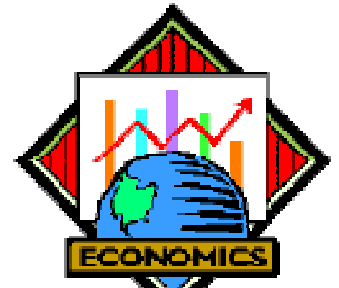


# **Competitiveness of American Agriculture in the Global Economy**

**Ian Sheldon**

**AED Economics**

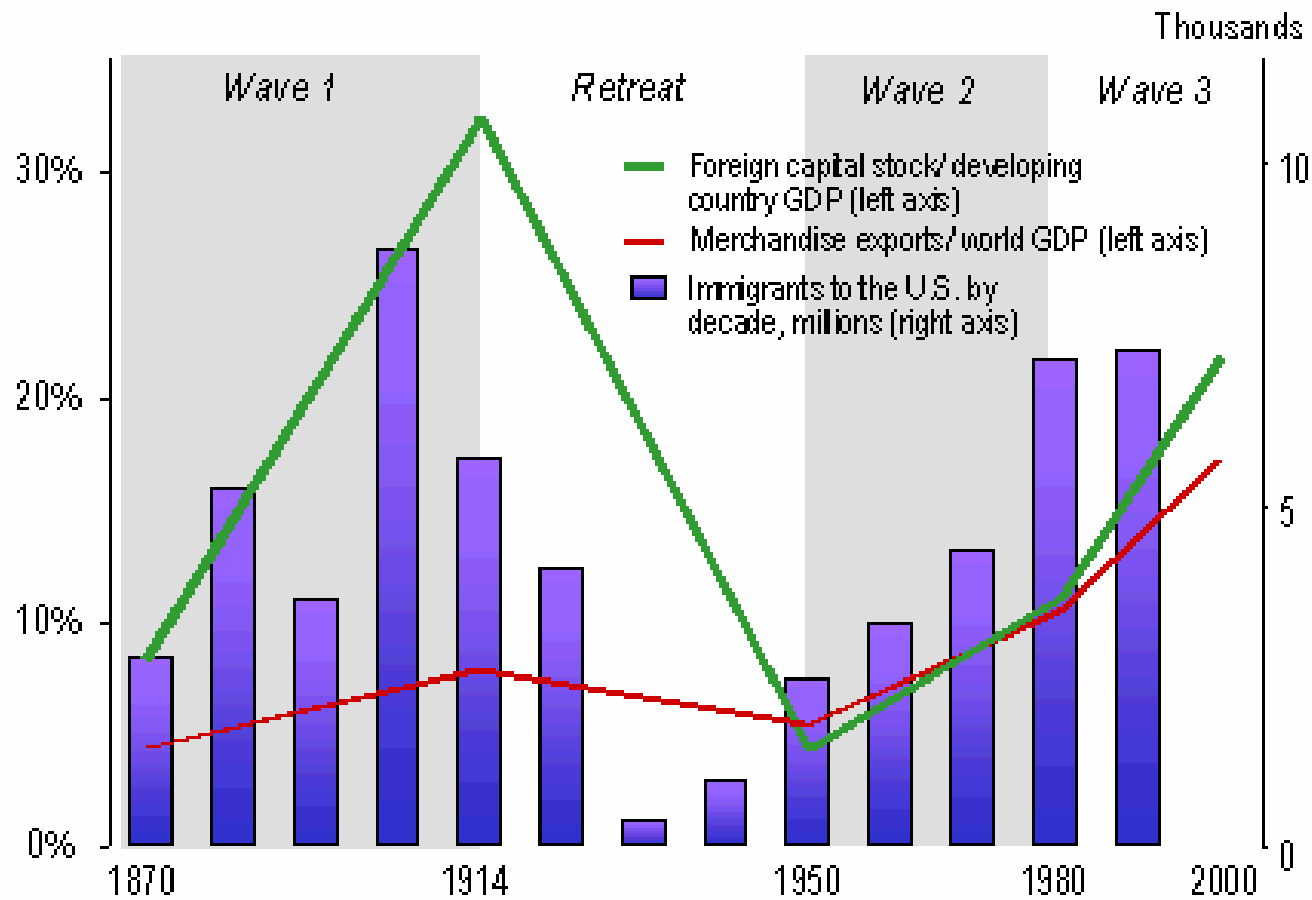


# What is globalization?

- **Increasing world economic integration**
- **Trade, direct investment, financial flows, and migration**
- **Outsourcing of services**
- **Globalization not a new phenomenon**

# Globalization is not new

## Three waves of globalization



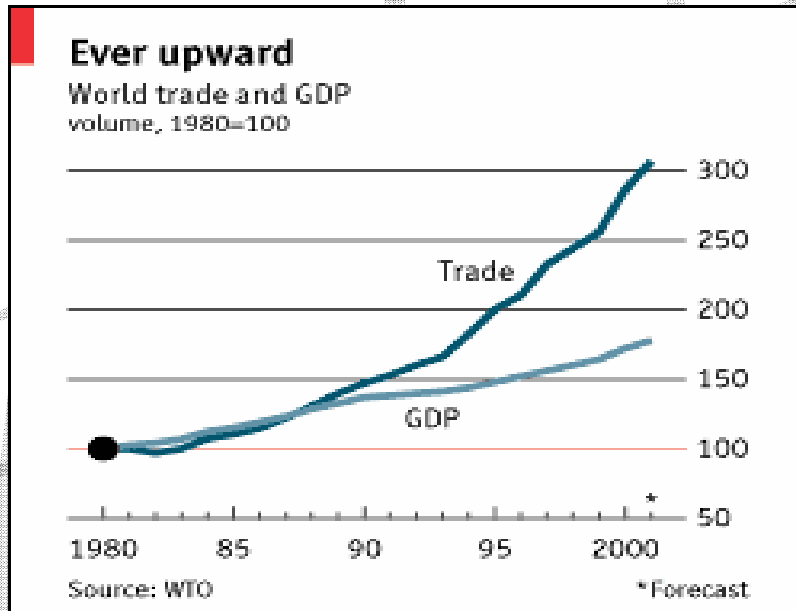
World Bank (2002)



# Current phase is different

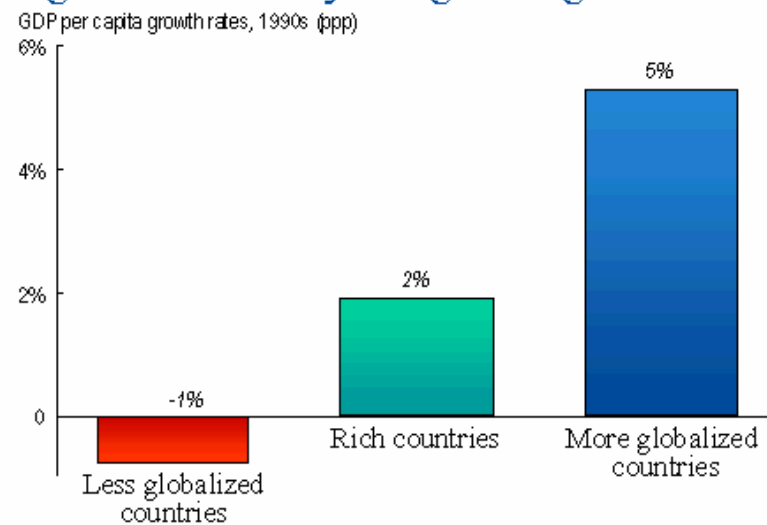
- **Some less developed countries (LDCs) globalizing, e.g., China**
- **Due to lower trade barriers, better investment climate, better transportation**
- **Some LDCs are marginalized, e.g., Africa**
- **Due to poor infrastructure, education, corruption, trade barriers, and location**

# Trade and economic growth



“The Economist” (2002)

Poor countries that integrated with  
global economy are growing fastest



World Bank (2002)

# Globalization and agriculture

- **Agriculture not as integrated as manufacturing**
- **Agricultural tariffs considerably higher on average**
- **Doha Round of WTO stalled over agriculture**
- **Largely due to intransigence of developed countries (DCs)**
- **Some emerging economies also at fault, e.g., India**



# Why is Doha Round important?

- **96% of world's farmers – 1.3 billion – live in LDCs,**
- **73% of poor live in rural areas, with over 1000 million people living off under \$1/day**
- **LDCs very dependent on agriculture for household income**
- **International markets important to sustained income growth of LDCs**

# **Why is Doha Round important?**

- **Doha Round labeled a “development round”**
- **Focus on increasing market access to DCs for LDC agricultural exports**
- **Reduce world price distortions due to DC agricultural policies**
- **Uruguay Round of GATT (predecessor of WTO) brought only modest impacts on export subsidies, market access, and farm support**



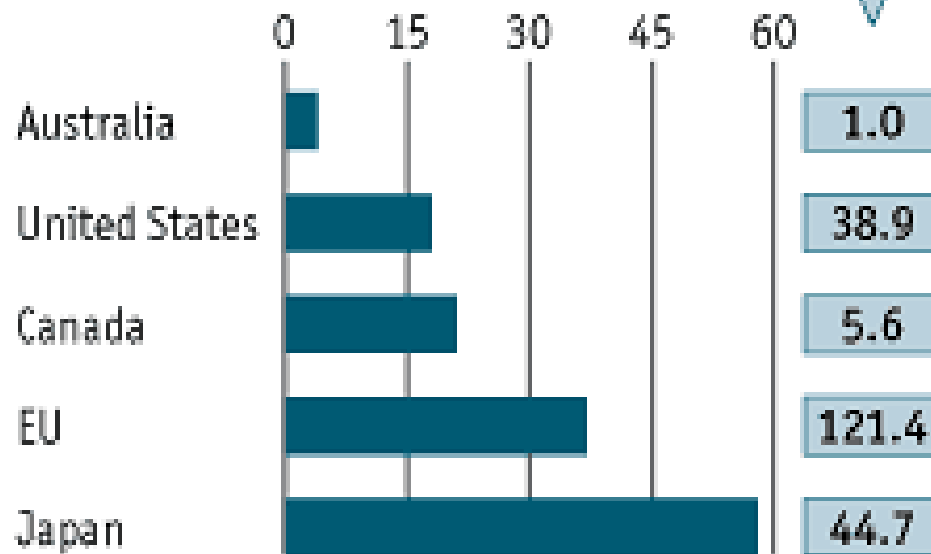
# Farm policies

- **Border protection underpinned by domestic support for agriculture in DCs**
- **Canada, EU, Japan and US are major subsidizers of agriculture**
- **Most support goes to largest farmers**
  - largest 25% of US farms get 89%
  - largest 25% of EU farms get 70%

# Farm policies

## Bumper crop

Agricultural subsidy as % of value of gross farm output, 2003

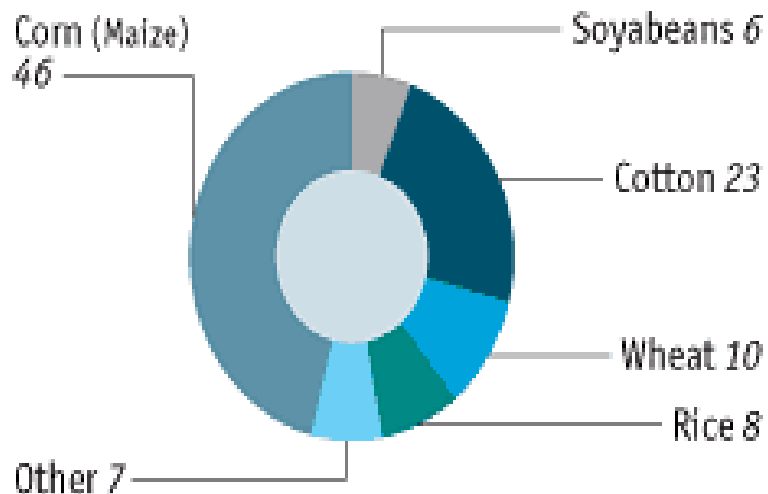


Source: OECD

# US Farm Support

## Cream of the crop

Farm subsidy payments\*, % of total  
2002-05 annual average



Source: USDA

\*Price and income support

% of gross revenue 2001-03

<b>Sugar</b>	<b>58</b>
<b>Milk</b>	<b>44</b>
<b>Rice</b>	<b>44</b>
<b>Sorghum</b>	<b>37</b>
<b>Wheat</b>	<b>34</b>
<b>Barley</b>	<b>30</b>
<b>Corn</b>	<b>20</b>
<b>Soybean</b>	<b>19</b>
<b>Wool and lamb</b>	<b>17</b>
<b>Pork, beef and broilers</b>	<b>4</b>
<b>Overall</b>	<b>19</b>

Source: OECD



# Benefits of trade liberalization

- Elimination of tariffs and subsidies would generate global gains in excess of \$56 billion – 75% to DCs and 25% to LDCs
- Depressed world prices would rise for some key commodities:

cotton	10-20%	dairy	20-40%
peanuts	10-20%	rice	33-90%
sugar	20-40%		

- Export growth in LDCs would also boost non-export agriculture

# Is US agriculture competitive?

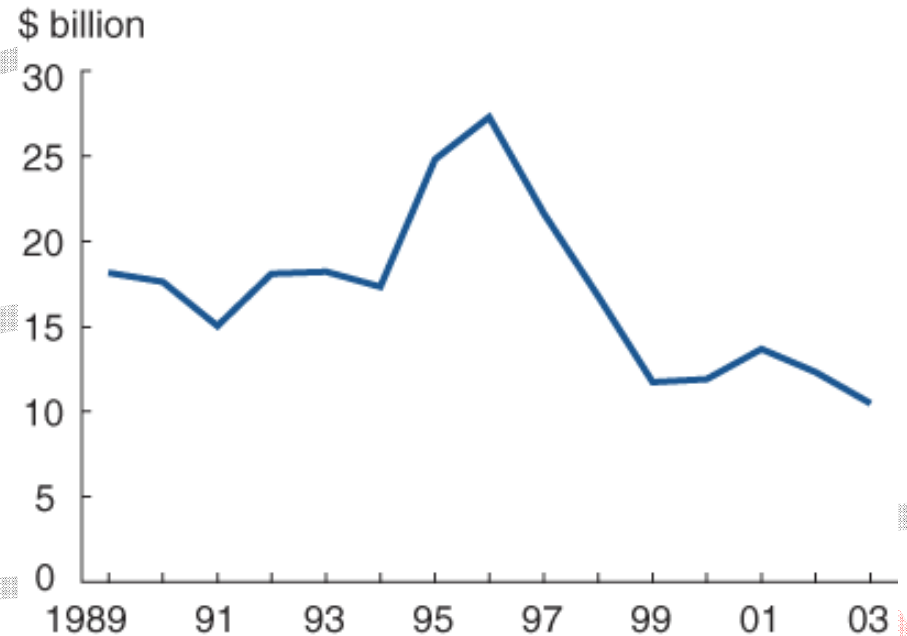
- US trade surplus in agriculture since 1959
- Since 1996, surplus has fallen from high of \$27.3 billion to \$4.8 billion in 2005
- Does this mean that US agriculture is becoming less competitive?
- No – it still retains a strong comparative advantage in producing key commodities, i.e., grains and oilseeds
- US imports typically quite different from its exports



# Why a decline in the surplus?

- Asian financial crisis stifled export demand in late-1990s
- Strong value of the \$ encouraged US imports
- Impact of lower world commodity prices
- Weak demand in mature markets such as Europe and Japan

Farm trade surplus declines as imports rise twice as fast as exports



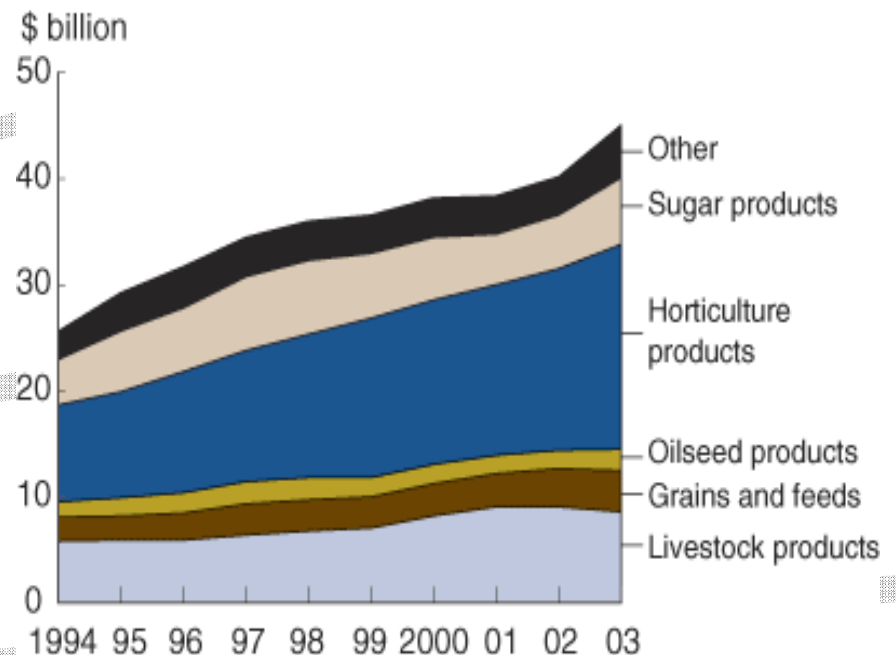
Source: U.S. Census Bureau.



# Change in US consumption patterns

- **Demographics and eating habits affecting consumption patterns**
- **Increased consumption of horticultural products – by 2010, expected to account for 43% of imports – mostly from Mexico and Latin America**
- **Increased diversity of consumer preferences reflected in imports**

Horticulture products drive U.S. import surge in the past decade



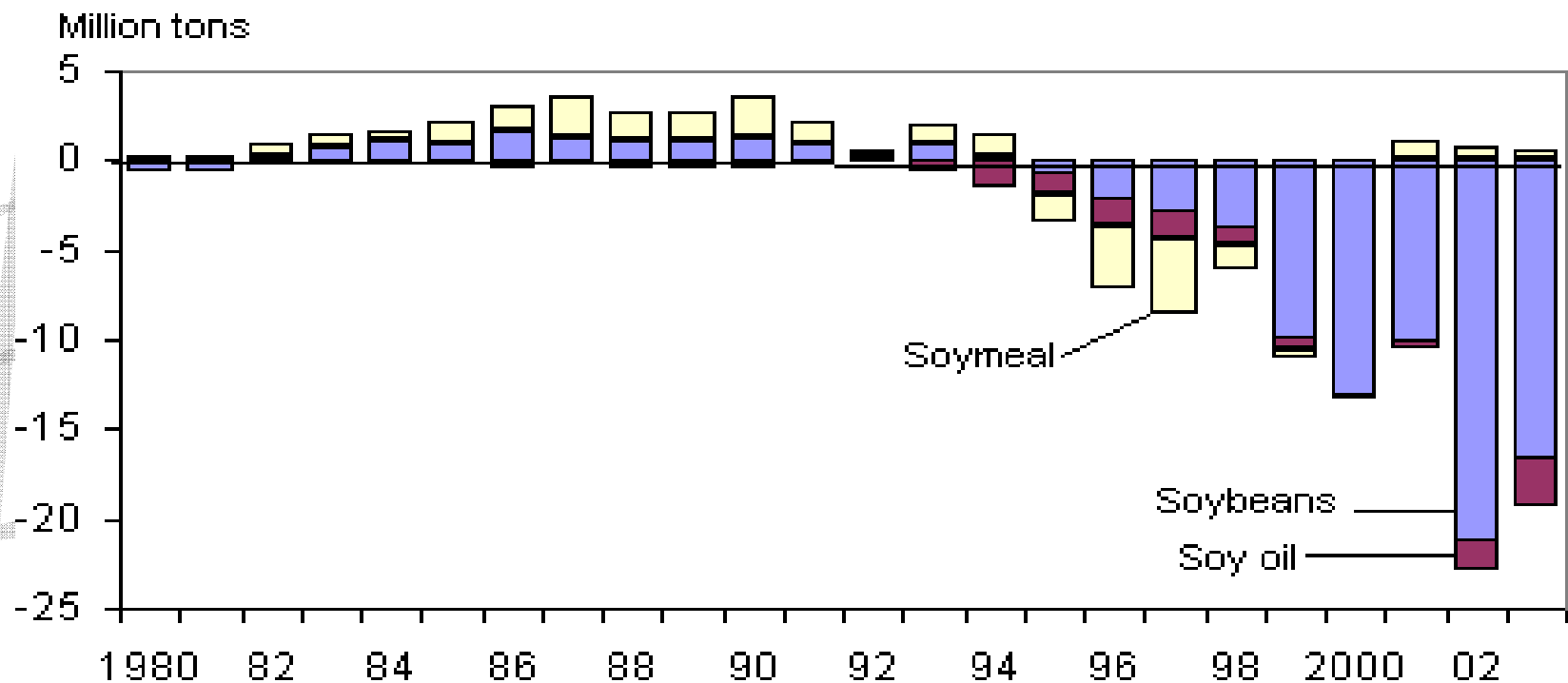
Source: U.S. Census Bureau.

# **Future export markets for US**

- **As LDCs grow, they spend a higher proportion of their food budget on meat and poultry products**
- **This will benefit US exports of feed-grains as well as beef, pork and poultry exports**
- **China has already become largest importer of US soybeans, having surpassed the EU**
- **China's accession to WTO in 2001 has been key in its agricultural sector becoming more open**

# China's demand for protein

China net trade in soybeans, oil and meal, 1980-2003



Note: net trade = exports - imports.

Source: USDA, Production, Supply, and Distribution data.



# Conclusions

- **Agriculture not fully integrated globally**
- **WTO concerned with freeing up sector**
- **This will boost incomes of many LDCs**
- **Future growth in US exports dependent on growth in LDCs**
- **Many LDCs will also benefit from continuing penetration of US market**

# Questions?

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