

An aerial photograph of a vast, arid landscape. A winding river flows through the center of the frame, surrounded by dry, brownish terrain. In the background, there are several mountain ranges under a clear sky. The overall scene is one of a dry, open environment.

AAEC 4730:
THE WORLD FOOD
ECONOMY

Markets and Trade, part 2

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Today

- World cereal trade overview
- Why trade? Some theory
- Trade policy and how it works
- Review history of international trade policy in agriculture
- Trade policies looking ahead

A political hot button!



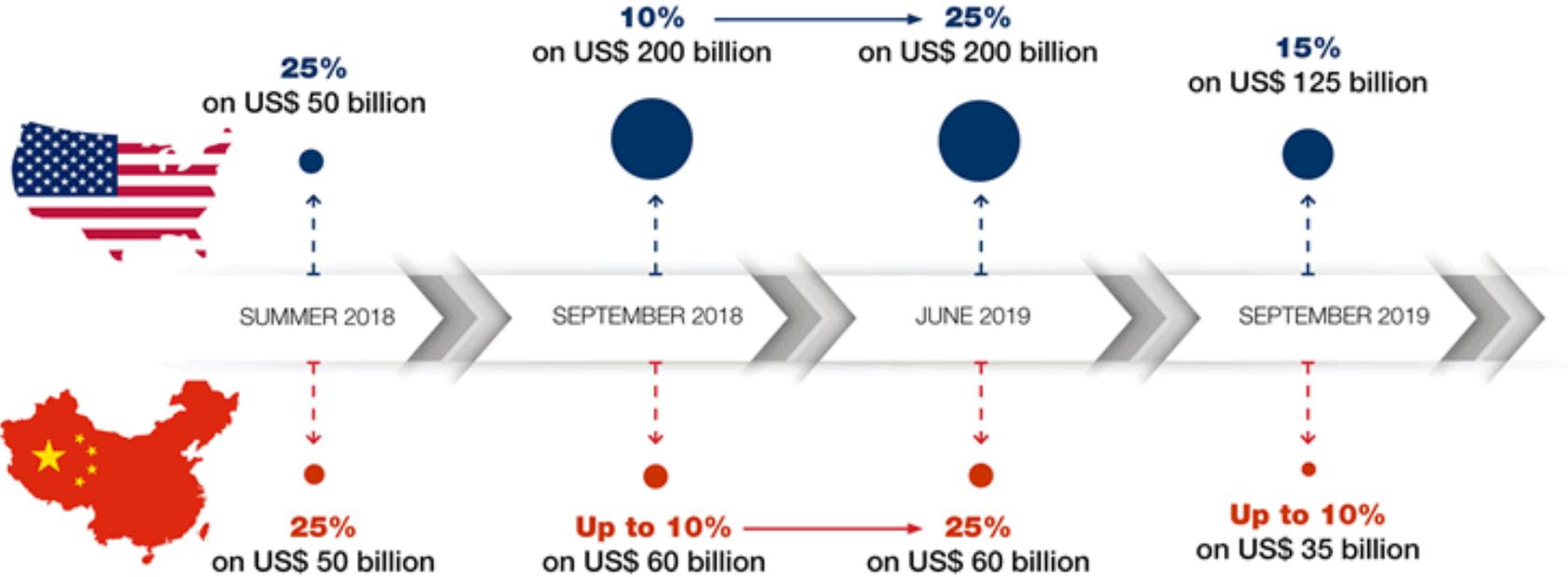
“Bad trade deals ... are a major reason for the collapse of the American middle class and the increase in wealth and income inequality in the United States. This agreement, like bad trade deals before it, would force American workers to compete with desperate workers around the world.”



Main trade platform during election:
impose sizeable tariffs on imports from
Mexico and China

“Our country is in serious trouble. We don’t have victories anymore. We used to have victories, but we don’t have them. When was the last time anybody saw us beating, let’s say, China in a trade deal? They kill us. I beat China all the time. All the time.”

US / China Trade War



Effects for Georgia farmers



Economics experts Chris Chan and Gopi Munisamy share what the latest US-China deal could mean for Georgia businesses.

Author: 11alive.com

Published: 10:48 AM EST January 27, 2020

Updated: 10:46 AM EST January 27, 2020

<https://www.11alive.com/video/entertainment/television/programs/atlanta-business/phase-one-of-us-china-trade-deal/85-019206d3-4ef5-4f7a-8472-f9ed22a70cdc>

What does
this mean
for
farmers?



Episode # 835: Tariffied

<https://www.iheart.com/podcast/7-planet-money-28457189/episode/835-tariffied-29188255/>

Segments: 0:15-3:30; 5:15-10:15; 14:30-

Why do countries trade?

- Need certain inputs
- Obtain gains from trade and specialization based on comparative advantage
- Temporary shortages
- To earn foreign exchange to pay off debts

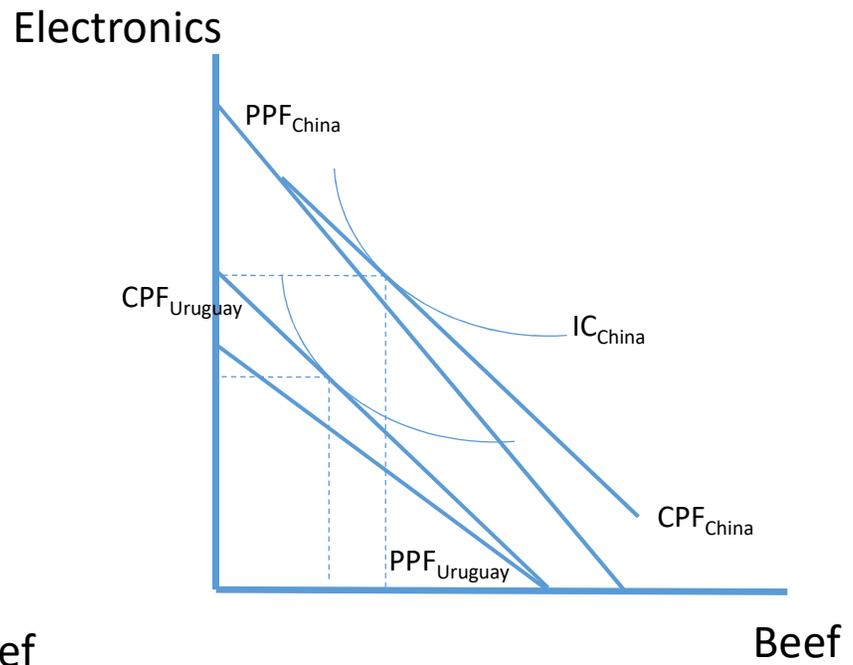
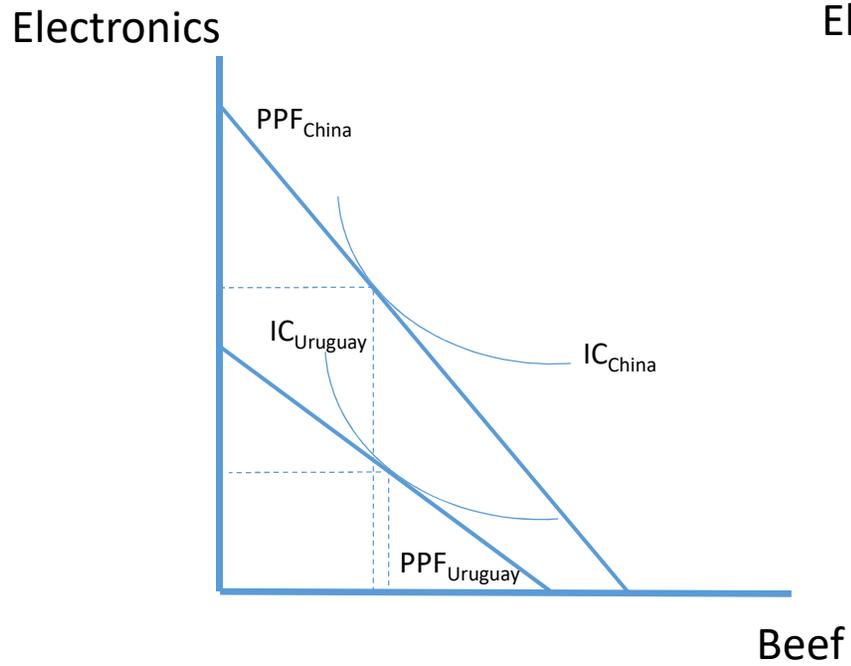
Reading Question!

[See Acadly](#)

What is comparative advantage?

- Absolute advantage: a country can produce more of a good with a given set of resources than another country.
- Comparative advantage: a country has a lower opportunity cost in producing a than its trading partners
- Trade is mutually beneficial if a country can export the goods for which they have a comparative advantage and import goods for which they have a comparative disadvantage

Comparative advantage



Why is the concept of comparative advantage powerful?

- If each country produces those goods it can produce relatively best and trades for other goods, all countries can be better off than they otherwise would be.



Why do governments restrict trade? (especially in agriculture)

- Food supply seen as essential for national security
- Protect existing jobs (or create new ones)
- Favor to rent-seekers
 - Benefit friends and relatives
 - Response to bribery or campaign contributions
- Because they can (benefits concentrated, costs diffuse)
 - Example: US sugar program gives each grower over \$100,000 per year, but costs the average consumer only \$12 per year.

Why do some argue that developing countries should restrict their trade?

- Exploitation by developed countries and wealthy elites
- Terms of trade problem
- Infant industry argument

What do you think about each of these points?

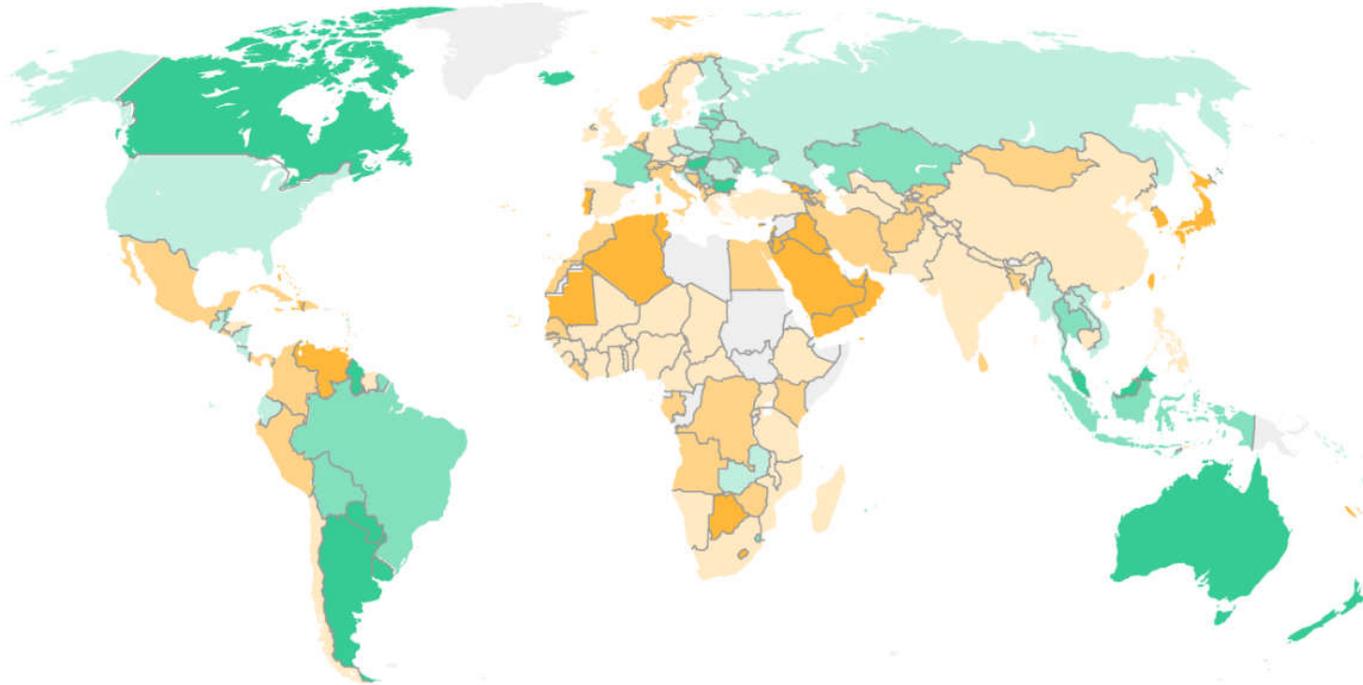
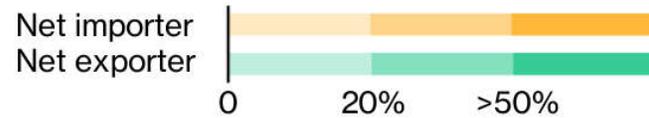
Developing country trade reform interests

- With trade reform, many developing countries would gain from lower barriers for their exports; some would lose from the projected 10-20% higher prices for grain imports. Most countries would gain.
- Europe and Japan have the highest trade barriers, but U.S. and developing countries also restrict trade significantly

World grain trade by region

Food Dependence

Trade as a share of domestic food supply



Source: UN's Food & Agriculture Organization Global Perspectives Studies

Bloomberg

Importance of trade to U.S. Ag

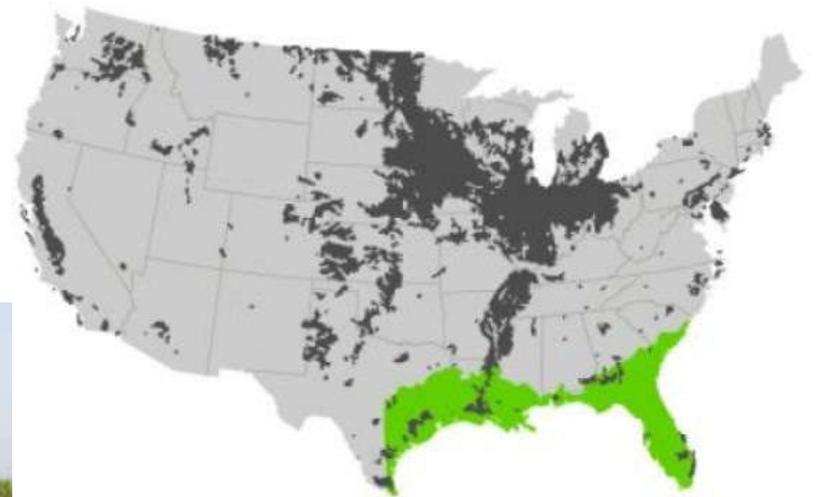
- U.S. agriculture exports a third of its production of many commodities
 - without exports, farm sector would shrink (not enough domestic demand)
- Exports can grow by expanding the total size of the market or by increasing market share
 - Need economic growth in developing countries to increase size of market
 - Preserve competitiveness to protect market share

Protectionist policies used in developed countries

- Quotas, tariffs
- Health and safety regulations
- Subsidized prices in developed countries

Example:

Sugar →

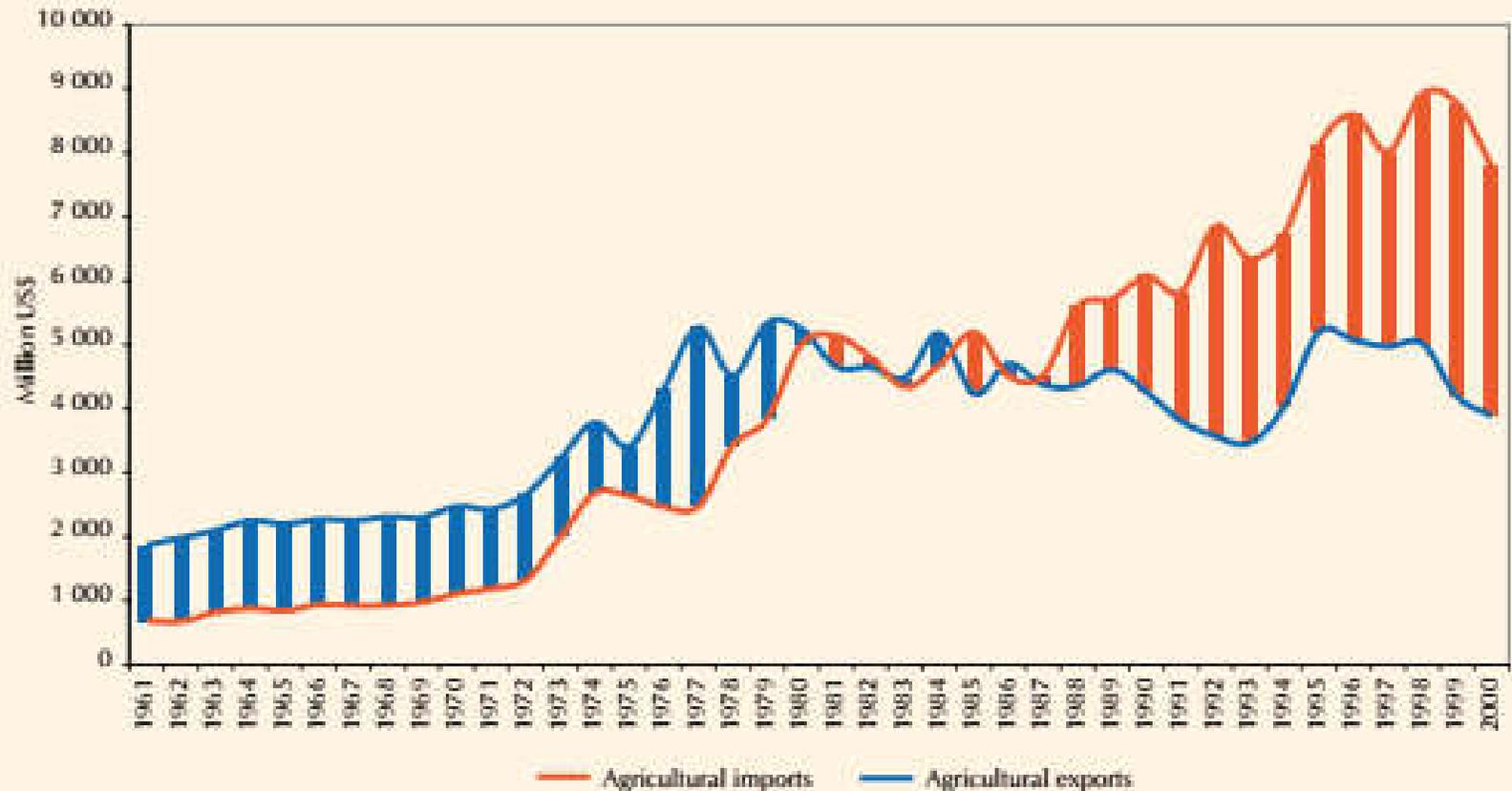


Changing World Food Trade

- Food demand is stable in developed countries but growing rapidly in developing countries (especially for quality)
- Percent of world ag production that is traded is growing
- Trade in high value & processed products growing faster than in commodities
- Explosion of commodity exports from South America; expect more from Eastern Europe and former Soviet Union countries

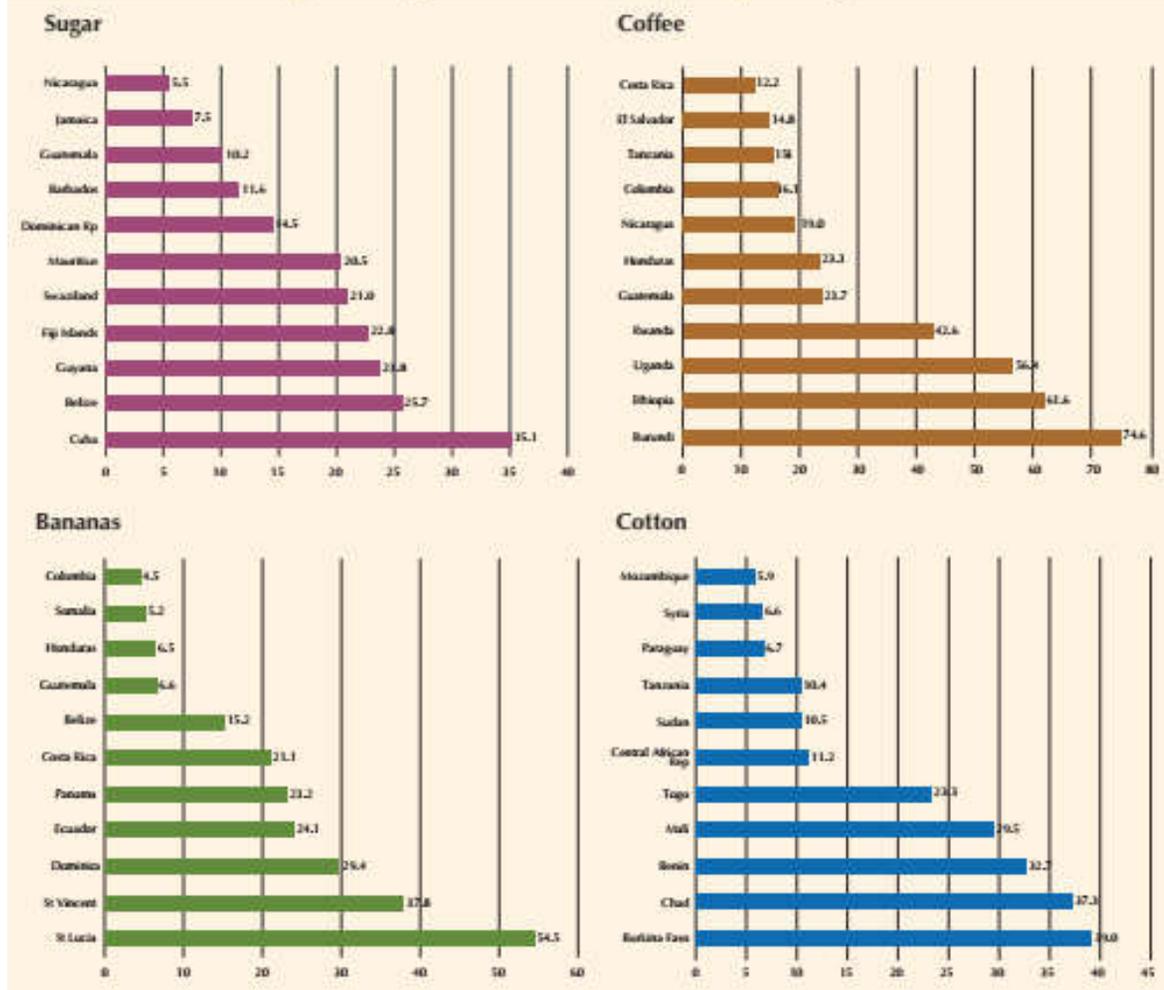
Least Developing countries are increasingly importers

Figure 9.2 Least developed countries (LDCs) have become major net importers of agricultural products



But commodity exports are very important in many countries

Figure 9.3 Dependence on agricultural export earnings by commodity, 1997/99
Share of export earnings in total merchandise exports (percentage)

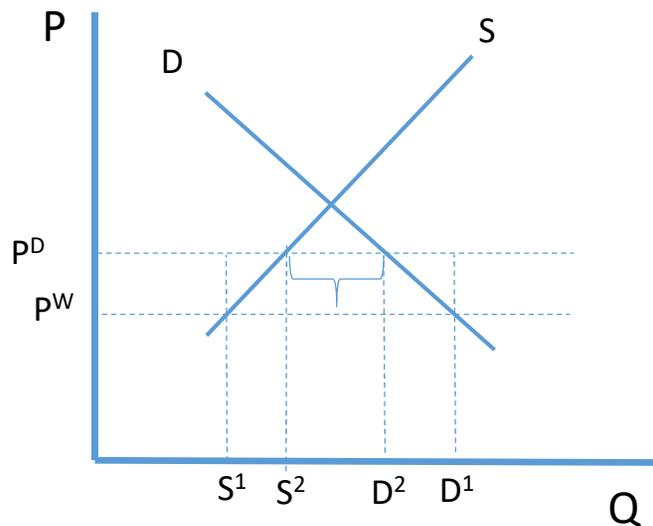


Percent of World Food Production That is Traded Will Increase

- Arable land and fresh water not distributed in the world in the same proportions as population.
 - Asia or Middle East can not be self-sufficient in food
- With population growth and economic development, world food demand is expected to double by 2050
- Processed food trade growing even faster
- Food demand in many developing countries will exceed their production capacity.
- Climate change impacts concentrated in least developed and food deficit countries

Market interventions: Import Quota

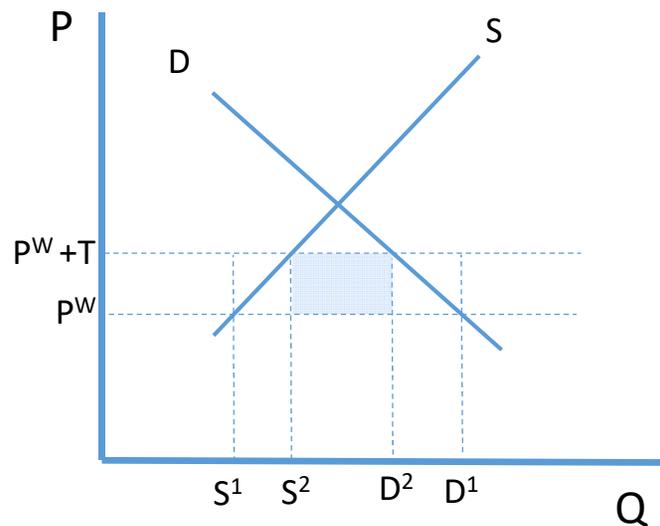
- Achieve target domestic price by limiting import quantity



What happens to:
Domestic production
Domestic consumption
Imports
Domestic price
Government revenue

Market interventions: import tariff

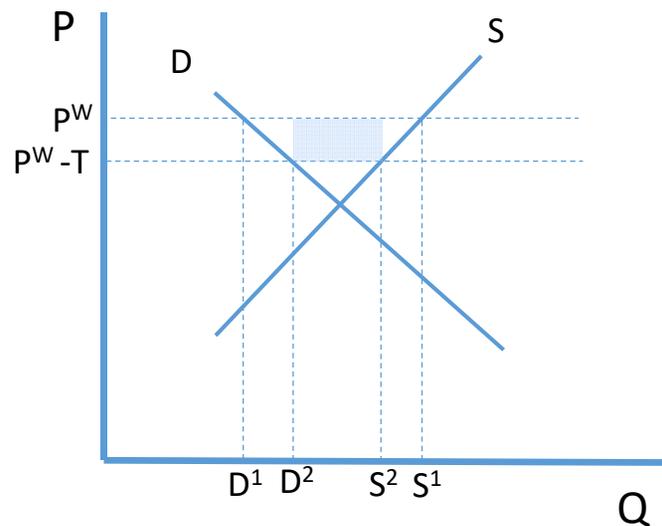
- Government introduces an import tariff



What happens to:
Domestic production
Domestic consumption
Imports
Domestic price
Government revenue

Market interventions: export tariff

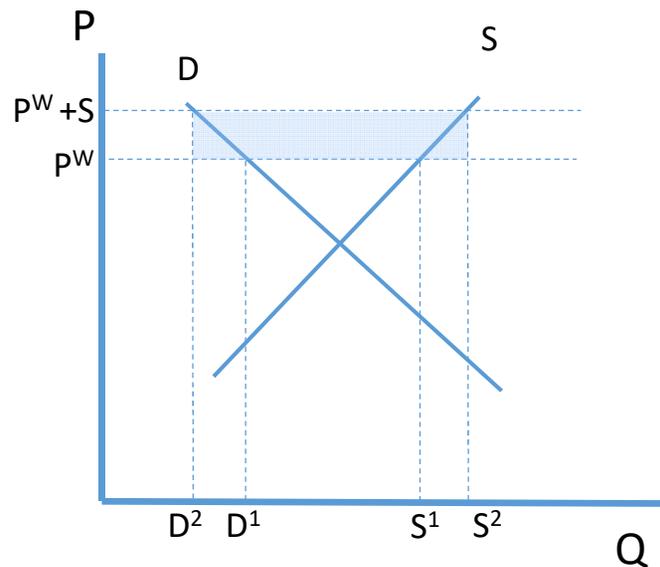
- Government introduces an export tariff



What happens to:
Domestic production
Domestic consumption
Export volume
Domestic price
Government revenue

Market interventions: export subsidy

- Government introduces an export subsidy



What happens to:

- Domestic production
- Domestic consumption
- Export volume
- Domestic price
- Government revenue

Understanding trade policy

Let's review trade concepts

Acadly

Consequences of domestic support programs

- Depress global commodity prices
 - Tariffs keep down demand on global market
 - Domestic support increases supply
- Suppress agricultural output in developing countries
- Large government budget costs
- Detract from growth-enhancing investments
- Perpetuate global income disparities, rural poverty

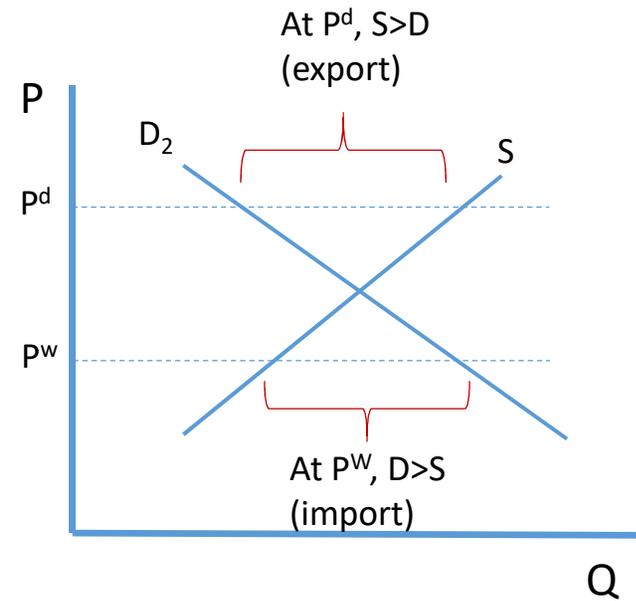
Gainers and Losers

- Gainers exceed losers, but there are losers
- The challenge is to define policies to compensate losers:
 - to facilitate their adjustment
 - to neutralize political opposition

Market Access

Example: Japan Rice

- Would be an importer at P^W
- P^d set at 10 times P^W
- Export (with subsidy)
- Store/feeds
- Consumers pay!
- Requires important barrier to maintain



WTO: ensure market access of 5% rising to 8%

In Summary: Why Trade?

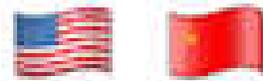
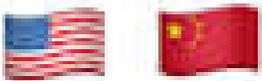
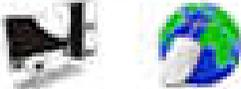
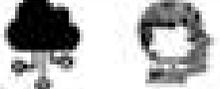
- To increase the standard of living by obtaining goods that others can produce at lower opportunity cost in exchange for things we can produce relatively cheaper
 - By lowering the cost of living, it makes a household's purchasing power go further
 - Trade increases a country's GNP by employing its land, labor & capital where they are most productive

Global trade agreements

Why have them?

- Improve efficiency, maximize surplus and economic growth
- Level the playing field
- Provide dispute resolution mechanism

A brief history of globalization

Globalization Era	Age of Discovery (15 th -18 th century)	Globalization 1.0 (19 th century – 1914)	Globalization 2.0 (1945-1989)	Globalization 3.0 (1989-2008)	Globalization 4.0
Leading Exports	 Raw Material / Basic Goods	 Textiles / Industrial Goods	 Factories	 Global Supply Chain	 Digital Goods / Services
Leading Nations					
Exports as % World GDP	 <5%	 6 → 14%	 5 → 15%	 15 → >20%	
Enabling Era	Scientific Revolution (15 th -17 th century)	1st Industrial Revolution (1780s–mid 19 th century)	2 nd Industrial Revolution (1870s-1910s)	3 rd Industrial Revolution (1960s-1990s)	4 th Industrial Revolution (2000s-2010s)
Enabling Innovations					
Characterizing GDP Trend	Europe ↗	Britain ↗↗	World ↗	United States ↗↗↗	China ↗↗↗↗

Source: World Economic Forum and World Economic Forum, "The Globalization Index: A New Measure of Globalization", World Economic Forum

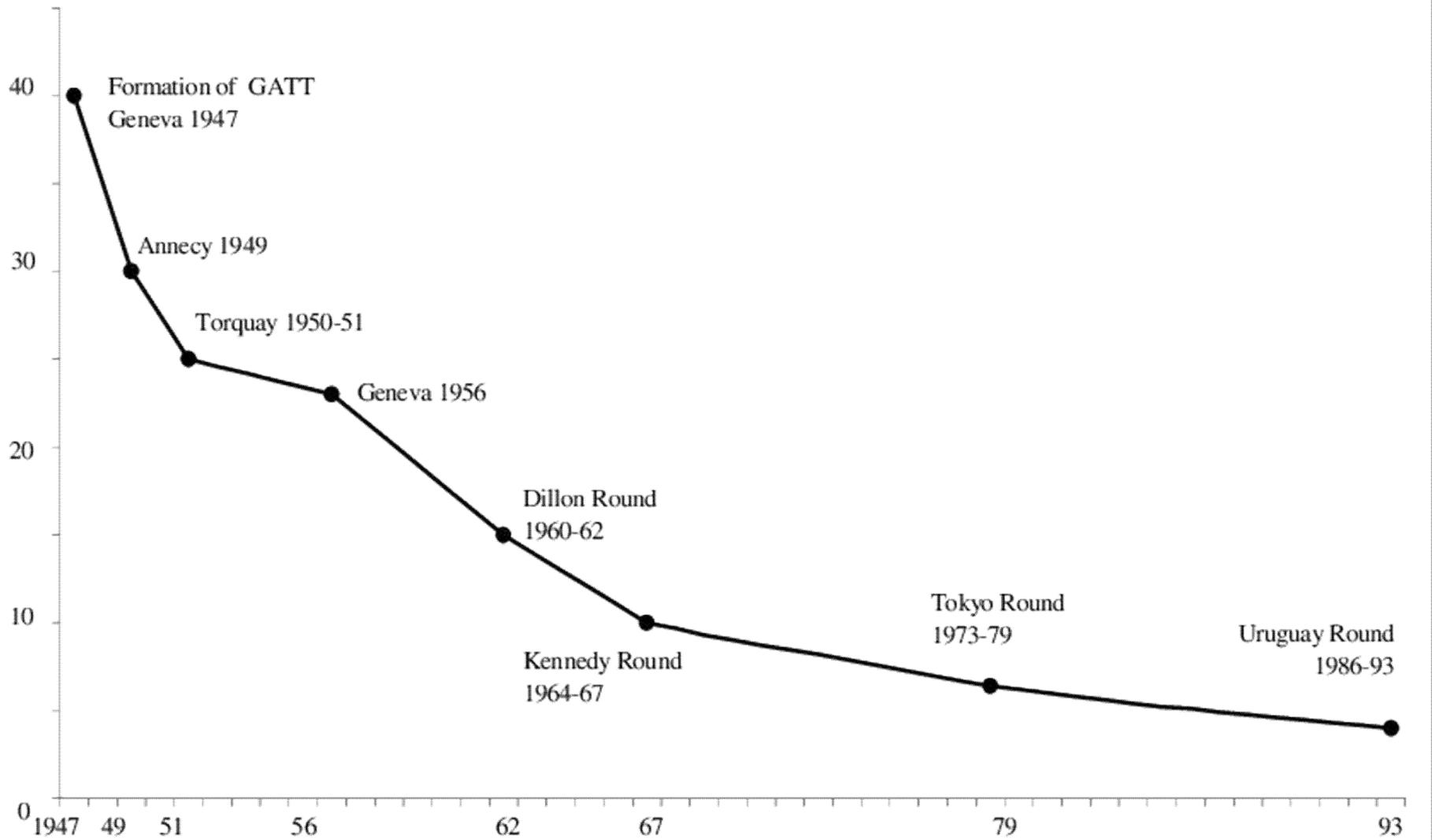
History of global trade agreements

- Pre WTO: GATT (General Agreement on Tariffs and Trade), 1947
 - Establish a level playing field
 - Temporary trade agreement set up after WWII when agreement to form an International Trade Organization was not ratified
- Post WTO: World Trade Organization succeeds GATT (1993)

4 basic principles of the GATT

- Tariffs are the only “legitimate” form of trade restraint
- No discrimination in application of tariffs (most favored nation principle)
- Consultation and negotiation to avoid and settle disputes
- Agreement to periodic multilateral negotiations to lower trade barriers (with reciprocity)

Tariff rate in %



Uruguay Round Agreement on Agriculture

- Increased market access
 - Change non-tariff trade measures to tariffs
 - Establish tariff-rate quotas
 - Bind all tariffs
- Reduced export subsidies
 - Defined limits on export subsidies
 - No new export subsidies
- Required scientific basis for safety & phytosanitary barriers
- Acknowledged that some domestic agricultural subsidies distort trade and categorized them by degree of trade distortion into boxes: **Green**, **Amber**, **Blue**

WTO

- 153 member countries negotiate to revise trade rules
- Secretariat, in Geneva, organizes negotiations & follows a process to resolve differences over whether rules are being broken
- Dispute settlement panels & an appellate body interpret agreements
- WTO cannot force a country to change policies! It can authorize victims to collect compensation via import duties on the violator

Doha Round of Negotiations

- Was scheduled for completion in 2007
- Focused on agriculture, services, intellectual property rights
- U.S. has proposed reducing ag subsidies substantially, but only if other countries provide greater access to their markets.
- Developing countries won't open their markets as long as world market prices are depressed by ag subsidies in developed countries
- Progress at a standstill with talks suspended since July 2008
 - Attempts to keep talks going are tentative (Bali package 2013, Nairobi package 2015)

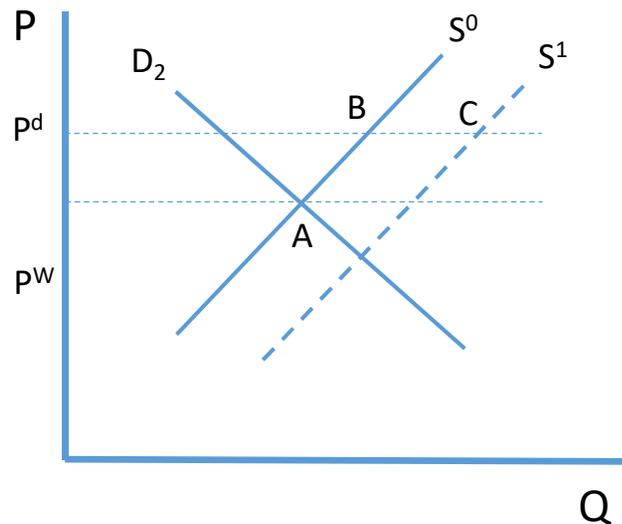
WTO's Three Boxes

WTO's Three Boxes			
Box	Status	Payment Type	US Spending Limits
Amber	Trade-distorting	<ul style="list-style-type: none"> • Marketing loan benefits • Product-specific supports • Crop and revenue insurance subsidies • Irrigation subsidies • Renewable energy programs 	\$19.1 billion
Blue	Market-distorting and production-limiting	<ul style="list-style-type: none"> • Deficiency payments 	NA
Green	Non-trade-distorting	<ul style="list-style-type: none"> • Environmental payments • Natural disaster relief • Decoupled income support • Farm credit programs 	NA

Source: Schnepf, Randy. "Agriculture in the WTO: Rules and Limits on Domestic Support," Congressional Research Service, September 18, 2014.

Coupled vs decoupled payments

- Coupled: payment tied to production quantities
- Decoupled: not linked to production. Non-distortionary?



Recent trade policy trends

The screenshot shows the top navigation bar of the Marketplace.org website, including the logo, social media icons, a 'DONATE' button, and search/menus icons. Below the navigation is a horizontal menu with categories like 'I've always wondered ...', 'Econ Extra Credit with David Brancaccio', 'Make Me Smart Daily', 'Fast-Track Vaccines', and 'Race and Economy'. The main player area features a dark blue header with the title 'How U.S. trade policy has changed over 30 years' and 'Marketplace'. It includes playback controls (10, play/pause, 10), a progress bar (05:32 / 05:34), and a 'TELL US' button. Below the player is a light blue article preview card with the title 'How U.S. trade policy has changed over 30 years' by Kai Ryssdal, dated Jun 8, 2018. The card has a 'LISTEN NOW' button and share/download icons. To the right of the card is a large image of President Ronald Reagan in front of an American flag.

"Our peaceful trading partners are not our enemies. They are our allies." President Ronald Reagan said in 1988. Michael Evans/The White House/Getty Images

I'm pretty sure that this is a mutually acceptable statement of reality: Global trade is hard. There are competing interests, international geopolitics and economic pressures from every angle. But for at least the last 30 years, the trend has been toward more, not less, free trade. That makes where we are today with trade policy in this country all the more noteworthy, and why we made a timeline looking back at 30 years of U.S. trade policy.

1988

<https://www.marketplace.org/2018/06/08/how-us-trade-policy-has-changed-over-30-years/>