The Hard Work Ahead in Improving US-India Agricultural Trade

Introduction

The United States and India have taken important steps forward in recent years to devote more attention to their trade relationship, which has generally lagged behind the much bigger steps pursued in developing their strategic relationship. However, as both countries know well, an alignment of strategic interests does not always translate into comity in trade interests. One might even argue that a mature and healthy strategic relationship should be able to readily weather the storms arising from occasional trade tensions.

Trade in agricultural products is replete with such examples, and might even be the best crucible for pressing national interests while simultaneously cementing and reinforcing shared strategic ones. Simply consider the history of trade disputes over many years between the United States and its European allies. A large number of these involve agricultural trade—from canned peaches in the 1980s to poultry and corn products today. The same is true with Canada, Japan, South Korea, and Australia, and the list goes on.

One should expect that the United States and India are no different. Their strategic relationship blossoms anew with each successive US and Indian administration, yet challenges on trade—specifically agricultural trade—persist and, unfortunately, even fester. Both countries are global agricultural powerhouses, and their respective political sensitivities regarding the economic well-being of farm families are well matched.

That said, one should not conclude that trade tensions over agriculture are necessarily perpetual, or immune to efforts to resolve them. Progress can be made, and achievements, even if hard won, can be infectious by inspiring ambition to do bigger things in the trade relationship. One can even point to prospects for new successes. Although US and Indian trade negotiators did not conclude a “mini-deal” during the Donald Trump administration, they
got very close. This was unprecedented, and this progress bodes well for negotiations to resume—and soon be concluded—during the Joe Biden administration. Agricultural trade is a key component of this potential deal, and success can offer an important step forward in increasing bilateral agriculture trade that offers mutual and reciprocal benefits.

However, not all engagement on agriculture trade necessarily requires transactional negotiations. While negotiations (and sometimes dispute settlement in the World Trade Organization (WTO)) may be unavoidable for the most intractable problems, there can also be plenty of opportunities for more cooperative approaches. In fact, this issue paper sets out arguments for this kind of approach—to complement the short-, medium-, and long-term efforts to negotiate bigger and more comprehensive trade deals in the future—and a brief roadmap of recommendations for pursuing cooperative successes. While trade negotiators will continue to be stuck with the hard, dirty work of hammering out trade agreements that can help better integrate national economies and provide economic ballast to broader strategic relationships, technical experts can accomplish quite a lot in parallel to encourage and facilitate increased agricultural trade; again, this is in the mutual interests of both countries. This simple vision follows below.

**Agricultural powerhouse in production and trade**

Starting from the days of the Green Revolution nearly sixty years ago, the United States and India have shared a common vision that sees agricultural growth and prosperity as necessary building blocks in a nation’s overall economic development and well-being. While the bilateral agricultural relationship has been quite rocky at times, especially in the area of agricultural trade, the authors believe it remains true that the two countries can, and should, develop a complementary agricultural-trade partnership that will benefit both nations, contribute to global food security, and support related aspects of their growing strategic partnership.

India has been blessed with a relatively rich endowment of natural resources, which has allowed it to produce significant volumes of a large variety of agricultural and food products. According to some assessments, India is second only to the United States in the amount of land farmed. Because of the large area planted with crops, and because farmers can plant two or even three crops a year, India is, in fact, a global powerhouse in the production and trade of key agricultural commodities. According to the US Department of Agriculture’s (USDA’s) most recent production and trade forecasts for the 2021 marketing year, India is expected to be the world’s number-one producer of cotton and the world’s number-two producer of rice, sugar, and wheat. It is also forecast to be the number-one exporter of rice and third-largest exporter of cotton and sugar. Despite the fact that about 30 percent of India’s population consider themselves vegetarians, India has more cattle than any other country on the planet (three hundred and five million head, compared to ninety-five million in the United States). At sixth place in the global rankings, India produces more chicken meat than Mexico or Thailand. It is also the leading exporter of frozen saltwater shrimp, most of which are farm raised.

However, despite India’s apparent success in significantly increasing the production of key commodities, India’s agricultural productivity as measured by yield is relatively low. Nearly half of India’s people, roughly six hundred million, continue to labor at least part time in agricultural activities, and India uses more land, water, and other resources per unit of production than do many other countries. Unfortunately, this large investment contributes only about 15 percent of India’s total gross domestic product (GDP), and this poor return is evident in the persistent poverty that exists in rural India. Moreover, while the desperate hunger that was prevalent in many parts of India more than sixty years ago has largely been overcome, it remains a fact that large segments of India’s population are still undernourished. Protein deficiency is increasingly singled out as a problem, and reportedly affects nearly 70 percent of the population, with serious, long-term consequences for children.

It is clear that the very policies that allowed India to overcome its hunger challenge decades ago are now leading to the misallocation of natural, human, and capital resources. This deprives India of an opportunity to better utilize its numerous advantages, including agricultural and food-production resources, to increase the prosperity and well-being of more of its citizens.

How does agricultural trade—specifically, US-India bilateral agricultural trade—fit into this context? India is one of the few countries that has maintained an agricultural trade surplus with the United States for a number of years. With exports to the United States currently dominated by seafood (farmed shrimp), spices, and food flavorings, India ranked sixth globally as a supplier of agriculture, fish, and forest products to the United States in 2019 (US Census Bureau trade data) with a total value of $5.3 billion, up from $4.1 billion in 2015. Meanwhile, US agricultural and related-products...
exports to India have grown steadily, if slowly, since 2000, passing $1 billion for the first time in 2014 and hitting a record $2.2 billion in 2019. India ranks only fourteenth globally as an export destination for US agricultural and related products exports, trailing nearby markets like Vietnam, the Philippines, and Indonesia.

While $7.5 billion of bilateral agricultural and products trade is welcome, it is below the trade potential that exists for both countries. There is a complementarity to the US-India agricultural trade relationship that could be the basis for expanding trade volumes to the benefit of both nations.

A key factor limiting growth in bilateral agricultural trade is the challenging array of policy, technical, regulatory, and tariff barriers facing US agricultural products in India. In 1990, nearly 50 percent of total US agricultural exports to India comprised tree nuts (almonds), cotton, fresh fruit (apples), and pulses (e.g., chickpeas and lentils). In 2019, 68 percent of total US agricultural exports to India remained these same four items. It is evident from the trade data that US products—especially high-value, consumer-oriented products—can do well in India once there is access. Relatively new US entrants to the Indian market includes ethanol for industrial uses, which over the last decade emerged as a key product in the US export portfolio, and now accounts for nearly 14 percent of total US agricultural and related products exports to India. In addition, in 2018 the United States gained access for US poultry meat (following many years of doing battle in WTO dispute settlement), the first major opening for a US agricultural product in the Indian market in years.
Notable for their absence from the US export portfolio are soybeans, grains, and their related products. All are prohibited from entry into India due to restrictions on genetically modified organisms (GMO), excessive phytosanitary import requirements, and high tariffs. This is despite the fact that India is desperately short of protein for both animal and human consumption, and its livestock, dairy, and aquaculture sectors are hampered by significant inefficiencies and high input costs, especially for feed. India’s own agricultural economy would benefit tremendously by opening up to US soy, distiller’s dried grains with solubles (DDGS), and other products. The demand and need exist in India to support $8–10 billion of US agricultural exports annually, if current trade and market restrictions are reduced or eliminated.

The benefits India would see from opening up to these commodities include jobs, investment, expanding supply, and choices for consumers. For example, crushing imported soybeans into soy oil and meal for animal feed will add thousands of jobs to India’s processing-and-feed sector, reduce India’s approximately $10-billion annual vegetable-oil import bill by more than the cost of importing soybeans, and lead to more resilience in the supply and prices for animal-protein products. In another case, India is already importing ethanol from the United States for industrial purposes, but does not allow imported ethanol to be blended with gasoline for automobile fuel, even though government mandates for increasing blend rates are not being met. This restriction constrains India’s efforts to further develop its own ethanol production and supply chain, which are a government priority, and limits the positive environmental impacts (cleaner air) that have been seen in other countries blending ethanol into their gasoline supply.

India’s recent reforms of legacy policies that tightly regulated India’s domestic agricultural markets potentially lay the groundwork for an improved negotiating environment for bilateral agricultural trade. The current misalignment of India’s agricultural economy due to these legacy policies favors grains and cereals, at the expense of higher-
valued crops that are appropriate for India's small-scale crop production and are also in demand globally. As a result, India’s trade negotiators bring relatively fewer agricultural issues to the table than does the United States. To the extent that new reforms incentivize the production of higher-valued, often consumer-oriented products, it may also help bring some balance into bilateral trade negotiations. For example, horticultural crops, especially tropical fruits, organic crops, aquaculture, spices, oils, food ingredients, and some processed food products offer opportunities to increase the prosperity of India’s small-scale farmers and create additional employment in processing and logistics in rural India, and are also in demand globally. While the recent reforms and their implications for India’s agricultural economy are clearly outside the purview of market-access negotiations, the authors believe that future agriculture trade negotiations will be more productive if Indian agriculture is better aligned with its own needs and global demand.

(For more background on India’s agricultural reforms and the political sensitivity of Indian agriculture, see these Atlantic Council articles: Atlantic Council: Transforming Indian Agriculture, September 9, 2020, and Atlantic Council: Fast Thinking—India’s Mass Protests, December 12, 2020.)

How best to approach agricultural trade

Over the past three years, US-India bilateral trade negotiations were completely dominated by the “mini-deal” to restore India’s tariff benefits under the US generalized system of preferences (GSP) for developing countries and remove retaliatory tariffs imposed on US goods (associated with US tariffs under Section 232 on steel and aluminum), including a number of agricultural products. Despite these negotiations not coming to complete closure with an agreement, the productive and unprecedented negotiations largely resolved all the issues, and provide a positive foundation to build upon, whatever the incoming Biden administration decides to do with the “mini-deal.”

The official framework for bilateral trade negotiations remains the Trade Policy Forum (TPF) and its affiliated working groups, including those for plant health, animal health, and food safety. These mechanisms are the essential framework for technical negotiations on agricultural and food products. Since non-tariff trade barriers, especially sanitary and phytosanitary import requirements, are the main focus of bilateral trade negotiations, a path must be found to quickly resume these routine technical discussions.

Ideally, these technical discussions are not transactional (e.g., “I’ll give you access for pomegranates if you grant me access for pecans”), but focus solely on the scientific data that support mandated protective measures taken by the exporting country to meet import requirements to protect plant health, animal health, and food safety. A high degree of trust and understanding among the officials involved is necessary, and that is only developed through routine communication. Practically, of course, the technical discussions are usually wrapped into a larger negotiation that is, by its nature, transactional and political. This is especially the case for agricultural products, given their political sensitivity in every country. However transactional the final, policy-level negotiation becomes, the necessary first step remains an agreement between the technical experts and officials that is based on evidence, data, and trust.

Conclusion

This analysis, based on experiences with negotiating on trade with India and other trading partners, concludes that the United States and India should pursue a multi-pronged approach to expanding bilateral agricultural trade. It offers these basic ideas, while counseling that there will be setbacks, and that a few specific sectors will likely require more time and effort. They certainly are not mutually exclusive and, in fact, will be more effective as a full toolbox of bilateral engagements.

- The pending trade deal remains compelling and, in fact, is not mini. It would cover roughly $10 billion in bilateral trade and offer important benefits for both sides, including agricultural products, such as pork, cherries, hay, DDGS, fuel ethanol, mangoes, pomegranates, and grapes. The Biden administration should take up these negotiations again and rapidly conclude them.

- ideally building on this first-ever significant bilateral trade agreement, the two sides should reactivate the TPF and resume discussion on the full array of agricultural products, covering interests on both sides. This could include exchanging information on best practices, so that there is a better appreciation of exporting opportunities on both sides, and exploring specific trade-facilitation measures, such as those in the WTO’s Trade Facilitation Agreement.

- In addition to devoting new attention and energy to the TPF working groups on plant health, animal health, and food safety, the United States and India
should launch a specific work stream on agricultural market-access issues. This work might suggest additional avenues for resolving persistent market-access barriers, even if this might mean some degree of transactional market-access negotiations.

Finally, the two sides will continue to be inundated with statements of enthusiasm—which are currently misplaced—and high expectations that they should start to consider launching negotiations on a free-trade agreement (FTA). Given hurdles on both sides, these expectations are not realistic for the foreseeable future, but it does not hurt to generate interest in the vision. For the United States and India to eventually approach the right moment for conducting FTA negotiations, they will first need to chalk up a series of significant outcomes on bilateral agricultural trade. That will be the best recipe for eventual success in a future FTA initiative.

This vision has several interconnected components, but it is a simple one. There will be challenging negotiations on trade, including agricultural trade, for years to come. Frankly, that kind of engagement is far better than a state of relative neglect. But, negotiations are only one tool, and it is critical that they be complemented and supported by cooperative efforts. This requires a strong commitment on both sides to devote as much attention to the bilateral trade relationship as they do to the strategic one.

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