

Monitoring Agri-trade Policy

MAP

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India's Role in World Agriculture

Summary

India is one of the fastest growing economies today and among the world's leading agricultural producers and yet its trade flows are relatively small. However given the size of Indian agriculture, even small changes in its trade have a potentially large impact on world markets. India is also a major consumer, with an expanding population to feed. The average size of holding is just 1.4 hectares and 60% of the work force depends on agriculture for a living. Its agriculture and trade policy partly stem from its goal of self-sufficiency and have an impact on trade. The latest MAP examines India's agriculture trade with the EU and globally.

Agriculture in the Indian economy

India is the third largest economy in Asia and the second fastest growing economy in the world. From 2003, its high growth rates of 8% were surpassed only by China. However, it is still ranked as a low income country, with an estimated GDP/capita around US \$ 820 in 2006.

The share of agriculture in India's GDP fell from 29% in 1991 to below 17.5% in 2006. Yet, around 60% of the labour force is still employed in the agriculture, compared to 70% in the early nineties.

There are 116 million farmers in India, a large number of them managing small scale holdings, on average just 1.4 Ha in the late nineties.

Agricultural Trade

India is one of the leading members of the G-20 within the DDA negotiations. Moreover, it has begun free trade agreement talks with the EU and ASEAN. And it also has a preferential trade agreement with the Mercosur since 2005.

India has an overall trade deficit since the nineties but has been a small net exporter of agricultural products since 1990. In 2005, its agricultural trade generated a small surplus of just under \$4 billions. Agricultural trade flows in India appear relatively modest compared with those of other main players on the world agricultural markets. Agriculture accounts for 9% of total exports and 5% of imports. This can be explained by the fact that although India is a leading world producer of agricultural products it is also a major consumer.

Focus on exports

The EU is India's top market, followed by ASEAN, USA, Bangladesh and China. Commodities represent around one third of agricultural exports. The single biggest export is milled rice, accounting for over 15% of the value of exports in 2003-2005. Soybean meal is the second most import export, accounting for 10% of sales while overall intermediate products represent around

25% of total value of exports. Final products, including cashew nuts, beef, coffee and teas account for the remaining 40% of total export value.

India's imports

ASEAN is by far the biggest supplier of agricultural products to India, accounting for a massive 40% of India's imports in 2003-2005. Argentina and Brazil rank second and third respectively. Intermediate products account for 56% of India's agricultural imports, reflecting the importance of vegetable oils. Palm oil imports, mainly from Indonesia and Malaysia, represent 29% of the total imports value.

Trade with EU-27

The EU, as the top market for India, accounts for 16% of the value of agricultural export sales in 2003-2005, down from 21% a decade ago. It imports €1.3 billion worth of agri-food products from India, equivalent to 2% of the EU's global agri-food imports. Overall 97% of imports from India enter the EU duty free or with a tariff lower than 30%.

Meanwhile, the EU only has a 4% market share in India's agricultural imports valued at about €250 millions. Thus, India accounts for less than 0.5% of the EU's total agricultural exports. The average bound tariff for agricultural products in 2006/07 is 117.2% while the average applied tariff is 40.8%.

In 2006, wheat was the EU's highest value export to India, worth one third of the value of exports. Exports of whiskies have grown fourfold from 1999 to 2006 and now account for 10% of export sales.

Outlook

OECD and FAPRI both expect India to play a bigger role in world markets in the future. It is likely to remain a small net exporter of agricultural products, consolidating its position among the world's leading exporters of rice. For sugar, a big change is expected, with India forecast to switch from being a net importer to a net exporter.

Turning to imports, India is forecast to remain a leading vegetable oils importer. It absorbs one quarter of world soybean oil imports and 14% of palm oil imports. Combined with the recent hike in prices, this could lead to a doubling of India's vegetable oil import bill in 10 years.