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The Economics of World Wheat Markets: Implications for North America

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Economic Integration in Latin America: Implications of MERCOSUR for Latin American Wheat Markets

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South America as a whole has been a net importer of wheat in most years over the last three decades. On average, during the 1990s, South America produced a little less than 16 million metric tons of wheat while it consumed more than 19 million metric tons, with net imports of more than 3 million metric tons during that period (Fig. 5). This aggregate, however, includes two polar situations: Argentina was a net exporter of wheat with an average of about 6.5 million metric tons during the 1990s, and the rest of the countries in the region were basically net importers purchasing about 9.9 million metric tons of wheat per year from world markets.

Simple projections ... suggest that by the year 2000, South America as whole will still be a net importer of about 1-2 million metric tons of wheat annually.

Over the past decade, Argentina has accounted for about 68 percent of total wheat production in South America and almost all wheat exports in the region (Fig. 6). Brazil produced about 16 percent of total wheat production, and the balance of this output was divided among other countries, mainly Chile, Paraguay, and Uruguay. Brazil, with close to 8 million metric tons of consumption on average during the 1990s, accounted for more than 40 percent of total consumption in South America and Argentina followed with 4.4 million metric tons of consumption (or about 23 percent). Other countries with important levels of consumption are Chile (almost 2 million metric tons), Peru (1.2 million metric tons), and Colombia and Venezuela, both with about 1 million metric tons of consumption each. Brazil is also the main importer purchasing on average more than 5 million metric tons annually during the 1990s.

Over the last thirty years, wheat production in the region has been characterized by the following:

(a) the continuous increase in Argentina's production, although with great volatility;

(b) attempts by Brazil to increase wheat production, first, during the 1960s and the early 1970s (when production jumped from less than 500,000 metric tons/year to about 2 million metric tons/year) and the second during 1985–1989 (when production increased to about 5.5 million metric tons/year). After 1989, production incentives were significantly reduced and wheat production reverted to the 2–3 million metric tons achieved during the first production push;

(c) Chile, which had stagnant or declining production during the 1960s and 1970s, increased its production during the 1980s, achieving self-sufficiency briefly in 1986. As a result, aggregate annual production for the rest of South America peaked at about 2.6 million metric tons during 1985–1989, but has declined to an annual average of some 2.4 million metric tons/year since then.

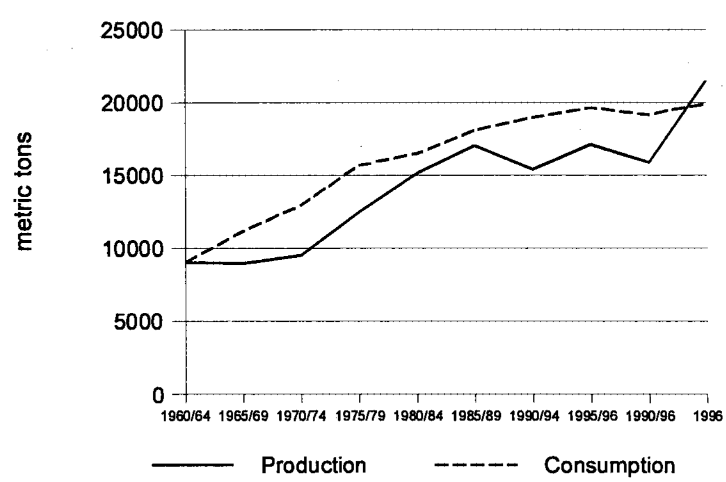
The most noticeable patterns on the demand side are characterized by the following:

(a) the rapid increase in *total* consumption in Brazil and in the rest of South America during the 1960s and 1970s, followed by a decline during part of the 1980s, linked to the difficult economic conditions in Latin American countries during that decade, and the resumption of growth in the 1990s, although at lower rates;

(b) the stagnation in Argentina's *total* consumption of wheat during the 1980s and its decline during the 1990s; and

(c) a constant decline in *per capita* wheat consumption since the mid-1960s in Argentina and the rest of South America, and in the case of Brazil, since the late 1970s.

Figure 5. Wheat Production and Consumption in South America



Currently, Argentina consumes about 125 kg*/person/year compared to about 50 kg/person/year in Brazil and almost 58 kg/person/year in the rest of South America.

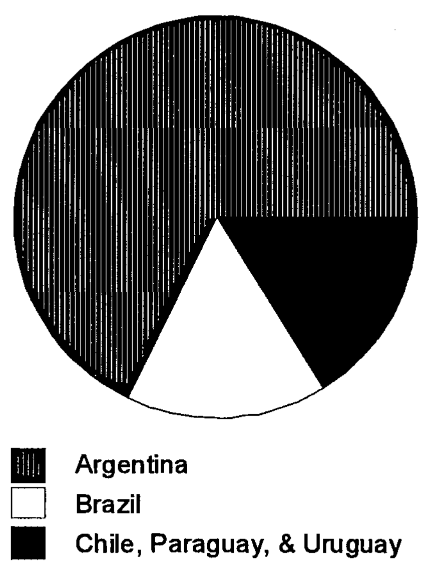
Wheat trade patterns in the region have changed significantly in the last ten years, with the growing importance of Argentina as a supplier

* a kilogram equals 2.2 pounds

to Brazil and the rest of South America (Fig. 6). In 1985, Argentina's exports to Brazil represented less than 10 percent of Argentina's total wheat exports. By the end of the 1980s that figure had grown to about 25 percent, had reached 50 percent in the early 1990s, and jumped to more than 80 percent in 1996.

In 1985, Argentina and Canada individually, and the United States and the European Union together, each provided about one-third of Brazil's wheat imports. Argentina's participation jumped to more than 90 percent during the drought years at the end of the 1980s, but then stabilized at about 70 percent of Brazilian wheat imports. From 1990 to 1996, Canada accounted for about one-fourth of total Brazilian imports, with the European Union and the United States supplying the rest. However, U.S. participation seems to be increasing again, and the U.S. market share rose to almost 10 percent in 1995–1996 without any use of the Export Enhancement Program.

Figure 6. Country Share of South American Wheat Production in the 1990s



Latin America's economic environment is now characterized by fiscal constraint and market liberalization...

Several factors account for this reorientation of trade flows including the process of economic integration with Brazil, as part of the creation of MERCOSUR, and the liberalization of trade regimes in several Latin American countries. In addition, other market opportunities for Argentina were reduced due to economic problems in the former Soviet Union which was previously a major market for Argentina's agricultural products. A final factor was the export subsidy war between the European Union and the United States between the mid-1980s and 1994.

Wheat markets in South America have undergone significant changes over the last decade, driven by the world macroeconomic and agricultural cycle of the last quarter of the century, as well as by specific economic and sectoral policies in the region. Latin America's economic environment is now characterized by fiscal constraint and greater price stability, market liberalization and trade openness. In this new setting, Argentina has consolidated its position as a net exporter, because of both increased production and stagnant or even declining consumption, while Brazil and the rest of South America, with opposite trends in production and consumption, have increased their net imports of wheat. This trade environment is likely to continue to change due to the phasing in of World Trade Organization regulations and the possible expansion of regional trade agreements. Wheat trade issues that in the past focused prominently on export subsidies and trade practices of state trading enterprises may, in the future, be more related to sanitary and phytosanitary practices or to controversies linked to wheat flour and wheat-based manufactured goods, rather than to the primary product.

Simple projections of production and consumption in Argentina, Brazil, and the rest of South America suggest that by the year 2000 South America as a whole will still be a net importer of about 1–2 million metric tons of wheat annually. These figures, however, indicate a declining trend in net imports from the 1990–1996 annual average of about 3.4 million metric tons.

Aside from trade and agricultural policies directly affecting the primary sector, other aspects to be considered for future patterns in wheat production, consumption, and trade are the evolution of the milling, bakery, pasta, and related industries in Brazil and Argentina and different macroeconomic policies in both countries, particularly regarding exchange rate regimes.

About the Author

Eugenio Diaz-Bonilla is a Visiting Research Fellow at IFPRI. He received his Ph.D. from Johns Hopkins University. His research focuses on trade and microeconomic models, and trade and agricultural markets in Latin America.