HOW IS GLOBAL FOOD TRADE SHIFTING? WHAT’S BEHIND IT ALL?

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How are Global Food Trade Patterns Shifting and What’s Behind it All?

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A Trip Back to the Past: Projections From 1995

- Agricultural surplus expected to reach $40 billion by 2005. Actual surplus was $4.7 billion.
- Exports over-projected by $16 billion. Imports under-projected by $19 billion.
- High-value product exports to reach $50 billion by 2005. Over-projected by $12 billion.
Waves make multi-year projections more difficult
Why Waves and Lack of Continuity?

• Macroeconomic instability and exchange rates

• Trade is small proportion of global food consumption; a small change in foreign supply can lead to a large change in trade

• Commodity price variability and policy changes

• Lack of broad-based global growth for U.S. high value product exports
U.S. High-Value Exports Became More Dependent on Canada

Projected HVP exports from 1995

Increased from 18% to 25%
U.S. High-Value Products Exported to Fewer People

Share of Exports and Population

- High-Value Products
- Bulk
- Population

- Canada
- Mexico
- Japan
- EU-15
- Rest of World
Why So Few Country Markets for High-Value Products?

- **Trade Policy**
  Market access for high-value products remains limited due to trade barriers; less so for bulk commodities

- **Geography**
  Distance between markets still matters

- **Alternative to Trade**
  Foreign direct investment (FDI)
Footloose Production Makes Long-Term Trade Patterns Less Predictable

Production tied to natural resources - soil water climate -

Most Predictable

Corn Grapes Dairy
Wheat
Almonds
Coffee
Bananas

Least Predictable

Beer Poultry Soybean Oil
Pet food Breakfast Cereals Confectionery

Footloose Production

FDI can shift global production
Increased Competition From Foreign Suppliers

- Brazil’s exports of processed products nearly triple from 1994 reaching $17 billion in 2004
- EU suppliers expand presence in Asia as brand awareness grows
- Processed foods and beverages most dynamic part of changing trade patterns spurred by new investment
U.S. Exports Facing Increased Competition: 
Major Trade Flows of Processed Food and Beverages in 2004
Expectations for Agricultural Trade

• In the past a growing agricultural surplus indicated strength in competitiveness, the bigger the better

• A sharp decline in the surplus often coincided with crisis on the farm - true in 1986 but not so in 2006

• The agricultural surplus today is at the same level as 1986 but the farm economy is healthy
U.S. Agricultural Trade is a Two-way Street

Benefits of outbound trade not lost by inbound trade
U.S. Agricultural Imports Off Historical Trend

Why?

Projection from 1995
Imports Steadily Up But Faster Growth Recently

• Why steady?
  If no domestic supply then consumption and imports track each other e.g. coffee, bananas, and cocoa

• Why faster growth recently?
  - Efficiency in global procurement logistics for supplying U.S. fresh horticultural market
  - Fast-food service demanding more low cost ground beef
  - Americans demanding variety (not cheap products) e.g. cheese, wine, confectionery, and sauces from many countries
U.S. Consumers Demand Product Variety from a Multitude of Countries: Imports of Sauces and Condiments in 2004

Arrow width = value in million $US

Range

$200

$1
What Was Not Anticipated A Decade Ago?

- Big players of “emerging markets” are becoming major exporters

- Rapid foreign investment in processing and global retailing is shifting trade in sometimes unexpected ways

- U.S. import growth accelerating from all sources due to population growth and strong demand for greater variety
Summary

- Trade balance not an indicator of farm competitiveness; may go negative but U.S. farm sector can remain healthy
- Farm and food products moving in different directions
- FDI shifting footloose production in global food economy
- Market barriers and FDI can limit future growth in processed product trade