U.S. Agriculture and International Trade

Curriculum Guide

I. Goals and Objectives

A. Understand the importance of exports and imports to agriculture and how risk management is affected.
B. Understand factors causing exports to change.
C. Understand the export product mix, major markets, and the importance of future markets.

II. Description/Highlights

A. 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. 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.

B. 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 seven percent of U.S. gross domestic product (GDP) was attributable to exports.

C. In 1996, over one-half 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. Although beef and pork export shares are lower, poultry exports account for 17 percent of production.

D. U.S. consumers are more dependent on imports for certain commodities than others. 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 75-77 percent in the 1990s. These products represent a growing source of import competition for many U.S. producers.

E. An important reason for the fluctuations in exports is reflected by changes in the value of the dollar relative to foreign currencies. The dollar lost value against foreign currencies in the 1970s, making U.S. agricultural products less expensive in the importing countries and, predictably, sales increased. In the early 1980s the dollar gained strength, making U.S. exports more expensive to foreign buyers, and exports declined. The dollar then weakened again and exports recovered somewhat.

F. 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 represented increased competition for U.S. exports. Changes in U.S. farm programs and export promotion programs also played a part.

G. 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.

H. Changes in U.S. farm programs and export promotion programs also played a part.

I. 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.

J. Asia is both a large market and an important growth area for US agricultural exports. Rapidly depreciating currencies, coupled with economic reform, rising exports and falling imports may cause U.S. agricultural exports to decline in some markets. Japan has been consistently ranked as the number one export market and it's 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.

K. Western Europe likely will continue to decline in importance as an export destination. African countries continue to be plagued by political and civil unrest and economic policies that hinder the performance of their economies. The political and economic upheavals in the countries of the former Soviet Union will not end soon and this will be an continued impediment to economic growth and expanded trade opportunities. Asia is both a large market and an important growth area for US 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. Trade with

Mexico and Canada has increased under North American Free Trade Agreement. 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 towards a more open and market directed economy, should lead to higher imports in the years ahead. 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 create increased demand for food and improved diets in most countries.

III. Potential Speakers

A. Extension Economists
B. USDA or Texas Department of Agriculture Officials
C. Marketing Club Advisors

IV. Review Questions

A. What major factors cause US agricultural exports to change? Changes in foreign demand, more international competition, exchange rates, and foreign demand growth.

B. How has the product mix of US agricultural exports changed since 1975? Bulk commodity exports, such as wheat, corn, and soybeans, have declined relative to intermediate exports and consumer-ready products exports.

C. How have the markets for US agricultural exports changed in the last two decades? Markets such as the EU and other developed countries have declined in importance, while developing countries such as Mexico, Korea, and Taiwan have increased in importance.

D. Which group of countries will most likely be the growth markets of the future? Developing nations such as Mexico, Brazil, Thailand, Malaysia, and China have been demonstrating strong growth potential and will likely become more important markets in the future.

V. For More Details

International Trade Leaflet Series, Leaflets 1 and 2 located at
http://www.ipt.com/intlagmktg/mktinfo/leafindx.htm

! US Agriculture More Trade Dependent

- ☞ Major Shares of Crops and Livestock Exported (Table 1)
- ☞ Major Shares of Food Imported (Table 2)
- ☞ Exports Generate 28% of Farm Cash Receipts
- ☞ Figure 1

! What Causes Exports to Change?

- ☞ More Competition
- ☞ Shifting Demand
- ☞ Exchange Rates (Figure 2)
- ☞ Policies and Institution

! Major Markets for U.S. Agricultural Exports

- ☞ Japan and Developing Asia
- ☞ Mexico and Canada
- ☞ Former USSR and Eastern Europe
- ☞ Africa and Latin America
- ☞ Other Developed Countries

! Markets of the Future?

- ☞ NAFTA
- ☞ Developing Asia and China
- ☞ Western Europe and CAP Reform
- ☞ Role of WTO in Opening Markets

Figure 1. US Agricultural Trade 1970-96

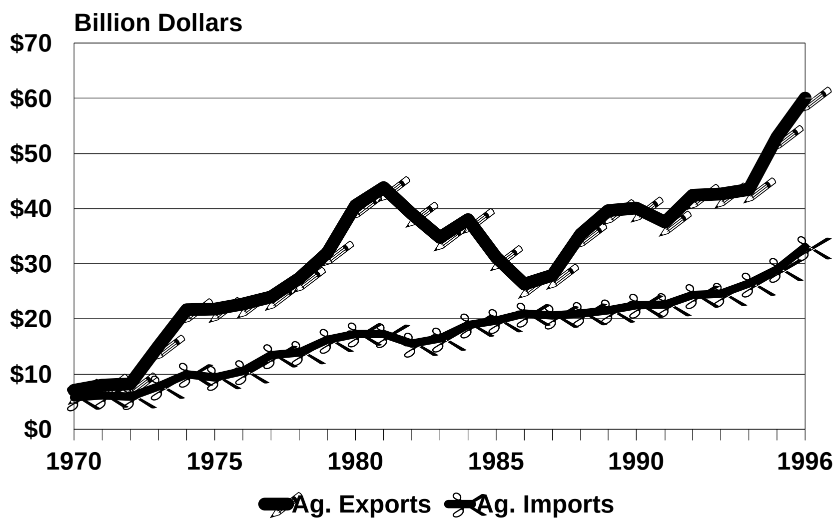

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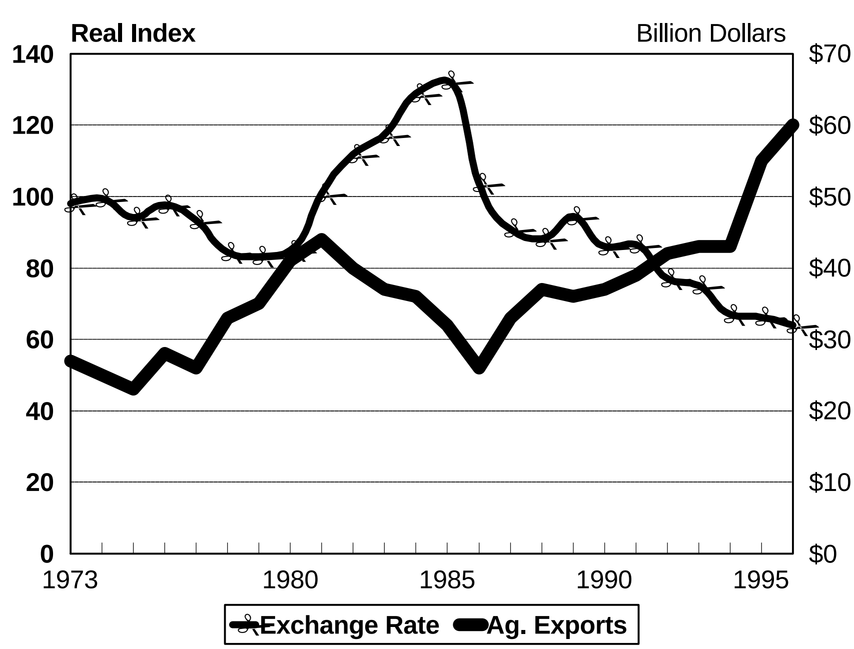
Figure 2. Exchange Value of the US Dollar and US Agricultural Exports



USDA and Federal Reserve Board

U.S. Agriculture and International Trade

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.

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.