over time but remained consistently below the export price for Grade A rice from India until mid-2015
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- So rather than the procurement price, it may be the quantum of procurement that has been kept at levels that have not affected the incentive to export rice.
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- This limited effect of procurement on the incentive to export is reflected in the relationship between the export price and wholesale prices in three metro cities, for example.
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- Wholesale prices have more or less matched the export price in Delhi and Mumbai, though the wholesale price in Chennai is afflicted by unusual volatility that needs a separate explanation.
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- Going by this trend, it appears that after non-basmati exports were liberalized, the international price has set the range of domestic prices, resulting in an implicit calibration of domestic prices with border prices.
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How this trend favored capitalists instead farmers?

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- Domestic demand for rice has remained below domestic availability, despite the rising share of exports to domestic production.
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- This subdued demand hits farmers, who find cultivation increasingly unviable despite rising rice exports.
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- Moreover, the benefit of a “disciplining” international price does not seem to have accrued to consumers.
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- Retail prices in all metropolitan cities have remained well above the export price showing high and rising distribution margins.
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- So the liberalization of the rice trade seems to have benefited only one section, the merchant capitalists, and not the actual producers or consumers
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Source: Business Line

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