

# Export Crop Agriculture other than the Plantation Sector- *The Challenges under Globalization*

## Introduction

Today the word Globalisation has become a fashionable specially in the field of international trade. International trade after formation of World Trade Organization (WTO) successor to the GATT focused its attention on globalisation of international trade. Recently concluded Uruguay Rounds of GATT has highlighted several issues of agricultural trade in the following manner:

- Improvement of market access for international trade in agricultural commodities through reducing import barriers.
- Improving the competitive environment by increasing discipline including phased reduction in the use of direct and indirect subsidies.
- Minimising the adverse affects that sanitary and phytosanitary measures can have on international trade.

The above central theme of the Uruguay Rounds allures the entry of the idea of globalisation of the international trade in agricultural products.

Conversely globalisation offers the idea of free flow of trade without any hinderence. If the trade is protected the national cost of such protection will be a disastrous outcome. For example the budgetary cost of the US farm programme in 1986 was nearly US \$ 700 for each non-farm family. Consumers in Japan are paying food prices about 60 per cent higher than they would if internal prices reflected the fall in world prices and the appreciation of the Yen since 1980.<sup>1</sup>

So the idea of globalisation in respect of trade is a removal of all barriers affecting the free and fair movement of trade in international markets and avoid any undue competition by the suppliers.

## Export Agricultural Crops of Sri Lanka

At present Sri Lanka exports a wide range of agricultural products such as fruits, nuts and vegetables (fresh and processed) floricultural products (cut flowers and foliage and aquatic plants) a wide range of spices, herbal/medicinal herbs, herbal preparations, marine products, cereal products such as rice, oil seeds and pulses, essential oils and oleoresins.

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These export crops other than plantation crops have contributed 2.80 per cent share of the total exports in the year 2000. The export earnings by this sector is much more higher than the export earnings by mineral products exports and some sectors of the industrial sector as well as by some plantation crops.

Product Sector	Value (US \$ Mn.)
Minor Agricultural Products	165
Rubber	33
Coconut	129
Petroleum Products	74
Ceramic Products	49

Source: Central Bank

The above table shows the significance enjoyed by this sector as a single uniform product sector helping Sri Lanka to earn net foreign exchange.

Should we analyze this sector in more detail we could find the following table showing the present circumstance:

Product Sector	Value (Rs. Mn.)
Spice & Allied Products	6750.0
Fruits & Vegetables	952.8
Cut Flowers & Foliage	723.0
Betal Leaves	126.5
Arecanuts	43.9
Sesame Seed	6.0
Total :	8607.2
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Source: Central Bank

It is evident that spices and allied product sector plays a bigger role within the other export crops sector as a single uniform product. Five major products of spices i.e. pepper, cinnamon, cloves, nutmeg & mace and cardamom cover an area of 39,000 hectares of land in cultivation. Although, the other crops are cultivated in home gardens a considerable amount of acreage is allocated for those crops also. The total acreage under non-plantation crops roughly around 1,74,633 hectares.

## Challenges under Globalisation

As mentioned in the introduction the globalisation of trade warrants free movement of trade and services without any hinderences. This concept is based on the free trade which is an outcome of absolute product advantage. Trade liberalisation can be linked to a journey that begins with little more than an intense desire to leave where one happens to.<sup>2</sup> The trade liberalisation is the fundamental step for leading to a globalization. There are 3 steps as far as the liberalisation is concerned.

- The exploitation of increasing returns to scale in a large market as Adam Smith emphasised.
- Specialisation in accordance with comparative advantage as David Ricardo elucidated.
- Fiercer competition which encourages and breaks down institutional obstacles to change, as Mancur Olson has expounded.<sup>3</sup>

Now we shall see how these principles have an influence on our trade.

In the process of globalisation of trade exploitation of increasing returns to scale would be an integral part. The globalisation process starts with specialisation of products and ser-

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vices. For instance Bill Blass a top US fashion designer will examine woven cloth made from Australian wool with printed designs prepared in Italy. He will design a dress and fax a drawing to a Hong Kong agent who will place the order with a Mainland China Factory. The finished dress will be air freighted to New York where they will be re-distributed to department stores.

In the global economy products and services have been specialised to a greater extent as a result a final product is an output of the contribution of several countries. This feature can also be found in the field of agriculture too. For instance tea bags consumed in the Western countries or elsewhere in the world is a product using raw materials of several countries. Again the spice trade is highly globalised trade. Large processors and packers such as Mc Cormik in USA imports pepper and similar spice processes them in their factories and distribute. Except fresh fruits and vegetables all processed food materials undergo this process. Most of these agricultural products have been processed in countries where they are not grown or cultivated. The processing industries of these Western countries have been specialised purely due to two economic advantages which the producing countries do not have. They are:

1. Technological advantages
2. Marketing advantages

As far as the technological advantages are considered this feature is not readily found in producing countries. For instance, oil extraction industry can be cited. The oil such as sesame, sunflower, soya are extracted by using modern technology (cold pressed). The machinery used in the processes are very expensive in value terms too. Large quantities of raw materials are required for the processing and also to keep the machine output uninterrupted.

So the high cost of machinery will be a major challenge for the countries like Sri Lanka. For instance an obvious example is as mentioned earlier the machinery needed for oil extraction. The complete set of machine including laboratory equipments and the bottling plant will be cost approximately Rs. 8.0 Mn. (US \$ 84,000). The local companies are unable to bear the total cost of such operation. Therefore, oil processing industries have been located in



wealthy Western and Eastern countries. They buy one MT of sesame at a rate of US \$ 500 extract oil and sell an ounce of sesame oil at US \$ 7.00 in USA. This is one of the live example which can be produced as an evidence for establishing the challenges countries like Sri Lanka faces. So the real advantage is accorded to the processor but not for the cultivator or producer.

The second aspect which goes side by side with this technological advantage is the quality parameters set by the developed countries. Well known ISO 9000 series as well as IFOAM quality standards in Europe, Food & Drug Administration Law operated by USA are few of these categories. These quality standards really affect the processing industries in developing countries. But developing countries cannot find fault with these regulations since they may affect the health of consumers if inferior quality food products are consumed.

The marketing advantage possessed by the developed market economies against the raw material producing countries is the biggest challenge which

would not be easy matter to overcome. More than roughly 90 per cent of the world economy is controlled by well organised multi national corporations which have their fullest control over IT industry, auto industry, energy, food and so on. Similarly the processed food industry is also totally in the hands of multi national corporations such as Nestle, Mc Cormik and Master Foods (Mars).

If we analyse few of the product sectors we would be really be able to consider the impact of these challenges on our exportable products.

Desiccated coconut is one of the major food ingredients we export. Our major markets for D.C. exports and their shares are given below:

Market	Share (Percentage)
Egypt	11
U.A.E.	11.7
Germany	7.3

Earlier our major markets for D.C. were countries like U.K. and Europe but it seems that the new trend of market orientation is towards Middle East. Of the coconut products, desiccated coconut has a major share in our exports nearly 39 per cent.

Spice is the next important sector which constitutes a share of 14.7 per cent of our total exports of non-plantation crop exports. The pattern of market distribution for our spice is also little out of the traditional market orientation but 18 per cent of our total spice products goes to India in raw form where they are processed and exported to various destinations.

Our fruits and vegetables exports take a different turn as far as the other sectors are concerned. More than 30 per cent of our vegetable exports go to Maldives while around 14 per cent to Middle East. Fruits sector also takes a similar shape. India being the largest buyer while Maldives and Middle East enjoying the next respective positions.

Cut flowers and foliage sector is also a significant non-plantation export crop. In 2001 Sri Lanka exported Rs. 723 Mn. worth of floricultural products primarily to the Netherlands, Japan and U.S.A.

Although export turnover of perishables is somewhat 4 per cent of our total agricultural products which sector brings 99 per cent net foreign exchange earnings into the country.

One biggest challenge which hampers the export growth of the perishable products such as fruits and vegetables, cut flowers and foliage and betel leaves is the heavy freight charges imposed by the air lines. This is sometimes reached to 40-50 per cent share of the CIF or C&F value of perishable items. Therefore, exports of perishable items specially to Europe and Japan confronting a biggest hurdle for the exporters who are involved in this trade. In the circumstances our exporters are more concentrating new markets such as Middle East and other emerging markets such as Russia and Eastern Europe instead of this traditional market place.

The process of globalisation poses several challenges for the products and services exported from Sri Lanka. Since the globalisation process is also partly based on the theory of survival of the fittest it will be an arduous task for developing countries like Sri Lanka to prepare for these challenges.

Sri Lanka gradually loosing its market share of most agricultural exports to India, Vietnam or China. Vietnam is the latest challenge now Sri Lanka faces. Vietnam also grows almost all the agricultural products we grow here but at a very low cost. Although Sri Lanka is unable to supply large quantities Vietnam is in a position to meet any supply schedule. Vietnam by its massive rice production has now reached the mark of the second largest producer of the world. Therefore Sri Lanka will have to change her agricultural policy in order to face the new challenges.

If we are going to face the new challenges invariably it will be associated with our cost of production. The cost of production of our agricultural produce is very high when compared with the other countries, like Vietnam, Malaysia, Indonesia and Thailand. They have lowered their cost of production by introducing large scale production and new varieties of plants as well as new technology. In Sri Lanka we have been unable to do so due to our land distribution pattern. Our rural farmers who contribute approximately 20-30 per cent to our economy is suffering under dire poverty. Therefore, their contribution towards the development of the agriculture is not much impressive in the context of foreign trade. Hence, the government should encourage the private sector participation in the field of agriculture.

If Sri Lanka is to be fallen in line with the speed of globalisation of her economy it is quite imperative that she should transform her agricultural policy to accommodate any macro level global adjustments without which her products will be highly uncompetitive and of very low quality. Should the government make the policy environments to embrace the idea of agri business instead of agriculture it would pave the way for development. Engagement in the extensive farming methods even in the field of export related agriculture is the only solution to sort out a multitude of social and economic problems of the country.

The intensive or small scale forms will bring no effective solution to the changing scenario of the global trade. In the context of globalisation the biggest problem we face is the high cost of production associated with low supply capabilities. Therefore, if we are to remain competitive in the global market it is essential that we should consider reducing our cost of production. (specially chemicals and agricultural machinery etc.). This target would not be able to achieve through disintegrated farming system like what we have today in Sri Lanka.

The next biggest threat or challenge is the marketing. Sri Lanka does not have

the necessary marketing capabilities to compete with powerful countries. Therefore, Sri Lanka could adopt a policy of Strategic Alliance in order to overcome this problem even to a certain extent. Dr. Mahathir Mohommed of Malaysia adopted this policy and has been able to control the activities of rubber trade to a certain extent. Similarly, what Sri Lanka require at this juncture is to develop her marketing skills in overseas countries. If this shortcoming could be rectified we would be able to face any challenge emanating under globalisation.

The marketing challenge I am stressing here is the processing capacity of our own raw materials upto value added products and distribution capabilities. If we cite an example we do not have any power to decide our own distribution other than leaving same to buyers or importers. We would not be able to acquire such status for our country under the present circumstances. If the government could consider assistance towards a viable distribution system which could be operated in a small way such as opening up of store houses or small scale shops in developed market economies our exporters can retain a bigger mark up which at the moment is absorbed by the existing marketing channels.

For instance Indians who are living in U.S.A. and Europe have opened their own shops. They operate their own restaurants which buy the ingredients exported from their own origins. This may be a small step towards challenging the established distribution system but progressively this system would be able to maintain a certain level of consistency in our export agricultural products.

#### Footnotes

- 1 Deibert Fitbert - agriculture - The Uruguay Round - a Hand book on the multinational Trade Negotiations - World Bank
- 2 Martin Wolf - Why Trade Liberalisation is a good idea.
- 3 Olson Mancur - The rise and decline of Nations' Economic Growth Stagflation and Social Rigidities