Competitiveness of American Agriculture in the Global Economy

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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)
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)

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
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

<table>
<thead>
<tr>
<th>Country</th>
<th>$bn 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>1.0</td>
</tr>
<tr>
<td>United States</td>
<td>38.9</td>
</tr>
<tr>
<td>Canada</td>
<td>5.6</td>
</tr>
<tr>
<td>EU</td>
<td>121.4</td>
</tr>
<tr>
<td>Japan</td>
<td>44.7</td>
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</tbody>
</table>

Source: OECD
US Farm Support

**Cream of the crop**
Farm subsidy payments*, % of total 2002-05 annual average

- **Cotton**: 23%
- **Soybeans**: 6%
- **Wheat**: 10%
- **Rice**: 8%
- **Other**: 7%

Source: USDA  *Price and income support

<table>
<thead>
<tr>
<th>Crop</th>
<th>% of gross revenue 2001-03</th>
</tr>
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<tbody>
<tr>
<td>Sugar</td>
<td>58</td>
</tr>
<tr>
<td>Milk</td>
<td>44</td>
</tr>
<tr>
<td>Rice</td>
<td>44</td>
</tr>
<tr>
<td>Sorghum</td>
<td>37</td>
</tr>
<tr>
<td>Wheat</td>
<td>34</td>
</tr>
<tr>
<td>Barley</td>
<td>30</td>
</tr>
<tr>
<td>Corn</td>
<td>20</td>
</tr>
<tr>
<td>Soybean</td>
<td>19</td>
</tr>
<tr>
<td>Wool and lamb</td>
<td>17</td>
</tr>
<tr>
<td>Pork, beef and broilers</td>
<td>4</td>
</tr>
<tr>
<td>Overall</td>
<td>19</td>
</tr>
</tbody>
</table>

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

- 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

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

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 the 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 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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