

# U.S. Agriculture and International Trade

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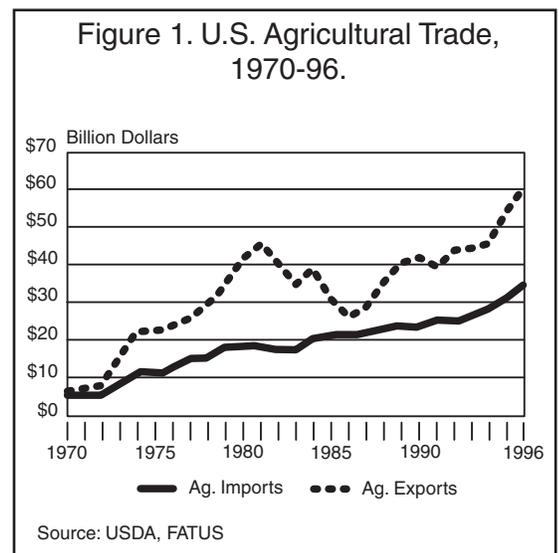
International markets are important for many U.S. farm products. Trade liberalization has provided additional market opportunities for some U.S. products. These new markets lead to higher farm prices and greater returns to producers. Trade is also a major source of import competition and market instability for some producers, leading to declining market prices and lower returns (Leaflet 1). Overall, U.S. agriculture has much to gain from freer trade, but these benefits come with added risks because trade is influenced by many factors. Changes in trade policies and economic growth rates among countries, exchange rate fluctuations, and the emergence of new competition all influence trade and make the international market more risky for U.S. producers.

Nevertheless, with declining government support to agriculture, greater access to international markets is crucial to the future growth and prosperity of the agricultural economy of the United States. U.S. agriculture may have much to gain from expanded trade since many countries, especially in Central and South America, already have low duty access to the U.S. market, while U.S. access to their markets is limited by high tariffs and nontariff barriers.

International trade has a major impact on U.S. agriculture. Exports are crucial, providing a market for a major share of crop production and a growing share of meat output. In 1996, 28 percent of U.S. farm cash receipts were generated by exports, while only 7 percent of U.S. gross domestic product (GDP) was attributable to exports.

U.S. agricultural exports have varied widely rapid growth in the 1970's, the slump of the early 1980's, and the subsequent export recovery. Over this period, the value of agricultural exports has exceeded the cost of agricultural imports, generating a trade surplus each year (Fig. 1). This surplus has contributed positively to the overall U.S. trade balance, allowing the importation of foreign-made cars, petroleum, electronics, and wearing apparel.

The importance of export markets to U.S. agriculture is illustrated in Table 1. In 1996, more than one-half of all U.S. wheat production and 48 percent of rice production was exported. Cotton, soybeans, and corn producers also depend on exports for large shares of their market.



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Although beef and pork export shares are lower, poultry exports account for 17 percent of production.

**Table 1. U.S. Agricultural Exports as a Share of Production, 1996**

Commodity	Percentage of Production Exported
Wheat	54
Soybeans	35
Rice	48
Cotton	42
Tobacco	14
Corn	24
Poultry	17
Beef	5
Pork	4

Source: "Foreign Agricultural Trade of the United States," U.S. Department of Agriculture, Foreign Agricultural Service, Jan./Feb./Mar. 1997 Final Issue.

U.S. consumers are more dependent on imports for certain commodities than others (Table 2). Not surprisingly, these include tropical products not produced in the United States, such as coffee and bananas. Broccoli, fish, and grape imports account for relatively large shares of consumption. The share of agricultural imports classified as competitive with domestically produced items has increased from 66 percent in 1973 to 75 to 77 percent in the 1990s. These products represent a growing source of import competition for many U.S. producers.

**Table 2. U.S. Imports as a Share of Domestic Consumption, 1994.**

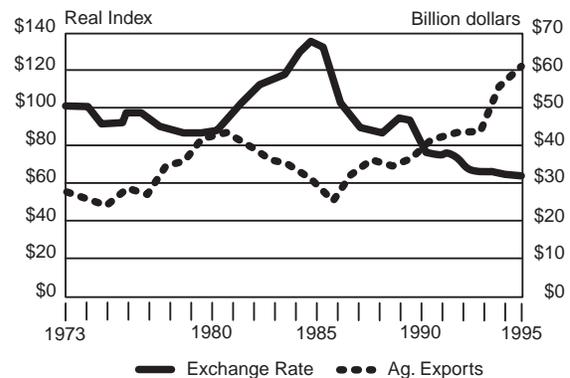
Commodity	Percentage of Consumption Imported
Coffee	100
Tea	100
Cocoa	100
Bananas	100
Spices and Herbs	93
Broccoli for Processing	69
Fish and Shellfish	55
Grapes	41
Frozen Orange Juice	24
Beef	10
Pork	4

Source: "Foreign Agricultural Trade of the United States," U.S. Department of Agriculture, Foreign Agricultural Service, Apr./May/June 1996 issue.

## What Causes Exports to Change?

An important reason for the fluctuations in exports is changes in the value of the dollar relative to foreign currencies (Figure 2). The dollar lost value against foreign currencies in the 1970s, making U.S. agricultural products less expensive in the importing countries and, predictably, increasing sales. In the early 1980s the dollar gained strength, making U.S. exports more expensive to foreign buyers and causing exports to decline. The dollar then weakened again and exports recovered somewhat. The exchange rate index is adjusted for inflation.

**Figure 2. Exchange Value of the U.S. Dollar and U.S. Agricultural Exports**



Source: U.S.D.A. and Federal Reserve Board

Changes in exchange rates were not the only reason for these fluctuations in exports. For some commodities there was increased competition from other countries, for example Brazilian soybean production, and exports increased dramatically. Western European countries were a large U.S. export market in the early 1970s. The agricultural policies in the European Community (EC), now the European Union (EU), encouraged domestic production and restricted imports. In addition, subsidized exports of EU surpluses increased competition for U.S. exports. Changes in U.S. farm programs and export promotion programs also played a part.

U. S. exports are also affected by changes in the economies of importing countries. Rapid economic growth creates increased demand for all products, including imports, and the inverse is true when economies slip into recession. The recent economic crisis in East Asia is an example. About 10 percent of all U.S. agricultural exports were to South Korea, Thailand, Indonesia, and the Philippines in 1996. Japan accounts for nearly 20 percent of the export

market. A major economic downturn in all these countries would certainly result in reduced demand for U.S. farm products. Exports of feed grains, meats, oilseeds, and cotton would experience the biggest declines.

The animal product share of total exports more than doubled during the 1973-94 period, but crop products still accounted for four out of five export dollars in 1994. Bulk commodities—food grains, feed grains, oilseeds and their products—dominated crop exports during this period, but this dominance has been eroding and the composition of crop exports changed. Exports of high value items, such as vegetables, fruits, and nuts more than tripled, increasing from 5.8 percent of total exports in 1973 to 18.1 percent in 1994. These changes occurred gradually and irrespective of the fluctuations in the value of total exports.

### **The Export Product Mix**

The mix of agricultural products exported has changed during the last 20 years. In 1973, exports of crops and crop products accounted for nine of every ten export dollars.

These changes in the export mix have regional implications. The Mid-West dominates the production of feed grains and oilseeds, an export category that is declining in relative importance. A similar situation holds for wheat in the Plains states. Fruits and vegetable exports are increasing and production is concentrated in the Western and Southern states. Other specialized commodities with localized production areas include tobacco, rice, cotton, and poultry, all of which are important to the Southern region.

### **Major Markets**

The destinations of U.S. exports have changed over the last 20 years; some have increased in importance, while others have declined.

Asia is both a large market and an important growth area for U.S. agricultural exports. The recent economic crisis in Thailand, Korea, Indonesia and the Philippines has caused much concern about the future prospects for these key markets. Rapidly depreciating currencies, coupled with economic reform, rising exports and falling imports may cause U.S. agricultural exports to decline in some markets. The final outcome will depend upon the success of policy reform in Asian countries.

Japan has been consistently ranked as the number one export market and its importance has been increasing. South Korea and Taiwan

are also important Asian markets. China has been an erratic buyer of U.S. exports and many are optimistic it may become a major market.

Canada has increased in importance as an export market and ranked second only to Japan in 1992. To the South, Latin America, particularly Mexico, also has increased in importance. The major decline occurred in trade with the countries of Western Europe, particularly the members of what is now the European Union, but these remain a significant market.

### **Markets of the Future?**

Many factors affect exports, including population growth and growth in personal incomes in importing countries. Income growth, in turn, is affected by political stability and economic policies. U.S. farm programs and trade, foreign aid and export policies and programs all affect the competitiveness of U.S. farm products in foreign markets.

Trade with Mexico and Canada has increased under North American Free Trade Agreement (NAFTA-Leaflet 5). U.S. exports to Mexico had been increasing, albeit somewhat erratically, prior to NAFTA. Periodic devaluations of the peso, changes in Mexican domestic economic policies, and the debt crisis of the 1980s all had an impact on trade flows. Over the long term, certain U.S. agricultural exports will increase significantly as high Mexican trade barriers are phased out over a 15-year period. Recent trade initiatives in Central and South America to create additional free trade areas may lead to increased U.S. export opportunities.

As developing Asia restructures, it will continue to be an important market for U.S. exports. Population growth, along with high rates of economic growth, will increase the demand for food and improved diets in most countries. Many of these countries must rely on imports to meet this increased demand. In the near term, this growth will occur in traditional export markets. Although China has a huge population and limited agricultural resources, low per capita incomes limit export opportunities. If the recent economic reforms continue, per capita incomes are expected to grow and agricultural imports should increase eventually. India is another country with a huge population and a low per capita income. Recent changes in economic policy, away from a socialist philosophy and toward a more open and market-directed economy, should lead to higher imports in the years ahead.

Western Europe likely will continue to decline in importance as an export destination. The Common Agriculture Policy of the European Community, which continued under the (EU), has a goal of self sufficiency. Farm programs encourage higher agricultural production in virtually all commodities, to the point that there are now surpluses of many products. This increase in production has displaced some U.S. exports and has caused the mix of products to change. Membership has increased from the original six countries of the EC to the fifteen countries who constitute the EU. Additional countries are expected to join in the future and these new members will, in all likelihood, contribute to further surpluses of agricultural products, so the prospects for U.S. exports will suffer.

African countries continue to be plagued by political and civil unrest and economic policies that hinder the performance of their economies. Until these problems are resolved there is little prospect for increased commercial trade in agricultural products. Similarly, the political and economic upheavals in the countries of the former Soviet Union will not end soon and this will be an impediment to economic growth and expanded trade.

The most recent trade agreement under the General Agreement on Tariffs and Trade (GATT), the so-called Uruguay Round Agreements (URA), is a far-reaching agreement that covers many aspects of world trade in merchandise and services. It is expected to have a significant impact on world trade and the global economy. The changes for agriculture are fairly modest and are not expected to create major changes in agricultural trade patterns. This is the first time comprehensive agricultural trade provisions have been included in a GATT agreement, which sets important precedents that could lead to significant changes in future rounds of negotiations. Among the most important URA provisions are: 1) the creation of the World Trade Organization (WTO), providing an effective Dispute Settlement Body (DSB) and a continuing forum for negotiations to reduce trade barriers in agriculture; 2) minimum market access to all WTO member countries and the reduction of highly restrictive non-tariff trade barriers such as import quotas; 3) reduction in the use of export subsidies, thereby opening more markets for U.S. grains and other products; and 4) the use of sanitary and phytosanitary regulations which are based on sound science, not political expediency.

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