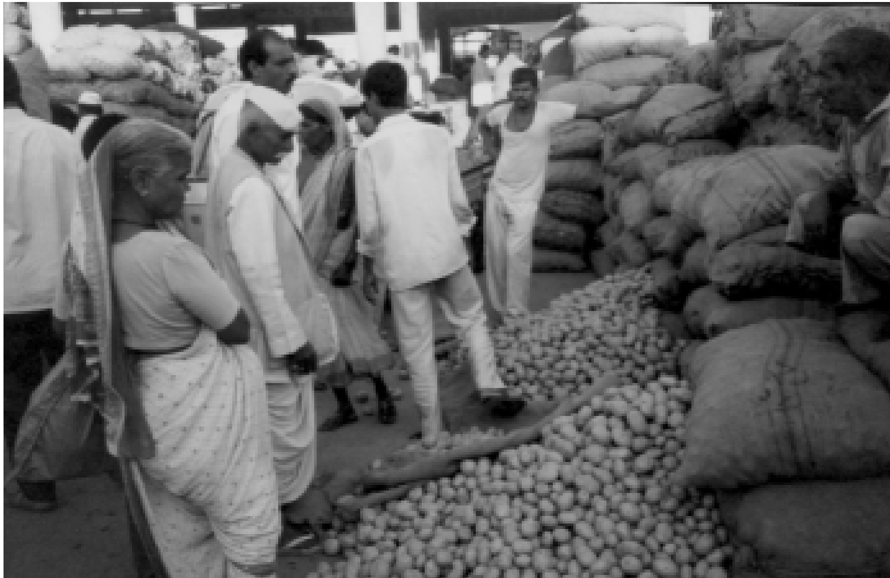
World Agriculture & Trade



Anwarul Hoque

India Relaxes Restraints on Agricultural Imports

After years of isolation, India has slowly begun opening its doors to the world market. In a major policy shift, the second largest country in the world has been removing many licensing and quota restrictions on agricultural imports since 1997. Although India is replacing quotas with high tariffs, by dismantling many trade barriers the country is moving incrementally toward open trade and greater integration with the global market.

As its government liberalizes trade policies, India emerges as a potentially large market for agricultural and consumer products. Its population, which has surpassed a billion, is growing by 1.9 percent a year, and its gross domestic product of more than $370 billion, Asia's third largest, is increasing at an average 6.5 percent. Rising population, higher incomes, and changing tastes and preferences are today creating a greater demand for food that in the past has been supplied by India's own agriculture.

The country's agricultural sector has both expanded and diversified in the past few decades. For example, during the post-green revolution period, India's cereal production grew faster than the country's population, although other crops grew less rapidly. Despite growth of the farm sector, domestic production alone cannot support the country's total food needs. Restrictive trade policies have until recently kept India's agriculture under tight rein and insulated it from outside competition. Now, to meet domestic demand and to adhere to trade agreements, the country must join the world market—thus the recent agricultural trade policy changes.

The Government's Goal: A Self-Sufficient Agriculture

India is a net exporter of agricultural products. In 1991, before the government instituted major economic and trade policy reforms, agricultural exports stood at $3.2 billion, and agricultural imports at $0.8 billion. With trade liberalization, exports rose to $6.7 billion by 1999, and imports to $3.3 billion.

India's agricultural production has grown at an annual average rate of 2.9 percent in the last four decades. The country now stands among the leading producers of many crops, including rice, wheat, coarse grains, cotton, and pulse crops (seeds of legumes such as peas and beans). It is self-sufficient in cereal production and ranks high among producers of oil meals, fruits and vegetables, tea, spices, and cashew nuts. Its cattle herd is the largest in the world, and its milk production the highest. India exports rice, oil meals, tea, coffee, cashew nuts, and spices. It currently imports edible oils, pulse crops, cashew and other nuts, spices, wool, hides, and skins. In years of low production, it also occasionally imports wheat, oilseeds, sugar, and cotton.

With self-sufficiency as its goal, the Indian government for many years all but controlled the country's agriculture by subsidizing and regulating the domestic market. A sizable part of the government's budget went to subsidies for production inputs, such as irrigation, power, and fertilizer, and to significant investments in agricultural research, extension, and infrastructure. The government regulated agricultural markets, encouraged farmers' production with price supports, and bought their major food crops at supported prices. A public distribution system (PDS) sells government-procured food grain stocks to consumers at subsidized prices.

In the area of trade, India restricted imports and subsidized exports. Tariffs, quotas, import licensing, and state monopolies became the mainstays of trade policies that virtually banned private importing, including the importing of agricultural products. Restrictive trade policies were so pervasive that about 11,000 products, including all food and consumer items, were controlled by some import barrier other than tariffs. The upshot was that importing any consumer product was effectively prohibited, and only state-owned agencies could import any products at all. Because of the trade restrictions, the level of agricultural imports remained miniscule compared with the size of the domestic market.

While restricting imports, the government encouraged exports for some commodities. Among the incentives were subsidies, tax exemptions, and licenses granted for importing necessary intermediate products (e.g., restricted raw materials and components).

World Agriculture & Trade

Trade Restrictions Loosened

India had taken some steps to liberalize its trade policies in the 1980's, and the process gathered steam with the economic reforms of the 1990's. In 1991, the government set in motion sweeping policy changes that abolished import licensing for all but about 3,000 products. Products that still required licenses or quotas went on a negative import list that specified which items were banned or restricted, and which could be traded by state agencies but not by private traders (see sidebar). On this list went agricultural and consumer products whose import had been restricted—essentially all of them.

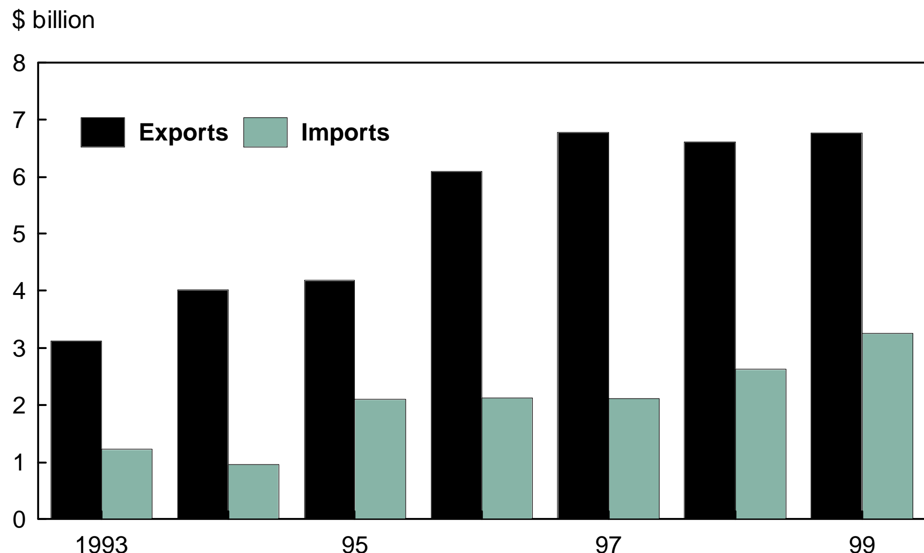
Between 1991 and 1997, the Indian government removed import quotas from about 15 percent of agricultural products on the negative import list. At that point, about 80 percent of internationally traded agricultural and livestock products were still restricted imports, appearing under about 1,000 tariff line items on the list.

The U.S. and other trade partners pressed India to remove all quota restrictions on agricultural and consumer products and in 1997 brought the matter to the World Trade Organization (WTO) for resolution. With pressure building, India moved more quickly to take products off the negative list. Since 1997, it has freed 620 agricultural products and, after the WTO's ruling that India should conform to WTO obligations, it agreed to free the remaining 377 tariff line items by 2001. This year it has so far removed restrictions on 228 of these items. When the remaining 149 tariff line items come off the list in 2001, India's agricultural and consumer product imports will be free of quotas.

The 228 items freed of tariffs in 2000 include processed and semiprocessed agricultural products. Items that can be imported now are seafood and fish products; meat and meat products (except poultry); milk and dairy products; fresh and processed fruits and vegetables; flour, grit, and meal of wheat, rice, and coarse grains; nuts and spices; and coffee, tea, frozen fruit juices, tobacco, and salt.

The 150 restricted items scheduled to come off the list in 2001 are agricultural and consumer products in high demand in India, among them food grains, poultry, fish, dairy products, vegetables, fruits, certain spices, and processed and semiprocessed meat.

India Is a Net Exporter of Agricultural Products



Source: Foreign Agricultural Service (Attaché reports), USDA

Economic Research Service, USDA

As trade restrictions were relaxed, private traders were allowed to import some bulk agricultural products that used to be imported only through the state trading agencies—cotton, sugar, oilseeds, and vegetable oils. About 34 bulk agricultural products, such as rice, wheat, coarse grains, cinnamon, cloves, coconut oil, and oil cake—items that represent about 45 percent of India's total agricultural production—continue to be imported only by state agencies. India considers these "sensitive" products and intends to maintain strong import control over them for as long as possible.

Agricultural Import Prospects Mixed

Despite the removal of longtime restrictions, India's agricultural imports will probably not mushroom in the short run. The level of imports will depend on demand for a product and on its price in India. The intent of the government as it replaces quotas with tariffs is to raise prices on imports to dampen consumer demand for them. As a result, import demand for products widely produced in and exported by India will indeed be limited; these include shrimp, prawns, mushrooms, coffee, and tea. Demand for imported products with limited (or no) existing local markets or not produced in India, such as kiwi fruit, stuffed pasta, and dried asparagus, should be greater. For some agricultural commodities, domestic prices remain lower than import prices in most years. Removing import restrictions, even without imposing tariffs, would not induce the import of these commodities.

Because most of India's 1 billion people have low incomes, domestic demand today is mainly for basic, low-priced foodstuffs. Removing import restrictions would, by and large, benefit this group by making basic foods available from the world market at competitive prices. India's growing middle-income group, however, estimated at around 250 million people, offers a viable nascent market for processed and semiprocessed foods, drinks, and upscale consumer-ready food products; as income increases, tastes and preferences change.

Consumer-oriented imports have risen since the lifting of restrictions, and the increase is expected to continue, even to

accelerate. Among consumer goods, nonmeat food products have better import prospects than meat products because most of India's population is vegetarian. For the same reason, processed and semiprocessed vegetables, fruits, and dairy products have high import potential, as do such items as soft drinks, and prepared cereals. High demand for almonds, nuts, and dry fruits will increase the country's imports with the removal of quotas.

Among meat and meat products, poultry has general appeal and strong import potential. However, poultry remains under quota until 2001, and tariffs on poultry meat have been hiked from 35 percent to 100 percent to discourage a surge of imports. Many seafood products will continue to have limited import potential, as India is an exporter of marine products. Import prospects for tea and coffee are also limited, because India grows and exports these products.

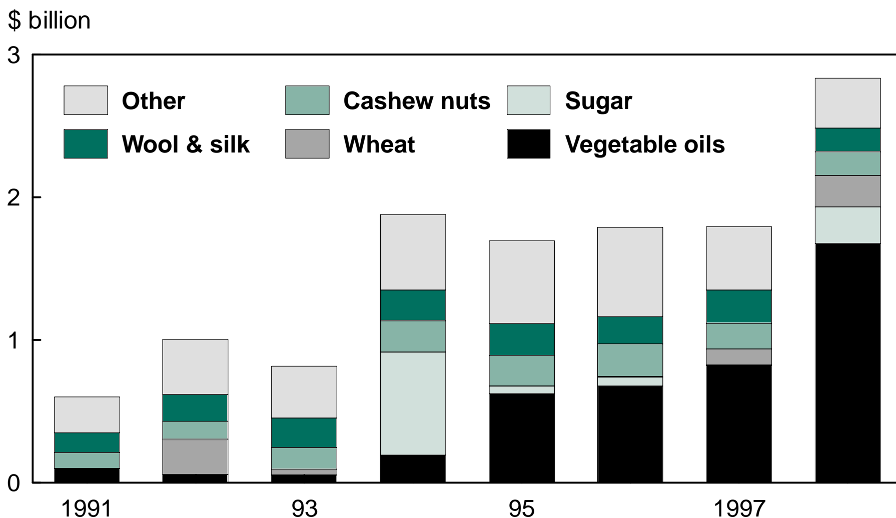
Among bulk agricultural products, pulses, coarse grains, oilseeds, and vegetable oils have the highest import potential. Pulses are a staple of the Indian diet, particularly for vegetarians. Although India is the world's largest producer of pulses, to meet the increasing demand for that food, it is also the largest importer, consistently importing 600,000-800,000 tons a year. Prospects are high for large pulse crop imports, but they are sensitive to prices.

India is self-sufficient in wheat and rice and even exports these grains in small quantities. Domestic production of coarse grains, particularly of corn, has remained limited, however. Corn demand has been rising with the rapid expansion of the poultry and starch industries. So while imports of coarse grains are still restricted, an exception was made recently for corn imports. India has now agreed to a tariff-rate quota (TRQ) of 350,000 tons of corn in the first year (2000), rising to 500,000 tons in the fourth year, at a rate of 15 percent (applied to quantities up to the quota limit). The new bound tariff rate (i.e., allowable maximum) on corn imports over the quota limit has been set at 60 percent.

India produces 26 million tons of oilseed annually, most of which is crushed for edible oils. But the country's demand for edible oils is so great that India imports more than 4 million tons every year—mostly palm oil, but also soybean and sunflower oils. Sustained income and population growth will continue to drive up import demand for all three edible oils. In contrast, oilseed imports are expected to remain sluggish due to high tariffs, phytosanitary regulations, and the lower, highly competitive prices of imported edible oils.

India has reemerged as a net importer of cotton since trade liberalization. It now imports specialty medium- and long-staple cotton, and the potential for greater cotton imports remains high.

Vegetable Oils Accounted For More than Half of India's Agricultural Imports In 1998



Source: Foreign Agricultural Service (Attaché reports), USDA

Economic Research Service, USDA

U.S. Exports to Expand

U.S. exports of agricultural products to India averaged $165 million annually in the last 5 years, which amounted to a 3- to 5-percent share of India's agricultural imports. U.S. exports are expected to increase substantially after quotas are removed in 2001.

Major U.S. agricultural exports to India are coarse grains, cotton, pulses, edible oils, fruits and nuts, and hides and skins. U.S. exports of corn, soybean oil, and sunflower oil are slowly rising since removal of import restrictions, and these have strong growth potential. U.S. dried peas have found an expanding market in India, where their quality makes them preferable to domestic varieties.

The best niche-market prospects for U.S. exports are processed foods and consumer-oriented products. In the last few years, exports of consumer-oriented products have risen sharply, surpassing bulk products. U.S. exports of almonds, dried fruits and nuts, dairy products, breakfast cereals, and processed fruits and vegetables are increasing. As India opens its market to consumer-ready processed foods and drinks, U.S. exporters are likely to acquire a larger share of that market, offering a variety of products that Indian consumers want. Because Indian consumers generally are very price-conscious, a rise in U.S. exports will depend on price as well as on the availability of a suitable variety of products.

New Tariffs Will Limit Consumer Demand

By replacing quotas with high tariffs, India's government indicates that its promotion of free trade is not without restraint. In fact, it has imposed high tariffs on products removed from quota restrictions specifically to reduce consumption of imported products and to

India's Changing Trade Restrictions

For almost half a century, India maintained one of the most complex and restrictive trade regimes in the world. It imposed a system of high tariffs and stiff nontariff barriers such as licensing, quotas, and state trading that became increasingly complex over the years and virtually closed off the country from the world market.

In its 1991 economic reform, India's government made some drastic changes in trade policy that abolished import licensing for all but 3,000 products, including all agricultural products and consumer goods, which were placed on the so-called negative list. Severe quantitative restrictions on these items prevented their import without license from the government.

Depending on how restricted their import was, items on the negative list fell into one of three categories: nonpermissible, restricted, and state monopoly. The banned, or nonpermissible, list contained only a few products prohibited on grounds of religious and cultural sensitivity (for instance, tallow, fat, and oils of animal origin). Bulk agricultural commodities (among them, grains, edible oils, oilseeds, and sugar) went on the state monopoly list—they could be imported only by the state's trading monopolies, which controlled where they went. All other products—those that could be imported within quota limits and with government license—made up the restricted list. Another limited permissible group of items, the Special Import License (SIL) list, was created later as a slightly freer variation of the restricted list. Most food and all consumer-oriented products other than those on the state monopoly list appeared on either the restricted list or the SIL list, among them fresh, chilled, processed, and semi-processed foods, seeds, fruits, and vegetables. From time to time, products were freed for import by moving them from the negative list to the Open General License (OGL) list. The OGL products still required licenses but could be imported in any numbers.

India's right to apply import restrictions dates from 1949. As a developing country with low foreign exchange reserves, India obtained an exception from the General Agreement on Tariffs and Trade (GATT) that allowed its government to set such restrictions, on grounds of balance-of-payments (BOP) provisions of the GATT's Article XVIIIB. Those provisions allow a member country whose BOP difficulties arise mainly from efforts to expand its internal market and its trade to resort to quantitative import restrictions. Since imposing import restrictions in 1957, India had always claimed the BOP exception rule and had opposed any outside pressure to remove the restrictions.

With the Uruguay Round Agreement (URA) signed in 1995, India was obligated as a signatory to remove quantitative restrictions from all products, including agricultural and consumer goods, as such restrictions were prohibited by Article XI of the GATT 1947 and the URA 1994. India nonetheless continued to maintain the restrictions, again claiming exception under Article XVIIIB of the GATT. India's BOP position, however, had changed considerably since the 1991 economic reform. Its foreign exchange reserves had progressively increased, from $1 billion in 1990 to $25 billion in 1997. The U.S. and other trade partners complained to WTO that India could no longer justifiably claim a BOP exception under Article XVIIIB, and that by continuing the quota restriction, the country was violating Article XI of the GATT. When the U.S. pressed India bilaterally to remove its quantitative restrictions, it found India still reluctant to do so. In 1997, the U.S. set in motion the dispute resolution mechanism of the WTO.

The Dispute Settlement Body, as well as the Appellate Body of the WTO, ruled that India was not justified in maintaining import quotas on BOP grounds and that it should bring restrictive import measures into conformity with its WTO member obligations. In accordance with the ruling, India negotiated with the U.S. bilaterally, which led to an agreement in 1999—India would remove all quotas, in two phases, by 2001. Since India had already removed quotas from about 1,285 tariff lines, 1,429 remained as of December 1999. India agreed to free 714 tariff lines in the first phase on April 1, 2000 (implemented), and the rest by April 1, 2001.

protect the domestic industry from effects of the world market's competitive prices. WTO rules permit tariff setting, as long as applied (actual) tariff rates do not surpass bound rates. India's applied rates are mostly lower than the bound tariffs.

Moreover, India recently negotiated changes in its tariff bindings of some products under WTO rules (in Article XXVIII of the Uruguay Round Agreement). According to a 1999 U.S.-India Agreement, bound rates have been increased on 15 agricultural products, including powdered milk, rice, corn, sorghum, millet, spelt, rapeseed oil, and grapes. In return, India has lowered bound rates on 23 items, including dairy products, citrus fruits, fresh and dried fruit, sunflower and olive oil, dried peas, orange juice, potato preparations, and wool.

India is now imposing tariffs up to their allowable maximum for imported agricultural and consumer goods to protect domestic production. The recently announced peak tariff rate is 35 percent, plus a 3.5-percent surcharge and a 4-percent special duty on items from which import quotas have been removed. In addition, countervailing duties ranging from 16 to 32 percent are imposed on some products. Basic tariffs have been raised on poultry (100 percent), vegetable oils (25 to 45 percent), dairy (15 percent), and tea and coffee (35 percent). India has recently imposed maximum tariffs on imports of rice (80 percent), corn (15 percent in-quota rate, 60 percent over TRQ limit), and powdered milk (15 percent in-quota rate, 60 percent over TRQ limit of 10,000 tons). Together, these duties significantly raise the import prices of many agricultural products.

Among other protective options India is considering are antidumping measures for products that enter India at prices below the “normal” value in the exporting country, as well as renewed quota restrictions. In addition, under WTO rules (Article XIX), a country, in accordance with its legislature, can adopt safeguard measures by imposing quantitative restrictions on products of an injured industry for a temporary period of 4 years, extendable to 10 years if the industry needs more time to adjust.

India today stands at a crossroads with regard to liberalizing its agricultural trade. While the government has largely done away with licensing, it has put in place several new protective policies that reflect caution about allowing open trade. These and further protective measures the government is considering would blunt some of the trade potential introduced by removal of quotas. The immediate prospect for agricultural imports is somewhat uncertain. But with incomes rising and given the government’s general support for globalizing the country’s economy, over the long run India should be a growing market for food and consumer-ready products. AO

Anwarul Hoque (202) 694-5222
ahoque@ers.usda.gov