



The Shifting Nexus of Global Agriculture: Profiting in a New Policy Landscape – Trade Policy and Its Implications for U.S. Agriculture

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Trade and Farm Profits

- Significant share of income derived from trade
- USDA projects record exports in 2013 (forecast at \$143.5 billion)
- Function of – (1) higher foreign demand, particularly in emerging markets in Asia and (2) increasing exports of value-added products
- But, competition from imports rising as well, largely in value-added products

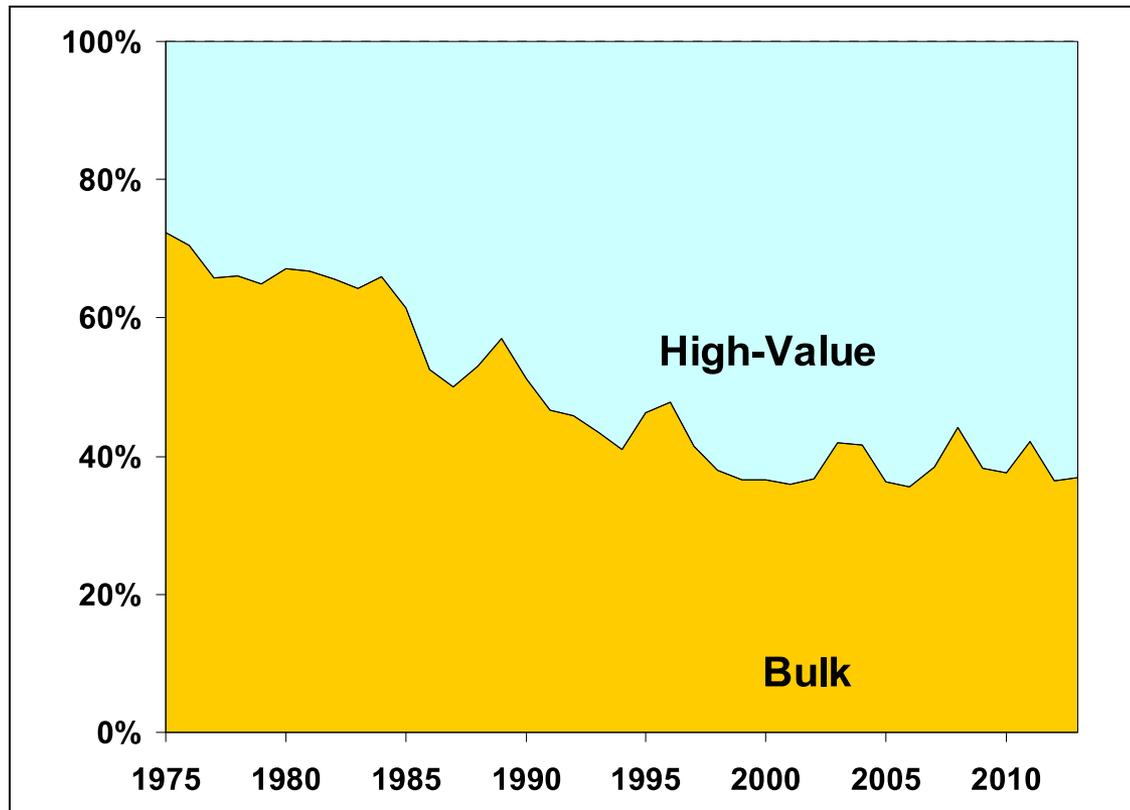


Factors Driving Export Demand and Profits

- Population growth by 2050 - 34 percent (9.1 billion), largely in developing world
- High economic growth (5.2 percent annual rate)/higher incomes
- Urbanization - 70 percent urban by 2050, compared to 49 percent today
- Productivity growth down, both U.S./world
- On margin, impact of rising biofuel demand

Bulk v. High Value Exports

Figure 15. U.S. Agricultural Trade: Bulk vs. High-Value Shares



Source: USDA, ERS, *Outlook for U.S. Agricultural Trade*, AES-76, November 29, 2012.



Determinants of Market Access

- Determinants of market access are changing
- Altering how production is organized, pattern of trade, and basis of competition
- Altering the way products, including farm products, reach global markets
- Parallels and reinforces domestic trend toward vertical integration/contract farming



Rise of Global Value Chains

- Lower transaction costs = De-verticalization, horizontal reach, softening of firm boundaries
- Estimated 60% of world trade is intermediates
- Broader range of firms, workers, and countries
- Increasingly complex/dynamic division of labor
- Participation fundamentally different than engaging in market-based exchange
- Lead firms have become new gatekeepers of global commerce



Implications for U.S. Farm Income

- Rise of global agrifood/agribusiness value chains
- Participation linked to higher returns
- Need to meet private as well as public standards for quality, reliability, traceability
- Increasingly requires ability to innovate with other parts of value chain
- Raises questions regarding concentration along chain



Role of Trade Policy in Current Landscape

- Multilateral – WTO disciplines on tariffs, quotas, subsidies, SPS and technical standards; WHO and ISO standards
- U.S. Bilateral Agreements – NAFTA, CAFTA, Israel, Jordan, Morocco, Singapore, Columbia, Peru, Chile, Australia
- Foreign Trade Arrangements – European Union; Mercosur; ASEAN and related agreements; Japan; China



Liberalization's Impact

- GATT
 - Reduced tariffs on manufactures from 35% to less than 6% today
 - Trade increased to 25 times over same period
- NAFTA
 - Farm exports to Mexico rose 161% from 1993 to 2005, outpacing growth to rest of world (47%)
 - Mexican market alone accounted for over 27% of all U.S. export growth



Future Agreements

- WTO – Doha Round dead
- Trans-Pacific Partnership – Inclusion of Japan raises stakes for farm interests, particularly beef, citrus and rice; challenges for dairy and sugar
- Trans-Atlantic Trade and Investment Partnership – Potential upside in lowering barriers/harmonizing rules; open question is extent to which EU will budge on GMOs, precautionary principle and standards issues



New Frontiers of Agricultural Trade Policy

- Conventional approach less relevant in era of global value chains
- Need to redefine “market access” in light of changes in global markets
- Focusing on liberalization of the value chain (i.e., reducing costs of participation; ensuring non-discriminatory treatment; ensuring competition along the value chain)
- Requires synthesis between trade and farm policy; supportive domestic economic policies to ensure continuing competitiveness