



## India: the next frontier

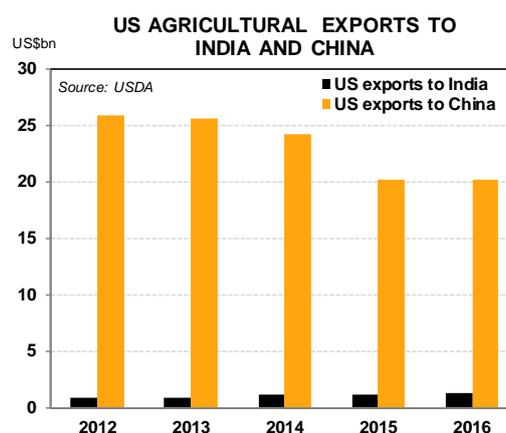
- After China, India is the next frontier for agricultural trade.
- While opening its markets will take many years, India is starting to discuss liberalising trade.
- Indeed with its population growing and getting richer, food exporters such as NZ and the US stand ready to gain.

### Indian food markets are massive, but relatively closed for trade

India is projected to overtake China and become the world's most populous country by the early 2030s. However, unlike China, India has minimal dependence on imports of agricultural and food products. China imported approximately US\$160 billion worth of food and agricultural products in 2015, while India, with only a slightly smaller population, imported US\$23 billion, about 15% of China's total agriculture imports.

### However, that is likely to change as India's food needs grow

According to the US Department of Agriculture (USDA), India is among the world's largest producers and consumers of a range of crop and livestock commodities. However, despite its ability to produce significant volumes of agricultural commodities, the USDA also reported India's population continues to account for the largest share of the world's population considered to be food insecure. As the population of India grows and incomes rise, the USDA estimates that dairy consumption in India will grow twice as fast as its domestic dairy production, meaning domestic dairy demand will be unmet by domestic production, setting the stage for potential imports of dairy products.



In addition, growth in domestic production is constrained by a variety of factors, including genetics, diseases, lack of adequate veterinary and breeding services, and poor farm management. While the Indian government is attempting to improve the above areas through its National Dairy Plan, the impact has, so far, been limited. Further, the poor infrastructure of the Indian dairy industry – highly dispersed production, lack of cold storage and burdened with weak procurement and retail systems – when combined with domestic production constraints, will eventually force the Government of India to begin importing dairy products, despite current strict import limitations. The USDA notes there have been irregular imports of milk powder and butter plus more regular small volume imports of ice-cream, cheese, and other dairy products. US dairy product exports are effectively prohibited under India's current sanitary import protocol.

### India is starting to discuss trade liberalisation

Several questions emerge – will agricultural exporting countries, such as the US and New Zealand, be able to gain increased access to Indian consumers? If yes, when might that access be granted? If US-India trade talks turn out badly, will that affect the broader trading environment for all countries? What trade concessions might India request in exchange for increased access to their food and agricultural markets?

An initial positive event recently took place when US President Donald Trump and Indian Prime Minister Narendra Modi met, for the first time, in Washington, DC. All external aspects of the meeting were constructive – with both sides providing encouraging statements, extolling the two countries' strong relations and mutual respect. There were several issues lurking in the background – with concerns expressed by both sides in the general areas of trade, visas and foreign policy. But the general tone of the meeting was positive.

While some would call their respective approaches protectionist, both leaders want to boost domestic manufacturing. To that end, Modi promoted his program entitled “Make in India”, while Trump’s message, somewhat similar, is “America First”, where companies that ship jobs and production out of the US would be punished, in some unspecified manner. But, in a move to enhance US-India relations, a recent positive Trump initiative, now operational through a Presidential order, modified a US visa program used extensively by Indian engineers and developers.

While not contentious, or even a topic that has been publicly mentioned by either Trump or Modi, agricultural trade between India and the US was addressed in the meeting’s concluding communique. The official communique stated that the two countries would undertake a comprehensive review of trade relations with the goal of increasing market access in a number of areas, including agriculture. Given India’s protectionist rules, while change will not happen quickly, the fact that more open agricultural trade was mentioned and made an official part of the record, is significant.

#### Indeed, NZ has already had FTA discussions with India

In recognition of the importance of increasing trade with India, in 2011, the New Zealand government published “Opening Doors to India”, with the goal for India to be a “core trade, economic and political partner” by the end of 2015. New Zealand has a reasonably strong trade relationship with India. In 2016, India was New Zealand’s 16<sup>th</sup> largest export destination, but New Zealand exports to China were almost 15 times greater than to India.

So, in an attempt to further strengthen New Zealand’s trade relations with India, efforts have been ongoing to forge a bilateral trade agreement between the two countries since 2010. While ‘good things take time’, the last formal round of negotiations (the 10<sup>th</sup> round) took place in February 2015. The next step is not clear. There were informal meetings of negotiators during 2015 and 2016, but no clear path forward has been established.

The potential for a successful free trade agreement between the two countries remains, with a Joint Statement between former Prime Minister John Key and Indian Prime Minister Modi pledging to continue efforts toward the establishment of a bi-lateral free trade agreement (FTA). While no new progress has been made on the India-New Zealand FTA, Indian dairy farmer organizations very recently threatened to hold nationwide protests if the dairy sector’s protection was opened up as part of any FTA. Possibly in anticipation of a potential opening up of the Indian dairy sector, Prime Minister Modi’s political party has implemented a farm loan forgiveness policy that is currently being put into place. An estimated 21 million small farmers, including millions of dairy farmers, will benefit from the government’s program to forgive farm debt totaling almost \$6 billion USD.

#### India’s dairy sector is large and highly protected...

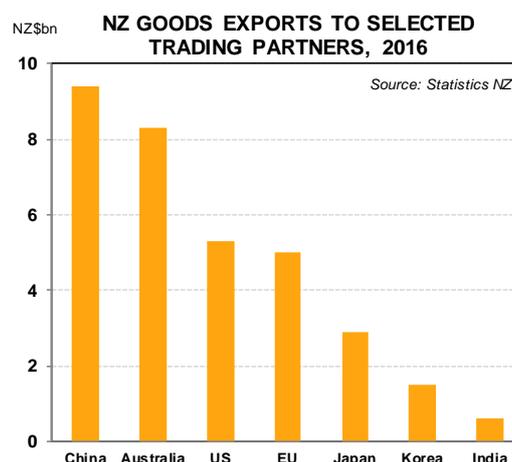
Since 1997, if one combines milk production from both water buffaloes and cows, India has been the world’s largest milk producer. Further, with an estimated 75 million dairy farms, India is home to about half of the world’s dairy farms. Small dairy farms – those with less than 5 buffaloes or cows and less than 2 hectares – are a dominant force in the dairy sector.

India is also the world’s largest consumer of dairy products. Dairy products are an important source of protein for the country’s large vegetarian sector. The government of India makes efforts to have a domestic dairy market that is self-sufficient and meets the needs of Indian consumers.

Toward that end, the country has a highly protected, and often subsidized, dairy market. Tariff rate quotas are applied to skim milk powder and butter oil with over-quota imports receiving up to a 60% import tariff. Further, India has restrictive import regulations that prohibit US and Chinese dairy products from entering the country. How long those limits on imports of dairy products may continue is not clear.

#### ...with dairy consumption poised to surge over the coming years

The Indian government estimates that the growth in the consumption of dairy products will increase demand by almost 40% over the next 5 years. With Indian dairy production increasing at about 4% a year – 2017 production is forecast to be 160 million metric tons – meeting increased consumer demand with only domestic production will be extremely difficult, if not impossible.



Further, an increasingly prosperous middle class is looking for value added dairy products that are difficult for the Indian food and dairy industries to provide. In addition, consumers have begun to focus more intently on product safety, another significant challenge for the domestic Indian dairy industry to assure. All of these consumer changes are positive for the possibility of increased New Zealand dairy exports to India.

**As such, the Indian market has massive potential for exporters like NZ and the US**

The potential of increased trade, particularly for agricultural exports, with India has been noted for some time. Both New Zealand and the US have made efforts to enhance and broaden opportunities to increase exports to India, particularly for food and agricultural products. In view of the changing political climate in the US, particularly for trade policy, the potential for India to open up their economy to imports has improved. Further, India’s growing demand for dairy products, when compared to its limited ability to meet that growing demand, may create opportunities that were not previously available. Consequently the blend of political opportunities with market reality may create an environment that permits India to modify its current import policies, to the benefit of agricultural producers in both New Zealand and the US.



**About the author**

William C Bailey was Chair of Agribusiness at Massey University for 13 years. He has written weekly world dairy market columns for ASB Bank for almost 15 years. He currently President of Topker Consulting, specializing in agricultural market research and supply chain issues relevant to agriculture. He retired as Dean, College of Business and Technology, at Western Illinois University, in Macomb, Illinois, in July, 2017. Bill spent 5 years in the US Marine Corps and received his PhD in Agricultural Economics from the University of Missouri. Before shifting to New Zealand, Bill was Chief Economist for the US Senate Committee on Agriculture, Nutrition and Forestry, served as Deputy Undersecretary of Agriculture and was Vice President and Director of Research for World Perspectives in Washington, DC. His beer of choice is Tui.

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