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A Global Market for U.S. Foods

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A Global Market for U.S. Food Products

Many countries are experiencing economic growth—particularly developing countries. In Malaysia, Singapore, Thailand, and China, gross domestic product (GDP) rose on average at least 8 percent a year during 1989-93. In contrast, annual GDP growth in the United States, Canada, and Western Europe averaged less than 2 percent a year over this period.

With this growing prosperity comes increased demand for consumer goods, including American foods and beverages. U.S. food companies supply foreign customers by local production in foreign markets, by licensing agreements with foreign firms, and by export sales. This issue of *FoodReview* explores these strategies and the changing nature of U.S. food and agricultural trade.

Exports are the most familiar way U.S. food companies reach foreign markets. Rising incomes in many countries have expanded U.S. food exports. While Canada, the European Union, and Japan have been the biggest markets for U.S. food exports in the last few years, the fastest growth has been in Mexico and the Asian markets of Hong Kong, South Korea, Taiwan, Indonesia, Malaysia, and Thailand. U.S. food companies and trade organizations use media advertising, trade servicing, technical assistance, and other promotional activities to educate foreign consumers and marketers about the qualities of U.S. products.

U.S. food companies also license foreign firms to manufacture and sell products under their U.S. brand names. Licensing allows firms to gain "rental income" from their sought-after brand name and to avoid barriers to direct international trade, such as import tariffs and quotas, high transportation costs, and restrictive local business practices.

For processed food products, production abroad by foreign affiliates is a critical way for American firms to expand their global presence. In 1992, processed food sales from U.S.-owned foreign affiliates totaled \$89 billion—almost four times the sales of U.S. exports of processed foods. Such U.S. ownership of foreign manufacturing plants allows U.S. food companies to control production and marketing of products to a greater extent than licensing allows. At the same time, however, ownership of a foreign plant exposes firms to risks. Firms weigh these risks against lower delivery costs and other cost reductions and efficiencies that foreign production offers over other avenues of sales.

Recent trade agreements that open foreign markets have helped expand U.S. food exports. For example, Japan's elimination of beef import quotas and reduction of tariffs under the 1988 bilateral Beef and Citrus Agreement helped boost U.S. beef exports to Japan from \$900 million in 1991 to \$1.2 billion in 1993.

However, differences in food-safety regulations among countries can impede trade. The recent General Agreement on Tariffs and Trade (GATT) provides a framework for distinguishing protectionist measures from legitimate food-safety concerns. Many of the details regarding how countries will harmonize their food-safety regulations while maintaining consumer protection and national sovereignty remain to be worked out. As these and other trade issues are debated, U.S. food companies will continue to pursue diverse strategies as they compete in the global market.

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