Exporters should regain market share by fulfilling needs of importers, says Dr. Mukherjee

India is a net exporter of agriculture and processed food products, which account for 12% of the country's merchandise exports. In an interview to MVIRDC World Trade Center Mumbai, Dr. Arpita Mukherjee, Professor, Indian Council for Research on International Economic Relations (ICRIER) explains the hardships faced by farm goods exporters amidst the nation-wide lockdown.

Dr. Mukherjee warns that India is losing its exports market to less developed countries such as Cambodia and Kenya which are taking measures to meet the specific requirements of the importers. In order to regain our export market share, Dr. Mukherjee suggests that Government of India should take supportive measures that help exporters fulfill the specific requirements of overseas buyers better.

Excerpts of the interview:

What has been the impact of COVID-19 crisis on India's agriculture trade?

India is an exporter of agri-commodities and has a positive trade balance in this sector. Our exports include both perishables and non-perishables, covering several products including tea, basmati rice, shrimps, spices, fruits and vegetables.Even before the lockdown we were facing several export-related issues, including rejection of products for not meeting food safety and quality standards of destination markets. We do not allow exports of perishables through the courier route. Processed food exports need both domestically sourced and imported raw materials. The whole supply chain is disrupted with sudden pan-India COVID-19 lockdown. This background is important, to understand the impact on India's agri-trade during complete lockdown since March 22, 2020. It is also important to note that we have now moved from a situation of complete lockdown to partial lockdown from May 4, 2020.

With the announcement of complete lockdown, products cannot be exported, and exporters are unable to meet their commitments. Export orders have been cancelled, resulting in a rise in non-performing assets. MSMEs have been asked to give full salaries to their workforce when their clients are cancelling orders. This model is unsustainable. It will result in job losses. Our past experiences show that if we are not able to meet export commitments, importing countries source from other markets. This is especially true in case of food items where one cannot defer consumption. We may lose markets in products like tea and spices to neighbouring countries like Sri Lanka and in products like rice to countries like Vietnam and Cambodia. Similarly, other countries may take away our market in shrimps. In the past, when some of our food products did not meet the food safety and quality standards, clients were sourcing fruits and vegetables from other countries like Kenya.In short, there is an immediate impact of wastage of perishables, cancellation of orders, etc. and long-term impact of loss of business.

This is further accentuated by the fact that food items are essential items and we do not allow their transportation through courier route. We announced Krishi Udan and other policies in the budget but if airlines cannot fly in a pandemic situation, then it is a matter of concern, as we allocated resources to logistics infrastructure and yet are not using it during a pandemic situation.

What measures would you advise in combating this unprecedented crisis?

First of all, we need to solve the immediate problem of companies not able to cater to their orders and their likely chances of going bankrupt. While many of our key markets will go into recession, it is important to understand that food is an essential item and therefore the value chain of food should be uninterrupted. It is now urgent to allow perishables through courier/e-commerce mode subject to proper clearances from export-control agencies. Similarly, imports should be opened up and green channels should be established for agriculture produce and food transportation both within the country and for trade.

The Department of Commerce has extended till March 31, 2021 all Export Promotion Schemes (except Service Exports from India Scheme (SEIS)) and other schemes under India's Foreign Trade Policy, which was due to end in March 2020. However, while this may be a temporary relief, it may not help the exporters. In 2018, the US filed a case against India at WTO over several export-linked subsidies under different policies such as the Foreign Trade Policy and the Special Economic Zone (SEZ) Policy. On October 31, 2019, India lost the case at WTO as subsidies given by India are prohibited under provisions of WTO's Agreement on Subsidies & Countervailing Measures (SCM). Hence, exports under these subsidies can be countervailed in the destination market, even if the appeal process in on hold in WTO. Thus, there is no benefit of export-linked subsidy. Production is low so production linked subsidies is not beneficial. Industry should carefully investigate the existing trade regimes and policies and ask for appropriate subsidies, which will help cushion adverse impact and protect jobs.

How should MSMEs who are part of agriculture value chains manage during these times?

It is extremely difficult situation for MSMEs. Each company will have its own way of addressing the problem. In general, MSMEs must try hard not to get bankrupt, they need to focus on efficiency and reduce any unnecessary expenses.To have a more constructive suggestion, government should conduct a detailed online survey and online meetings and discussions with MSMEs to understand their concerns. The top concerns have to be listed and targeted solutions have to be provided.

MSMEs in export business should also focus on the domestic economy. Given that COVID-19 spread from animal to human via the wet market, food safety will get a precedence in trade, especially for animal products. Hence, industry should focus on implementing food safety and hygiene standards. Once the lockdown is relaxed, they should maintain physical distancing and strictly follow government guidelines, so that there is no unforeseen incidence of going back to complete lockdown. In an era of physical distancing, technology will be a key to do trade. MSMEs have to adopt technology across the entire value chain. They have to focus on process efficiencies, better client relationships and management.

We have designed the process and IT manual for MSMEs to export to developed country markets through a project funded by Foreign Commonwealth Office, UK, under their capacity building initiatives to FSSAI. This manual can be used by MSMEs, proper implementation of which will double efficiencies and reduce costs by 40 percent.

How should exporters meet pending overseas exports after the lockdown?

When there is a complete lockdown, exporters hardly have any options to meet the pending overseas export demand.If they have perishable commodities it was better to sell them in the domestic market.

No one has foreseen such a situation before, and I think exporters are victim of sudden trade disruption. Even if they produce during lockdown, they cannot export, hence they cannot meet pending demand unless there is a relaxation for exports. Post May 4, 2020, after around one and half months, there seems to be some relaxation. Exporters have to strictly follow the orders, have temperature check and other requirements installed, ensure food safety and hygiene standards, work with their importers, industry bodies, trade promotion councils and other supply chain agents to set up a smooth process of exports. Orders are likely to be cancelled and hence, exporters need to diversify their export destination.

Exporters must be in touch with their clients using technology. If they face any production-related issues, they have to bring it to the notice of the client. They have to lobby hard and work with government to put in place appropriate policies and processes to meet export obligations. This is the right time to partner with global e-commerce companies as export volumes are likely to be less. They also need to lobby with government for an inventory-based e-commerce model with certain sourcing obligations (at least 30 percent) from MSMEs so that global e-commerce companies buy from them. Exports through e-commerce route will reduce delays in exports and will provide fast track door-to-door delivery.

What are the reforms the government should take to promote domestic and foreign investment in food processing sector?

Hundred percent foreign investment is allowed in food processing and the government is now trying to attract foreign firms who plan to exit out of China. However, there is a restriction on investment from China and neighbouring countries. Our recent survey of foreign companies shows that they will not invest in India only for exports. They would like to cater to both domestic and export markets.To do so, they would first like to test-market their products, and if there is a demand, then they will establish manufacturing facilities. High import duties make test-marketing a non-viable option. Second, due to restrictions on FDI in multi-brand retail and e-commerce and lack of transparency and clarity on policy related to online and offline mode of the same company, a number of global companies are not willing to invest in food business in India, nor are they keen to source from India. The sudden change in policy after the merger, in spite of being in the loop during the merger of Walmart-Flipkart, has resulted in loss of confidence of foreign investors. There is a need to ensure that there is more clarity and transparency in policy.

Our survey found that India is losing its export markets to less developed countries like Cambodia and Kenya. This is because these countries are using the capacity building funds for implementing the requirements of destination markets while India seems to have an aggressive position of 'you have to buy whatever we sell'. Policies should help exporters to focus on client requirements.

To promote investment in food processing one needs to understand that all products require some kind of processing to increase shelf life. At the same time, government has to strictly ensure implementation of food safety and hygiene standards and help to reduce entry and operational costs of businesses.The subsidies should be designed in a way that it is easy to implement and is not actionable at the WTO. The tax and refund processes have to be further streamlined and GST in food items should be lower.The government should have a comprehensive nutrition and diet guideline, so that processed food is not harmful for health. The FSSAI should have clear guidelines and permissible limits for nutraceutical products, organic products, Ayurveda products, etc., which makes it easy to understand what is allowed and not allowed and if allowed what are the permissible limits. Those that are not allowed have to be relooked into if they are allowed in more than 50 countries, including some key developed countries like US, EU member states, Japan and Australia, which have more rigid food safety standards. The objective of the government should be to reduce wastage in the supply chain. At present, India does not have a food waste management policy, which needs to be implemented.

Notifications

Press Information Bureau, Government of India

Prime Minister to hold meeting with state chief ministers

https://pib.gov.in/PressReleasePage.aspx?PRID=1622660

Daily Bulletin on COVID-19

https://pib.gov.in/PressReleasePage.aspx?PRID=1622723

Deferral of new procedure by CBDT

https://pib.gov.in/PressReleasePage.aspx?PRID=1622387

CBDT clarification in respect of residency

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MSME minister interacts with retailers and professionals

https://pib.gov.in/PressReleasePage.aspx?PRID=1622527

RBI

Report on management of foreign exchange reserves

https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=49790