Econ 2203 | International Trade and Policy in Agriculture

Department of Development Economics

A deep dive into India’s trade structure, agricultural trade, and balance of payments

Overview of India's External Sector

India is a **major trading nation** — ranked among the top 20 exporters and importers globally.

Key FY2024 aggregates:

- **Merchandise exports:** $437 billion
- **Merchandise imports:** $677 billion
- **Trade deficit:** −$240 billion
- **Services exports:** $338 billion
- **Remittances:** $120 billion

Why does this matter for agriculture?

India's external sector shapes:

- Price of edible oils (imports)
- Farmer income (export demand)
- Food inflation (rupee/import costs)
- BoP sustainability

Merchandise Exports: Structure FY2024

Top 5 Merchandise Export Categories — FY2024

Category	Value (USD B)	Share of Total
Engineering goods	$109	25.0%
Petroleum products	$79	18.1%
Chemicals & Pharma	$65	14.9%
Agriculture & allied	**$43.7**	**10.0%**
Gems & jewellery	$35	8.0%
Total merchandise	**$437**	

Agriculture contributes ~10% of total merchandise exports — a significant share ranking 4th by category.

Merchandise Export Composition: FY2024

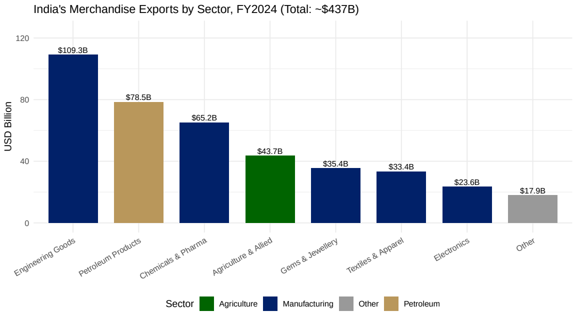

Figure 1: India's Merchandise Export Composition, FY2024 (USD billion) Source: DGCI&S / Ministry of Commerce and Industry, GoI.

Engineering goods ($109B) dominate — India's shift toward capital goods exports. Agriculture ($44B) is the 5th largest category, but holds outsized strategic importance for rural incomes and food security diplomacy.

Merchandise Imports: Structure FY2024

Top Import Categories:

Category	USD B
Petroleum & crude oil	$232
Engineering goods	$91
Electronic goods	$80
Gold	$47
Edible oils	**$14**
Pulses	$2.8

Agricultural import vulnerability

Edible oils at $14B represent a structural dependency — India imports ~60–65% of its edible oil needs.

This is India's single largest agricultural import burden.

Merchandise Import Composition: FY2024

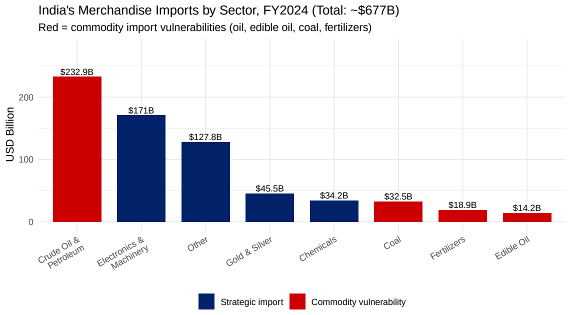

Figure 2: India's Merchandise Import Composition, FY2024 (USD billion) Source: DGCI&S / Ministry of Commerce and Industry, GoI.

Vulnerability arithmetic: Crude oil ($233B) + Coal ($33B) + Fertilizers ($19B) + Edible oil ($14B) = **~$299B in commodity imports** — 44% of total imports are subject to global commodity price shocks beyond India's control.

Agricultural Exports FY2024: Breakdown

India's total agricultural exports FY2024: ~$43.7 billion

Commodity	USD B
Marine products	$7.6
Non-basmati rice	**$4.6**
Basmati rice	$5.8
Processed food	$4.8

Commodity	USD B
Spices	$3.7
Cotton	$2.7
Coffee	$1.2
Others	~$11.5

Non-basmati rice exports were restricted from August 2023, significantly curtailing export earnings.

Agricultural Imports FY2024: Breakdown

Total agricultural imports: ~$28.2 billion

Edible Oils — $14 billion (largest component)

Oil	USD B
Palm oil	$9.5
Soybean oil	$2.5
Sunflower oil	$2.0

Other major imports:

- Pulses: **$2.8B**
  (Canada, Australia key sources)
- Fresh fruits: **$1.8B**
- Cashew (raw): ~$1.5B
- Spices (for re-export): ~$0.8B

India's Net Agricultural Trade Position

Agricultural Trade Balance FY2024

Exports \$43.7B − Imports \$28.2B = **Surplus +\$15.5B**

Five-Year Trend in Agricultural Trade Surplus:

FY	Surplus (USD B)
FY2020	\$17.0
FY2021	\$20.0
FY2022	\$25.0
FY2023	\$15.8
FY2024	\$15.5

The sharp drop from FY2022 to FY2023 reflects global commodity price corrections and India's rice export restrictions.

India’s Key Merchandise Trading Partners

Top Export Destinations

1. USA — \$78B
2. UAE — \$36B
3. Netherlands — \$18B
4. China — \$17B
5. UK — \$11B

Top Import Sources

1. China — \$102B
2. UAE — \$53B
3. Russia — \$44B
4. USA — \$41B
5. Saudi Arabia — \$34B

China dominates imports — especially electronics, machinery, chemicals. India’s trade deficit with China alone is ~\$85B. Reducing this is a stated policy goal.

India’s Trade Partners: FY2024

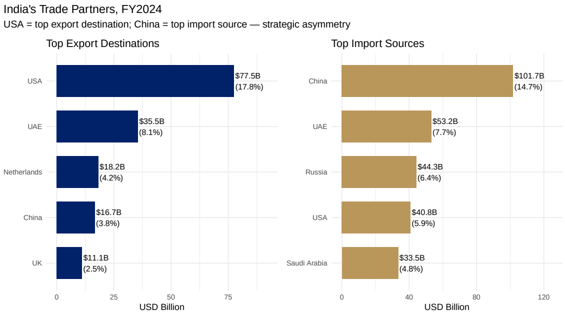

Figure 3: India’s Top 5 Export Destinations and Import Sources, FY2024 Source: DGCI&S / Ministry of Commerce and Industry, GoI.

Strategic asymmetry: India exports most to the USA ($78B) but imports most from China ($102B). The bilateral trade deficit with China alone (~$85B) exceeds India’s entire trade surplus with the USA.

Agricultural Trade Partners

Top Agri Export Markets

1. USA — marine, spices, processed
2. Bangladesh — rice, food grains
3. UAE — rice, vegetables, spices
4. China — cotton, marine, soybean
5. Saudi Arabia — rice, spices

Top Agri Import Sources

1. Indonesia — palm oil
2. Malaysia — palm oil
3. Canada — pulses, lentils
4. Australia — pulses, wheat (intermittent)
5. Ukraine/Argentina — sunflower/soybean oil

Rice dominates exports to South/SE Asia

India's agricultural trade geography reflects its structural reliance on SE Asia for edible oils and the Anglosphere for pulses.

Services Exports: The Other Engine

Services exports FY2024: $338 billion — India's invisible export superpower

Services Category	USD B
IT/Software services	$178
Business process & other	$88
Travel & tourism	$28
Financial services	$11
Transport	$14
Other services	$19

Why this matters for agri trade:

IT export earnings provide forex that finances agricultural imports (edible oils, pulses).

Without IT services surplus, India's BoP position would be far more stressed.

Services Trade Composition: FY2024

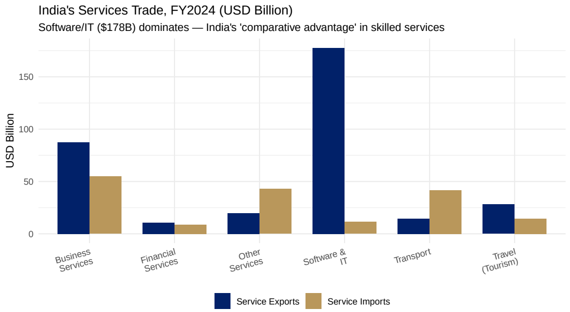

Figure 4: India's Services Trade Composition, FY2024 (USD billion) Source: RBI, Balance of Payments Statistics.

Revealed comparative advantage: India's RCA in Software/IT services is extremely high — the $178B export vs $11B import reflects a structural specialisation. Combined with $88B in other business services, India's services exports offset most of the merchandise trade deficit.

Remittances: India's Hidden BoP Pillar

India is the world's largest recipient of remittances

- FY2024 inflows: **$120 billion**
- Share of GDP: ~3.4%
- Primary sources: Gulf countries (UAE, Saudi Arabia, Kuwait), USA, UK, Canada

Key sending states: Kerala, UP, Bihar, Rajasthan, Punjab

Remittances vs External Deficits

Goods trade deficit: −$240B

\+ Services surplus: +$164B

= Net goods+services: −$76B

\+ Remittances: +$120B

Remittances alone more than cover the net goods+services deficit.

Remittances: Global Comparison

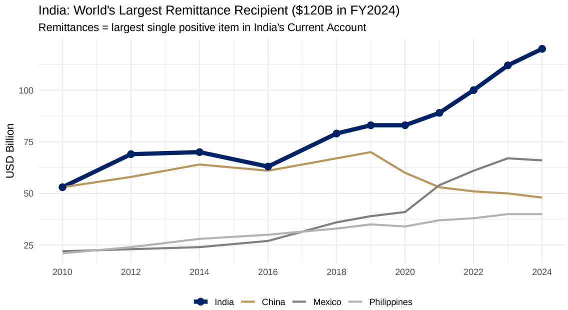

Figure 5: India: World's Largest Remittance Recipient (USD billion, 2010–2024) Source: World Bank, Migration and Remittances Data.

Gulf concentration risk: ~55% of India's remittances come from Gulf Cooperation Council (GCC) countries. Oil price slumps → Gulf construction slowdowns → remittance drops → India's CAD widens. The 1991 crisis featured exactly this channel.

Foreign Direct Investment (FDI) Flows

FDI inflows FY2024: ~$71 billion (gross)

Top recipient sectors:

- IT & software: ~$18B
- Financial services: ~$9B
- Pharmaceuticals: ~$7B
- Telecom: ~$6B
- **Agriculture & food processing: ~$3.6B**

Agri FDI: $3.6B and growing

Focus areas: - Cold chain infrastructure - Food processing (100% FDI allowed) - AgriTech startups - Contract farming/supply chains

FDI in agri-food is growing but remains a small fraction — India's farm sector still heavily domestic-capital-driven.

Forex Reserves: India's Financial Buffer

India's Foreign Exchange Reserves — FY2024: $645 billion

Components of forex reserves:

Component	USD B
Foreign currency assets (FCA)	$571
Gold	$53
SDR holdings (IMF)	$18
Reserve tranche position (IMF)	$3

Import cover: ~11 months — well above the conventional safe threshold of 3 months. This gives India significant resilience against external shocks.

India's 1991 Balance of Payments Crisis

The Crisis:

- By early 1991, reserves fell to **$1 billion** (< 2 weeks of imports)
- Iraq-Kuwait war raised oil import bill
- Gulf remittances fell sharply
- Fiscal deficit had grown unsustainably
- Credit rating downgrades; capital flight

India's Response:

- IMF bailout loan ($2.2B)
- Gold pledged as collateral (47 tonnes)
- Two-step rupee devaluation (25%)
- Structural adjustment → liberalization reforms

1991 as a turning point

The crisis forced India to:

- Open up to FDI
- Dismantle import licensing
- Devalue rupee
- Phase out industrial licensing

Agricultural trade also liberalized — QRs on agri imports phased out by 2001 (WTO bound).

Current Account Deficit (CAD) FY2024: approximately −0.7% of GDP

India's CAD trend:

Year	CAD (% GDP)	Assessment
FY2012	−4.8%	Dangerously high
FY2019	−2.1%	Elevated
FY2022	−1.7%	Moderate
FY2023	−2.0%	Moderate
FY2024	**−0.7%**	**Comfortable**

A CAD of −0.7% GDP is considered sustainable. The "safe zone" is generally under −3% for an economy of India's size and growth rate.

The Edible Oil Vulnerability: A Policy Case Study

The structural problem:

India produces ~10 million tonnes of edible oil domestically but consumes ~24 million tonnes.

The **14 million tonne import gap** = $14B foreign exchange outflow annually.

Source concentration risk: - 90% of palm oil from Malaysia & Indonesia - Subject to export bans, price manipulation, climate shocks

Policy responses:

1. **PM KUSUM** — promote oilseed cultivation
2. **National Mission on Edible Oils (Oilpalm)** — expand domestic oil palm to NE states
3. **Import duty manipulation** — lower duties during inflation
4. **Buffer stock policy** — proposed but not implemented

Rice Export Restrictions: A Policy Dilemma

August 2023: India bans non-basmati white rice exports

Rationale: - Domestic rice prices rising - Food security concerns ahead of state elections - Erratic monsoon raised supply uncertainty

Impact: - India's rice exports fell sharply (India = 40% of global rice trade) - Global rice prices surged 30–40% - Indonesia, Philippines, West Africa faced food price spikes - India's agri export earnings fell by billions

The trade-off:

Restrict exports	Let exports flow
Lower domestic prices	Higher farmer income
Better food security	Better forex earnings
Harms trading partners	Global price stability

Classic food security vs. trade earnings dilemma — central to agri trade policy

India's Balance of Payments: Summary Picture

BoP Current Account FY2024 (approximate):

Item	USD B
Merchandise exports	+437
Merchandise imports	−677
Trade balance	**−240**
Services exports	+338
Services imports	−167
Services balance	**+171**
Primary income (net)	−32
Secondary income (remittances)	+120
Current Account Balance	**~−17**

CAD of ~$17B on a GDP of ~$3.4 trillion = about −0.5% to −0.7% GDP. Healthy and sustainable.

India's Global Trade Rankings

India's position in global trade (WTO 2024):

Merchandise trade: - Exports: **17th largest globally** - Imports: **10th largest globally** - Share of world trade: ~1.8%

Services trade: - Services exports: **7th globally** - IT services: **Largest global exporter**

Agriculture specifically: - Rice: **#1 global exporter** (40% share) - Spices: **Top 3 globally** - Cotton: **Top 3 globally** - Seafood: **Top 10 globally**

India punches above its weight in agricultural exports relative to its overall merchandise trade share.

Structural Challenges in India's External Sector

Key vulnerabilities:

1. **Energy import dependence** — crude oil $232B; geopolitical risk
2. **Edible oil import dependence** — $14B; food inflation risk
3. **Electronic goods deficit** — $80B; reflects low domestic manufacturing
4. **Gold demand** — $47B; compresses CAD but reflects domestic saving patterns
5. **China trade deficit** — ~$85B; supply chain dependency

Agricultural Sector's Role in India's External Sector

Agriculture in India's external sector: 3 key roles

1. **Forex earner:** \$43.7B in exports — supports BoP, provides farmer income linkage to global prices
2. **Forex user:** \$28.2B in imports — edible oils and pulses; food security imperative but forex cost
3. **Policy instrument:** Government uses export/import restrictions to manage domestic food prices — with global spillover effects (India = swing supplier in rice, sugar, onions)

The net surplus of \$15.5B means agriculture is a **net contributor** to India's BoP — a valuable buffer.

Looking Ahead: India’s External Sector Goals

India’s trade policy objectives (2025–2030):

- Merchandise exports target: **$1 trillion by FY2030**
- Agricultural export target: **$100 billion by 2030**
- Increase oilseed domestic production (reduce $14B import bill)
- Value-added processed food exports
- Agri-GI tags to premium global markets

Key Takeaways — Lecture 10

Five things to remember:

1. **India's merchandise trade deficit is $76B** but is more than offset by services surplus ($171B) and remittances ($120B)
2. **Agriculture contributes a net surplus of $15.5B** — making it a positive contributor to the BoP
3. **Edible oil imports ($14B) are India's single largest agricultural vulnerability** — a structural food security and forex risk
4. **India is the world's largest rice exporter** — and unilateral export restrictions have significant global price consequences
5. **Forex reserves at $645B (11 months import cover)** provide substantial external sector resilience; a far cry from the 1991 crisis

Next Lecture: Foreign Exchange Rates and Determination

Lecture 11 (July 7, 2026): *Foreign Exchange — Rates and Determination*

We will cover:

- What is the exchange rate and why does it matter?
- Nominal vs. real exchange rate
- PPP theory and why the rupee "should" depreciate
- Covered and uncovered interest parity
- How exchange rates affect agricultural exporters and importers

Additional Resources

Further Reading

- *International Economics* — Salvatore (Ch. 13-14)
- *International Economics* — Appleyard & Field (Ch. 13-14)
- RBI/DGCI&S/APEDA databases for latest data

Key Data Sources

- DGCI&S: India's merchandise trade
- RBI: Balance of payments data
- APEDA: Agricultural export statistics
- WTO: Tariff and trade databases