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INDIAN SPICES EXPORTS: THEIR GROWTH AND INSTABILITY

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ABSTRACT

India is the largest producer, consumer and exporter of spices in the world. India is expected to emerge as the global processing hub of spices in the coming 10 years. Export instability is one major problem faced by this sector. The analysis of growth and instability of Indian spices exports during the last five decades has revealed that they grew much faster than the overall agricultural exports and achieved some stability in the post Economic Reforms period. The emerging challenges and major concerns of the sector are also identified in the paper.

KEYWORDS

Agricultural Exports, Economic Reforms, Export Instability, Instability Indices, Trend Growth Rates.

INTRODUCTION

Spices constitute an important group of agricultural commodities which are used for flavouring and are the main ingredients for any tasty food. The other uses of spices are in medicine, cosmetics, colouring, rituals etc. People have used spices since earliest times. There are references about spices in the Vedic literature and in the Old Testament. Even today we depend on spices and herbs for many of our newest medicines, chemicals and flavours. India is considered as the home of spices and its spice trade has history that spans over 3500 years. Because of the varying agro climatic conditions India produces a wide range of spices: Pepper, Chillies, Cardamom, Turmeric, Ginger, Garlic, Coriander, Cumin, Fennel, Fenugreek, Spice oils and Oleoresins, etc.

The production of spices in India during 2010-11 is around 5.3 million ton and the total area under spices cultivation is about 2.9 million hectares. Almost all the states and union territories of the country produce one or the other spice and are being cultivated by millions of small and marginal farmers. On average 8 percent to 10 percent of the total spices production is exported and the rest is domestically consumed. Even with this modest share of total production being exported, India is currently earning a foreign exchange between Rs. 5000 to Rs.6000 crores per annum. During the year, 2010-11 spices export from India has registered an all time high both in terms of quantity (5.25 million tons) and value (Rs.6840 crores). Currently India is in a formidable position in the World Spice Trade with 48% share in volume and 44% in value and is expected to emerge as the global processing hub of spices in the next 10 years.

Although Indian spices exports have been growing steadily in quantity and value during the last fifty years, Instability in export earnings is a major problem retarding the export performance of this sector. The Economic Liberalisation Policies and formation of WTO during the nineties have profound impact on Indian agricultural exports in general and on Spices Exports in particular. The Agreement on Agriculture(AOA), The Agreement on Sanitary and Phyto Sanitary(SPS) Measures, The Technical Barriers to Trade(TBT), Safeguards and Subsidies and Countervailing Measures (SCM) are some of the outcomes of WTO having implications on Indian Spices Exports both in terms of growth and instability. In this context the present paper is an attempt to assess the growth and instability in Indian Spices sector during the period 1960-2010 and explore the possibility of structural break in the growth performance of the sector in the post Economic Reforms period.

The paper is organized as follows. Section 2, gives an overview of the growth experience of Indian Spices sector. Section 3 contains the review of relevant literature and section 4 spells out the objectives and section 5 outlines the methodology for estimating growth rates and instability indices. Section 6 mentions the data sources. The results are then analysed in section 7. Section 8 contains summary and observations.

OVERVIEW OF INDIAN SPICE TRADE (1960-2010)

India exports spices from times immemorial and is the largest producer, consumer and exporter of spices in the world. India at present commands a formidable position in the World Spice Trade with 48% share in volume and 44% in value. India exports about 180 varieties of spices to over 150 countries around the world. Mint products account for the bulk of spice exports from India, followed by chillies, oils and oleoresins and pepper. The Major importers are USA, EU, Japan, Malaysia, China, Pakistan, UAE, South Africa and Japan. In 2010-11 the export of spices from India has been 525,750 tons valued Rs.6840.71 crores (US \$ 1502.85 Million) as against 502,750 tons valued Rs.5560.50 crores (US \$ 1173.75 Million) in 2009-10. Because of strong domestic market India could exports on average about 8 to 10 percent of its spices production. Spices constitute about 1.2% of the total Indian Merchandise Exports during the year 2007-08. The share of spices in export earnings from agricultural and allied products is about 8% during the same year.

Over the last fifty years (1960-2010) the spices exports of India show positive trend both in terms of volume and value (fig 1). During the year 1960-61 India exported 45,653 tons of Spices and earned about Rs. 163.6 crores. Spices exports remained almost flat during the first two decades of the five decades under consideration. The positive growth trend in spices exports is quite visible during the eighties and it seems that the Economic Reforms Period (1990- 2010) gave boost to Indian spice trade. Indian exports of spices was about 68,872 tons in the year 1980-81 and it rose to 1,09,636 tones in the year 1990-91. By 2000-01 India is able to export 2,35,917 tons of spices valued at Rs.1940 crores. However the growth in exports is not steady and is accompanied by instability as seen by the ups and downs in the trend curves (fig.1) The commodity composition of Indian spice export basket over the last fifty years (table.1) clearly shows a shift towards value added spice products from raw spice products. This is in tune with the global trend of higher price realization for value added products. Keeping this in mind India wants to emerge as the global processing hub for spices. However there are lot developments in the international markets for spices in the post WTO scenario which have profound impact on Indian spice trade. Emergence of new suppliers like Vietnam, Guatemala, China and the qualitative restrictions imposed on spices imports by the western countries are the things which are of great concern for us. Since India is not only the largest producer of spices but also the leading consumer, future export quantities of spices will vary depending on the crop and the domestic demand.

REVIEW OF LITERATURE

A number of studies have been carried out on the growth and instability of exports. Few of them will be reviewed here. Studies of Coppock, (1962), Massell, (1964) and Macbean, (1966) laid foundation for empirical investigation of export instability. Later studies by Naya (1973), Kalaf (1974) and Kingston (1976) explored the determinants of export instability. But recent studies like that of Love (1985), Paudyal¹ (1988), Tegegne (2000) Campa (2004) using time series data on an individual country basis resorted to cointegration analysis for the validity of the results. In Indian context the papers of Sen, Pronab (1989) and Pancharukhi (1999) provides the methodological framework for measuring export instability and growth. Goyal, S.K, R.N.Pandey and J.P.Singh (2000) studied the trends in growth and instability of Indian agricultural exports with exponential growth trends and Coppock's Instability indices. C.Sarada, T.Ravisankar, M.Krishnan, and C.Anandanarayanan (2006) studied the growth prospects and causes of export instability in Indian sea food exports in a time series framework. Kaundal, K.K and Sharma, Manoj (2006) in their study on Indian agricultural exports in the post reforms period estimated the trend growth rates and instability indices for various components of agricultural exports. Geetha Mathur V.C (2008), analysed the causes of instability in Indian agricultural exports in the post WTO scenario. Studies on growth and instability of total spices exports from India are not available and therefore are not reviewed here.

OBJECTIVES OF THE STUDY

The present paper makes a modest attempt:

1. To discuss the trends in growth and instability of Indian spices exports both by volume and value during the period (1960-2010) and also during the pre Reforms Period 1960-1991 and Post Reforms Period, 1991-2010.
2. To ascertain the possibility of structural break in the growth and instability of Indian Spices Trade in the post Economic Reforms period. (1991-2010)
3. To identify the future growth prospects and challenges of Indian spice trade.

RESEARCH METHODOLOGY

The trends in growth and instability and the association between growth and instability of Indian spices exports were analyzed in terms of trend growth rates and instability indices for the period 1960-61 to 2010-11. The compound growth rates and export instability indices of value/volume of spice exports were obtained by fitting exponential trend equation as it is proved to be the best fit to the data and the significance of growth rates were tested by applying t -test. Before calculating compound growth rates and instability indices the time series data of each spice item under study was smoothed by applying first order exponential smoothing model to remove certain unusual fluctuations during specific years. The Compound Annual Growth Rate (CAGR) for a variable Y_t can be obtained by fitting a log linear trend equation of the type:

$$\ln(Y_t) = \alpha + \beta t + \epsilon_t, \text{ and then, CAGR} = (\text{antilog } \beta - 1) \times 100$$

Export instability in this study is defined as the fluctuations around the estimated time trend path and is measured by the coefficient of variation of the estimate. Year to year instability in exports is measured as the average percentage deviations of the observed values of export proceed from an exponential growth path. To identify changes in growth and instability the study period(1960-61 to 2010-11) is split as sub-period I (1960-'61 to 1991-'92) and sub-period II (1992-93 to 2010-11), which broadly corresponds to the pre and post Economic Reforms period respectively. Trend equations were obtained for the whole period as well as for the two sub-periods. To detect the possibility of structural changes in the wake of Economic Reforms initiated during the year (1991-'92), the Chow's Structural Break Test is carried out for the trend equations belonging to the whole period.

DATA SOURCES AND PROCESSING OF DATA

The study is based on the secondary time series data obtained from Spices Statistics published by Spices Board, Ministry of Commerce and Trade, Government of India, Cochin and Monthly Statistics of Foreign Trade of India, DGCI, Government of India, Kolkatta. The growth rates were obtained by processing the data using econometrics software, GRETL.

ANALYSIS OF RESULTS

The trend growth rates and instability indices of export volume and export value of Indian spices for the period 1960-61 to 2010-11 and also for the various decades of the referred period were presented in table.2. The results of Chow's Structural Break test for both export quantity and export value was presented in Table 3. From these results the following inferences may be drawn.

- 1) Over the past 50 years period under study i.e., 1960-2010, total spices exports grew at an annual compound growth rate of 12.83 per cent in terms of value and at 5.01 per cent in terms of volume. This growth performance of Indian spices exports is remarkable considering the fact that total agricultural exports from India grew only at an annual compound growth rate of 9 per cent in terms of value and at 4.2 percent in terms of volume(Economic Survey 2010, GOI) during the same period. This shows the growth potential of the spices exports in the coming years.
- 2) The growth rates of total spices exports during the Post - Reforms period (1992 – 2010) are much higher at 7.61 percent for volume and 16.42 percent for value compared to the pre-reforms period, when they recorded growth rates of 3.61 percent for volume and 10.34 percent for value. Thus, it may be inferred from the estimated results that export growth performance of total spices improved during the Reforms period. This structural break in growth rates is confirmed by the Chow's test (Table 3). The test clearly reveals a break in growth rates in 1991-92, with the null hypothesis of no structural break rejected at an F-value of 3.31 (probability 0.003) for export value and 35.40 (probability 0.000) for export volume. Thus we may infer from the estimated results that export growth performance of total spices improved significantly during the post-Reforms period, especially in export value.
- 3) Over the past 50 years period under study i.e., 1960-2010, total spices exports grew at an annual compound growth rate of 12.83 per cent in terms of value and at 5.01 per cent in terms of volume. This growth performance of Indian spices exports is remarkable considering the fact that total agricultural exports from India grew only at an annual compound growth rate of 9 per cent in terms of value and at 4.2 percent in terms of volume(Economic Survey 2010, GOI) during the same period. This shows the growth potential of the spices exports in the coming years.
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- 5) Considering both growth and instability together results show that Indian spices exports during the last five decades witnessed comparatively rapid growth in value than in volume and at the same time instability is higher in export value compared to export volume. Thus it is clear that export price over the years is the major factor responsible for both growth and instability of Indian spices exports.
- 6) The acceleration in growth and deceleration in instability in the Post Economic Reforms period (1992-2010) compared to Pre Reforms Period (1992-2010) for both export volume and export value of Indian Spices is an interesting inference that can be drawn from the results. The reasons for this phenomena needs to be further investigated.
- 7) Coming to decadal trends in growth and instability of Indian spices exports, the first decade (1960-70) witnessed negative growth in export volumes even though instability is minimum. However export value registered a healthy growth rate of about 7.7 percent with considerable fluctuations. The next decade, 1970-80 seems to have reverted the trend in growth of export volumes as export value continued it's upward growth trend accompanied by volatility. A sharp fall in growth rate of export volumes and continued upward trend in export value is the feature of the decade, 1980-90.
- 8) The first decade of the Post Economic Reforms period, 1992-2000 seems to put the growth rate of both export volume and export value on higher trajectory even though export instability continued. The second decade of the post Economic Reforms period experienced the continuation of high growth export volume but a sharp decline in growth of export value. One important feature of this period is that there is some stability in export revenues.
- 9) On the whole it is evident that spices exports over the years have shown positive growth trend both in terms of volume and value, the latter being on a higher trajectory. Economic Reforms period seems to have given a fillip to this process. Export Instability initially is confined to export value but now export volumes are also experiencing this problem.

MAJOR CONCERNS AND EMERGING CHALLENGES

- a. Given that there is a vast domestic market for spices, export of spices is basically undertaken to dispose of the excess of domestic supply over domestic needs rather than as a specialized activity. That is exports of spices are mainly dependent on crop and domestic consumption rather than on international market signals.
- b. High commodity concentration and geographical concentration of Indian spices exports is a major concern for future growth and stability.

- c. Gradual erosion of price competitiveness of Indian spices in International markets due to low productivity and high cost of production is a major concern at present.
- d. The physical condition and hygienic standards of Indian spices are far below the international standards. Export competitiveness of Indian spices could diminish either because of explicit bans or the costs of compliance with the new standards such as Sanitary and Phytosanitary Agreements.
- e. Emergence of new competitors at the global level with no or very little domestic consumption are posing a major challenge to India's hitherto formidable position in spice trade.
- f. Export related infrastructure bottlenecks are a major constraint for future growth of spices exports.

SUMMARY AND OBSERVATIONS

India exports spices from times immemorial and for a very long time has been among the leading spice exporting countries of the world. Today, India is the largest producer, consumer and exporter of spices in the world. Although Indian spices exports have been growing steadily in volume and value during the last fifty years, Instability in export earnings is a major problem retarding the performance of this sector. Empirical analysis of Indian spices exports during the last five decades reveals that exports witnessed a comparatively rapid growth in value than in volume and at the same time instability is higher in export value compared to export volume. It seems that export price over the years is the major factor responsible for both growth and instability of Indian spices exports. Domestic factors have been hitherto influencing the spices exports. Future growth of this sector depends on finding solutions to the domestic determinants of spices exports and emerging international challenges in the post WTO scenario.

FIG. 1: TRENDS IN INDIAN SPICES EXPORTS (1960 – 2011)

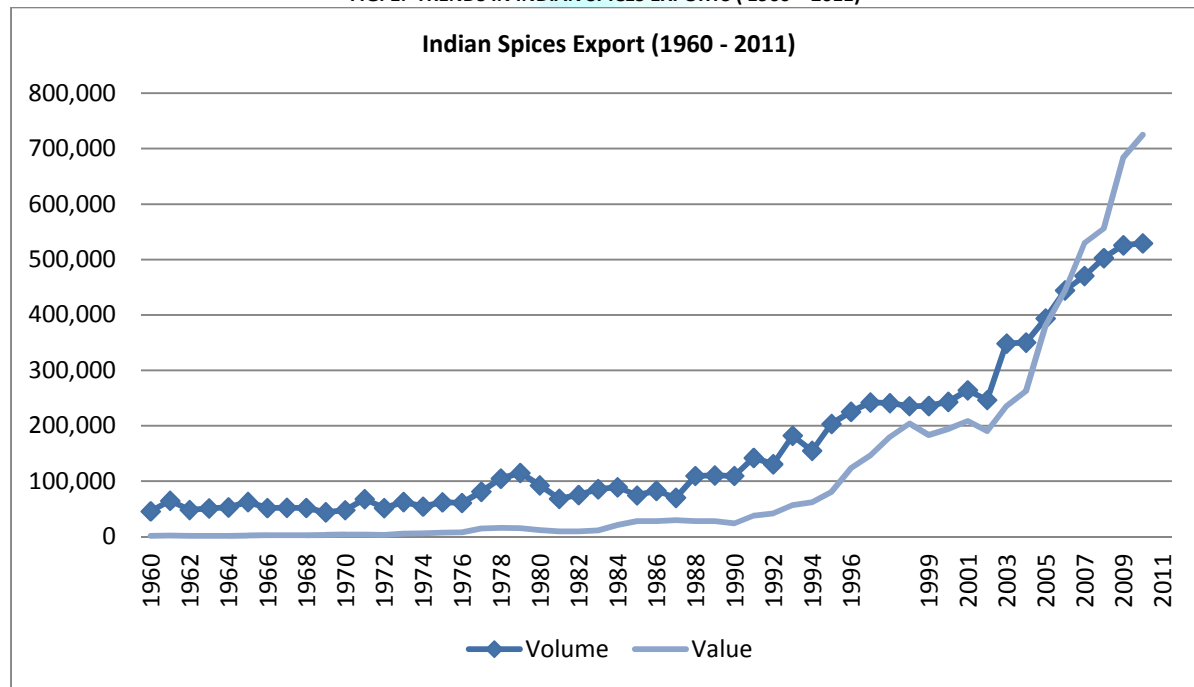


FIG. 2: INDIA'S SHARE IN WORLD SPICE TRADE (2010-11)

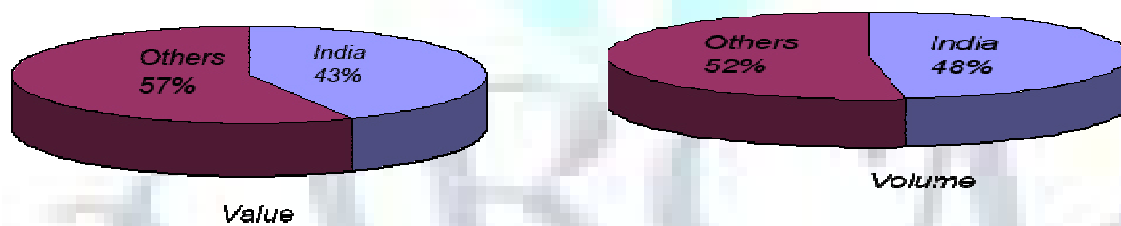


TABLE 1: TRENDS IN COMMODITY COMPOSITION OF INDIAN SPICES EXPORTS (BY VALUE) (1960 – 2007) (Percent of Total)

Spice	1960	1970	1980	1990	2000	2006	2010
Pepper	51.1	39.3	33.2	42.1	20.2	8.0	11.3
Cardamom(L)	2.0	0.3	0.4	2.02	1.3	0.47	1.80
Cardamom(S)	11.0	28.5	29.2	4.48	4.61	0.60	0.54
Chilli	10.0	2.79	4.75	11.3	12.5	22.6	24.7
Ginger	5.1	6.72	3.15	4.85	1.46	1.11	0.63
Turmeric	1.5	9.87	6.75	6.39	6.3	4.61	3.53
Fennel	0.09	0.07	0.08	0.08	0.11	0.21	0.11
Coriander	1.25	0.25	1.07	1.67	2.03	2.08	2.98
Cumin	1.22	2.12	8.34	1.25	9.72	5.63	6.57
Celery	1.27	5.20	1.33	1.75	0.76	0.36	0.29
Garlic	0.70	0.72	2.10	1.06	0.69	0.60	0.50
Spice oils	-	0.30	2.27	13.2	21.4	14.2	12.6
Curry Powder	2.21	2.9	2.06	2.72	2.34	2.43	2.51
Mint Products	-	-	-	3.52	8.45	30.7	28.8
Others	12.4	2.01	5.70	3.65	8.22	6.36	3.80
Total	100	100	100	100	100	100	100

Source: Author’s Calculations based on Spices Board data.

TABLE 2: DECADAL GROWTH RATES AND INSTABILITY INDICES OF INDIAN SPICES EXPORTS (1960-2010)

Period	Export Volume		Export Value	
	Growth Rate*	Instability Index	Growth Rate*	Instability Index
1960-'61 to 1969-'70	-0.37	1.2	7.74	4.1
1970-'71 to 1979-'80	6.81	2.6	11.6	6.8
1980-'81 to 1989-'90	1.78	1.5	9.24	5.1
1990-'91 to 1999-'00	7.87	2.3	23.78	6.3
2000-'01 to 2009-'10	8.34	2.2	11.73	3.5
1960-'61 to 2010-11	5.01	6.5	12.83	18.71
1960-61 to 1991-92	3.61	6.1	10.34	17.29
1992-93 to 2010-11	7.61	3.3	6.42	7.01

*Compound Annual Growth Rate,

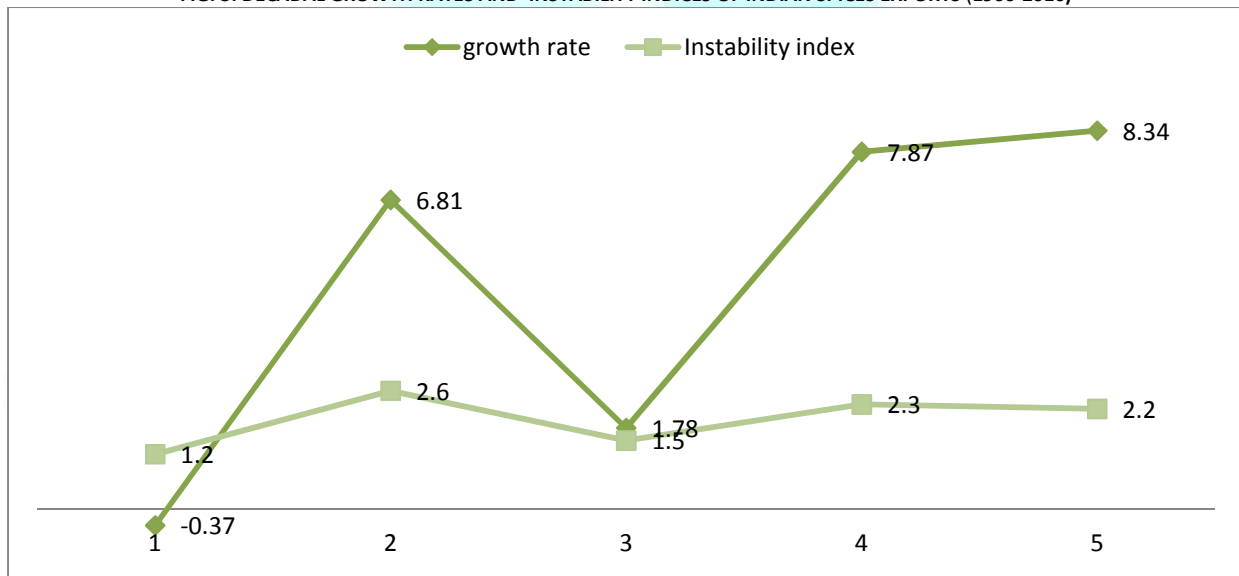
Note: All growth rates are statistically significant at 5% level.

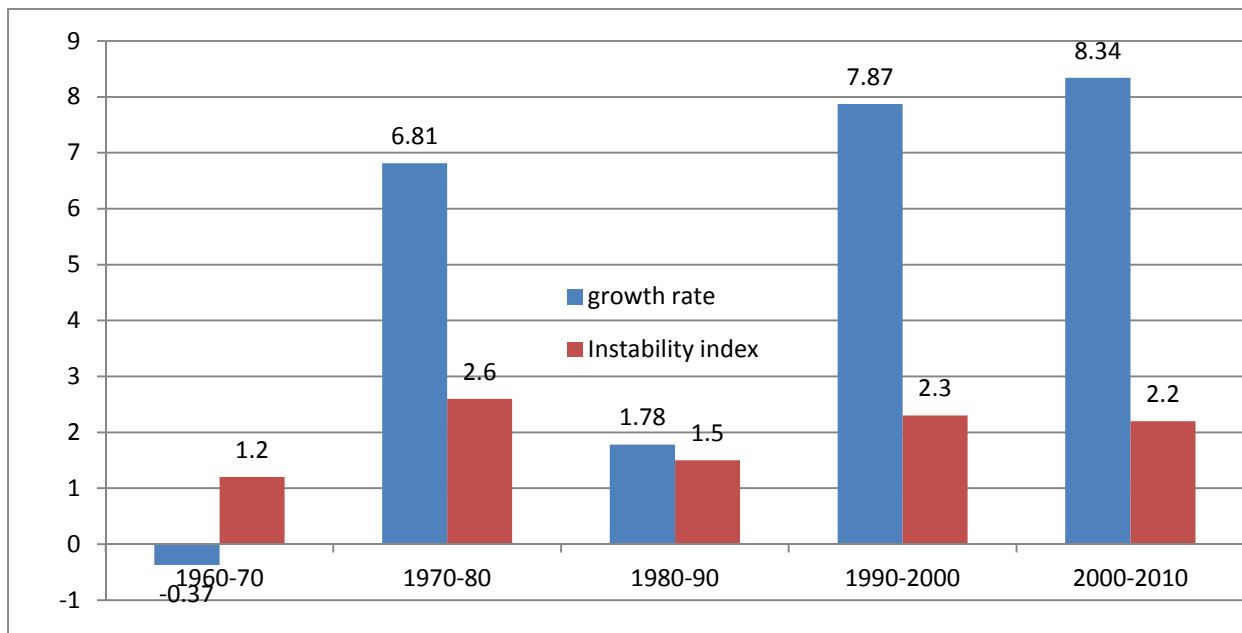
TABLE 3: INDIAN SPICES EXPORTS (1960-61 to 2010-11), CHOW BREAK POINT TEST: 1991, No of Observations: 51

Export Volume		Export Value	
F-Stat	P-Value*	F-Stat	P-Value*
35.48	0.000	3.31	0.000

* P- value is the exact level of significance

FIG. 3: DECADAL GROWTH RATES AND INSTABILITY INDICES OF INDIAN SPICES EXPORTS (1960-2010)





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