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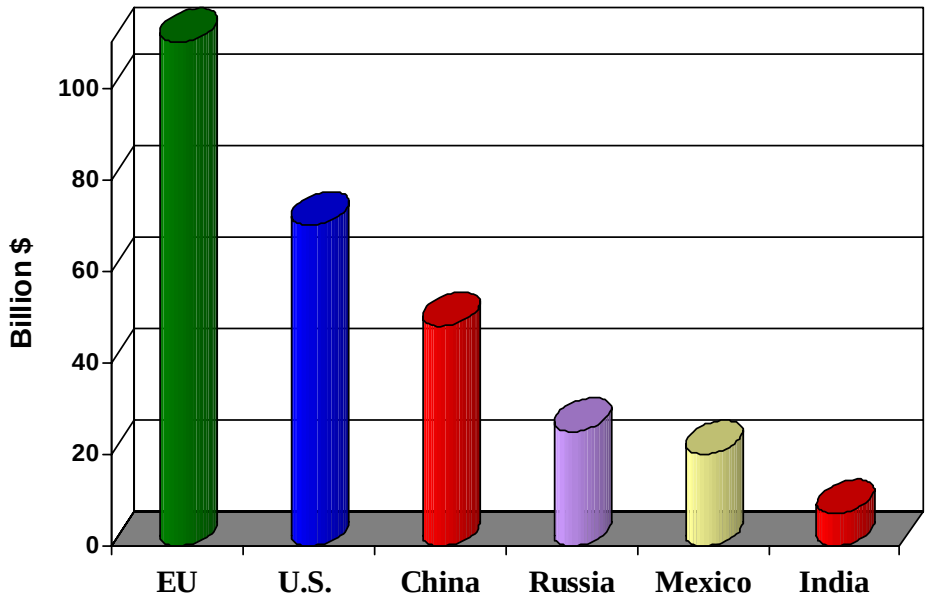
India and China: Divergent Markets for U.S. Agricultural Exports

India and China share many similarities. The world's only two population billionaires are both among the global leaders in GDP growth over the past decade and both face similar challenges of producing enough food to meet the demands of an increasingly affluent populace. However, when it comes to agricultural trade, China and India appear to have taken divergent paths. China has emerged as a major market for agricultural products whereas India (though somewhat liberalizing trade) remains a largely closed market. This is particularly true for U.S. agricultural exports, as China is the fourth largest and a fast growing market, while India is not among the top 20 markets. However, both markets hold significant potential for U.S. agricultural exports, albeit with a different mix of products.

Trade Policy

Chart 1: Total Agricultural Imports (2008)

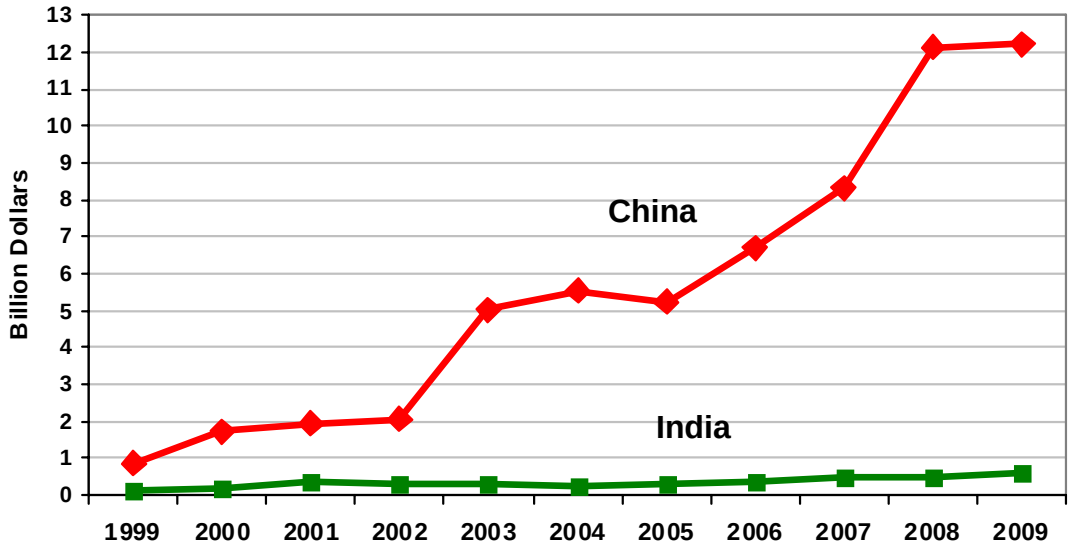


Source: GTA

India has long been a largely closed market to agricultural imports. Imports are generally viewed negatively, partially due to the fact that roughly 65 percent of the population depends on agriculture for their livelihoods and agricultural imports are seen as providing unwanted competition. Additionally, failed monsoons and reliance on large scale grain imports and food aid during the 1960s and 1970s has led the government to focus on food self sufficiency. In many respects, imports are seen mostly as an unnecessary evil.

Total Indian agricultural imports in 2008 (chart 1) were one-third that of Mexico and only a small fraction of import levels seen in China, the European Union, and United States. So how has the second most populous country, with a rapidly growing middle class, remained relatively closed to agricultural imports? While Indian import duties have come down in recent years, the average bound rate exceeds 100 percent, while the average applied rate is about 35 percent. High duties are meant to protect domestic industries, as in the case of apples where U.S. products face a 50 percent duty. However, duties also act as a government revenue source, as in the case of almonds and various "luxury" products, where there is little domestic production to protect. Along with high duties, the government also uses non-tariff barriers to block imports. Sanitary and phytosanitary barriers are employed to keep out U.S. dairy products, meats, grains, oilseeds, and nearly all biotech products.

Chart 2: U.S. Ag Exports to China and India



Source: U.S. Census Bureau

In contrast, China has adopted trade policies that have helped it to become more integrated with the world economy. Throughout the 1990s, the government lowered tariffs and other trade barriers to many agricultural products, and repealed state-trading companies' monopoly on imports and exports[1]. Since joining the WTO in December 2001, China has rapidly become a large agricultural importer, and now is ranked as the fourth largest U.S. market (chart 2).

China's liberalized trade policy was borne out of the overall economic reforms that began in the late 1970s. Reforms in the agricultural sector changed collective production to a household responsibility system where farmers had autonomy to make production decisions. Marketing also shifted to the private sector, facilitating the creation of independent markets and fostering greater inter-regional trade. Although self-sufficiency, particularly for strategic commodities like food grains, is still paramount to the Chinese government, the reforms have unleashed an inexorable

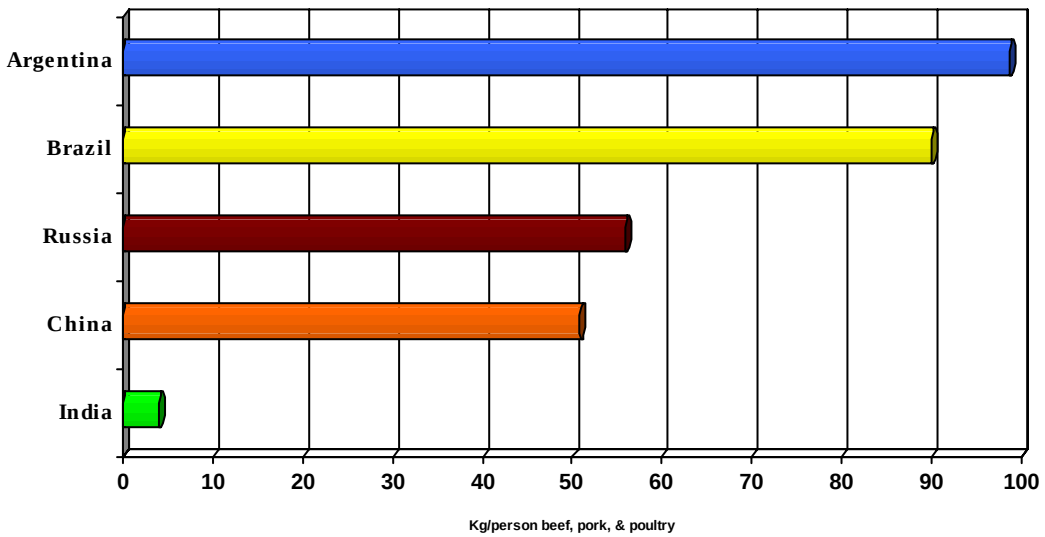
[1] Lohmar, B., F. Gale, F. Tuan, and J. Hansen, 2009, "China's Ongoing Agricultural Modernization: Challenges Remain After 30 Years of Reform."

tide of market liberalization. Both imports and exports have boomed under the reforms. With scarce arable land and relatively abundant and inexpensive labor, the country's agricultural economy has benefited greatly by importing land-intensive bulk and intermediate commodities and exporting labor-intensive consumer-oriented products. Cotton and textiles are a prime example of this development model. China's export-driven textile and apparel industry is the world's largest, which depends on imported cotton, hides, and skins to fuel its burgeoning growth. The government has provided support to this industry by, among other measures, allowing cotton imports well above China's Tariff-Rate Quota under its WTO obligations without imposing the prohibitive 40 percent out-of-quota tariff.[2] Since its WTO accession, growth of China's agricultural imports has outstripped that of exports, resulting in a widening trade deficit.

Consumption Patterns

Higher meat consumption may be the most important factor explaining China's greater level of agricultural imports. Rising meat consumption since the 1980s drew more of its land into production of feed crops and created robust demand for imported soybeans and fishmeal that add protein to feed for poultry, hogs, and fish. China also imports chicken paws, wing tips, and meat offal. Meanwhile, Indian per capita consumption of beef, pork and poultry combined is less than 10 percent that of China (chart 3). Over the past decade Indian consumption increased only 1.6 kg/person, compared to 8.2 kg/person in China. India is largely a Hindu nation, with approximately 40 percent of the population estimated to be vegetarians for either religious or economic reasons. Moreover, India trails China in economic development, with Indian GDP per capita less than half that of China, while unemployment is nearly double. Most Indian consumers

Chart 3: Per Capita Meat Consumption



simply do not have the purchasing power of their Chinese neighbors.

Source: USDA/FAS

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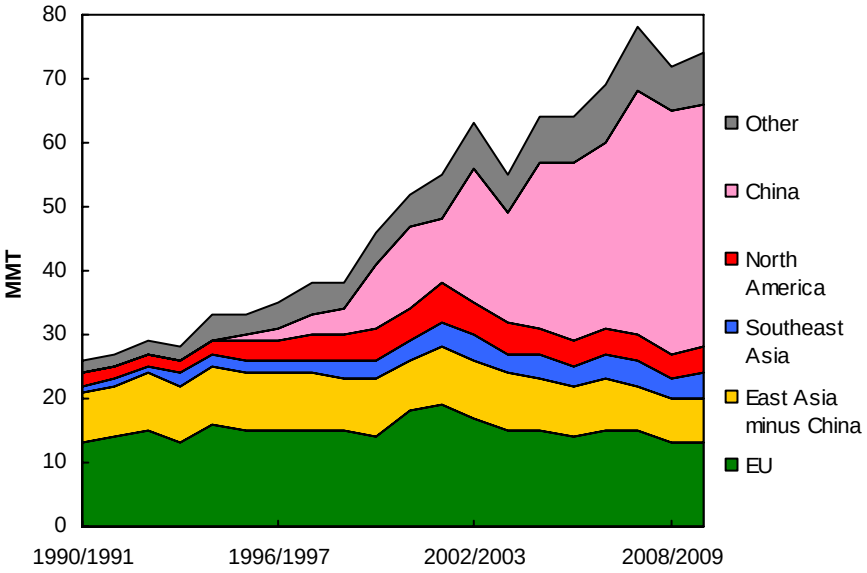
[2] Ibid.

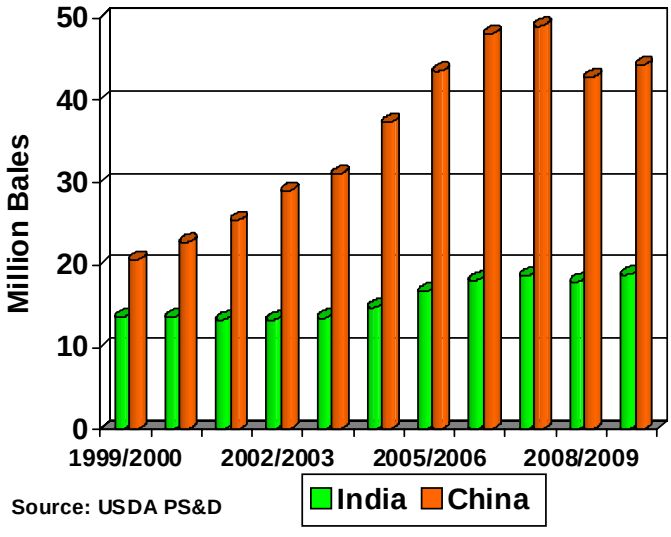
Not only has the very low level of meat consumption meant that India has not been a market for meat, but India has also not been a market for feed ingredients such as soybeans, feed grains, distillers grains, and meals. These commodities destined for the livestock industry have, however, been important drivers of China's impressive import growth. Between 1990 and 2009, production of meat and poultry nearly tripled, spurred by urbanization and income growth, which also drove up demand for vegetable oil. As a result, soybean demand (mostly for oil and meal) expanded over 460 percent during the last 20 years, while production only grew 32 percent. To bridge the rapidly widening gap between domestic production and soaring consumption, imports grew from virtually nothing in 1990 to 41 million metric tons in 2009—three-fourths of the country's domestic demand and over 50 percent of total world trade (chart 4). The United States has been the dominant supplier, with 60 percent of all U.S. agricultural exports to China comprised of soybeans.

Chart 4: Global Soybean Imports



Source: GTA

Chart 5: Cotton Use



Source: USDA PS&D

In addition to soybeans, China also imports large quantities of cotton and hides. The textiles and apparel industry, famous for its booming exports, is increasingly driven by surging domestic use as a result of rising disposable income and population growth. According to China's National Statistics Bureau, urban per capita expenditure on clothing more than doubled between 1997 and 2007. Cotton imports have surged dramatically since 2001, accounting for over a quarter of total world trade. In contrast, India's textile industry is much smaller and its cotton imports have fallen dramatically as domestic use has not kept pace with production. As a result, India is a

relatively small market for U.S. cotton while China is the top U.S. market (chart 5).

Prospects

Looking ahead, the prospects for Chinese agricultural imports are promising. China's per capita arable land is 40 percent less than the world average and production of land-intensive bulk and intermediate commodities, such as soybeans, cotton, and hides simply cannot keep up with surging demand. It has relied heavily on U.S. supplies and will continue to do so. Imports of consumer-oriented products, such as poultry, dairy, processed fruits and vegetables, and tree nuts, will also likely continue their robust growth, although their amounts are still small compared to bulk imports.

U.S. agricultural exports to India, though much lower than China, are expected to continue the impressive growth seen over the past few years, particularly in the high value categories. While Chinese imports are mostly driven by bulk commodities, India's growth is likely to continue in fruits, nuts, and processed products due to a booming middle class, emergence of organized retail outlets, and the positive image of U.S. products. Additionally, some growth is expected in pulses and to a lesser extent cotton. A major driver behind increased demand for agricultural imports in both countries is the growing middle class. Projections from Global Insight's consumer markets data indicate that India and China together will account for nearly 75 percent of the global growth of middle class households over the next ten years.

While India and China share many similarities, approaches toward agricultural trade, and imports in particular, have taken opposite courses. China has emerged as a top U.S. market while India remains a minor market with restrictive import policies and low meat consumption. However, the future is encouraging in both markets for U.S. agricultural exports.

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