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Agricultural Trade: Growth and Impact

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AGRICULTURAL TRADE - GROWTH AND IMPACT

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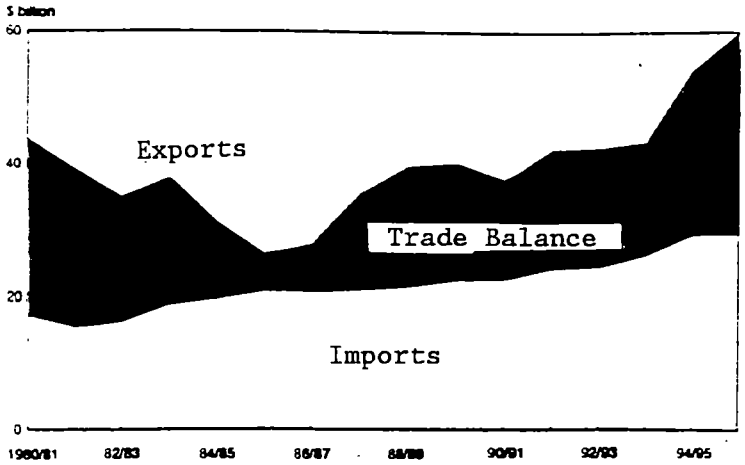
The U.S. total trade deficit in 1995 was over $115 billion. While that is not a record (the deficit in 1987 was about $152 billion), it reflects a continuation of slow increases in the deficit over the last few years. We continue to import more than we export.

In sharp contrast to the total trade deficit, the agricultural trade surplus continues to grow (Figure 1). In 1995 that surplus was almost $25 billion. The surplus forecast for 1996 is $30.5 billion, surpassing the FY 1981 record of $26.6 billion. U.S. agricultural exports are forecast to be a record $60 billion in 1996, or up $6 billion from 1995 (Table 1).

Figure 1. U. S. Agricultural Trade



Why More Agricultural Trade?

There are several reasons why U.S. agricultural trade has expanded in recent years. First, weather has been a major factor. Last year, China, Australia, North Africa and the Former Soviet Union (FSU) had growing problems. In some cases that meant those countries exported less and the U.S. assumed their markets. In other cases, even more dramatic changes occurred. For example, China, the world's second largest exporter of corn in 1994, was forced to become a net importer in 1995. Even if countries with lower production did not become importers, they became a smaller factor in competing with U.S. products.

The leading market for U.S. agricultural exports in fiscal 1995 was Japan at $10.5 billion. The top ten customers for U.S. agricultural products are enumerated

Table 1. U.S. Agricultural Trade[1]

Item	1991	1992	1993	1994	1995	1996[2]
	Billion dollars					
Exports	37.5	42.3	42.5	43.5	54.1	60.0
Imports	22.6	24.3	24.5	26.4	29.5	29.5
Trade Balance	14.9	18.0	18.0	17.1	24.6	30.5
	Million metric tons					
Exports	129.4	143.6	146.4	126.8	169.2	161.6

[1]Fiscal Years. [2]Forecast.
Source: USDA, Outlook for U.S. Agricultural Exports.

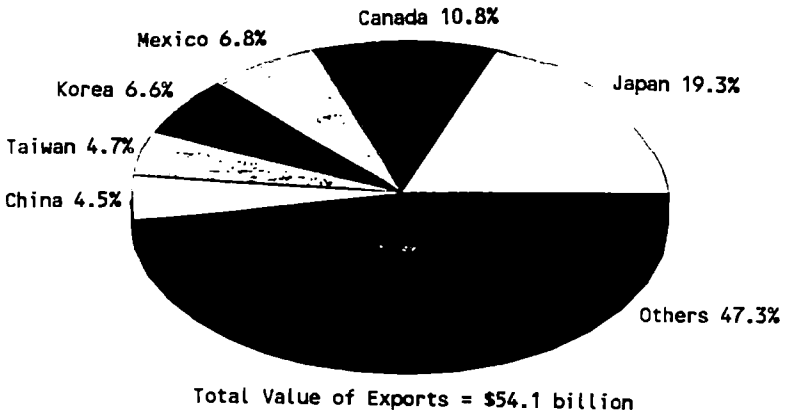
in Table 2. Note the large value of exports to Asian and North American countries and the absence of countries of the FSU. Percentages of total values of exports for top U.S. customers are shown in Figure 2.

Table 2. Major Markets for U.S. Agricultural Exports, Fiscal 1995.

Country	Billion dollars
Japan	10.5
Canada	5.8
Mexico	3.7
South Korea	3.6
Taiwan	2.6
China	2.4
Netherlands	2.1
Hong Kong	1.4
Egypt	1.4
Spain	1.2

Source: USDA, The Agricultural Outlook for 1996.

Figure 2. Percentage of Exports to Top U.S. Export Customers Compared to Total Exports, 1995.



Source: USDA, ERS, "Outlook for U.S. Agicultural Exports"

Second, changes in the relationship of the U.S. dollar to other currencies had an impact. The weakening of the dollar, in effect, made our products cheaper for others to buy, especially in Asian countries.

There are some exceptions to the above. For example, it took 1.15 Canadian dollars (C$) to buy an American dollar (US$) in 1991 and 1.35 C$ to buy one US$ in 1995. The Mexican Peso went from 3.0 to 3.5 per US$ from 1988 to 1994 to over six Peso per US$ in 1995. A positive trade balance with Canada was maintained at $479 million in 1995 compared to $51 million in 1994, but the Mexican trade balance fell to -$15 million (Table 3).

Table 3. U.S. Agricultural Trade Balance in Million Dollars.

Year	Canada	Mexico	World
1990	619	85	17,659
1991	1,194	349	15,021
1992	882	1,390	18,107
1993	797	952	18,135
1994	51	1,332	17,146
1995	479	-15	24,630

Source: USDA, The Agricultural Outlook for 1996

Third, the economies of many nations are growing. The standard of living is increasing. Per capita GNP has changed dramatically in many countries. For example, from 1970 to 1990, the 12 Asian Productivity Organization countries' per capita GNP increased over 8 times from $313 to $2,637 (Table 4). Individual countries, such as Japan and Taiwan, have experienced much larger increases in GNP than the APO countries' average. One result is an increased demand for our agricultural products, especially meats (Figure 3). As other countries' improved standards of living allow them to both afford to buy more calories, and demand a better quality diet than in the past, they find the U.S. a natural market to use.

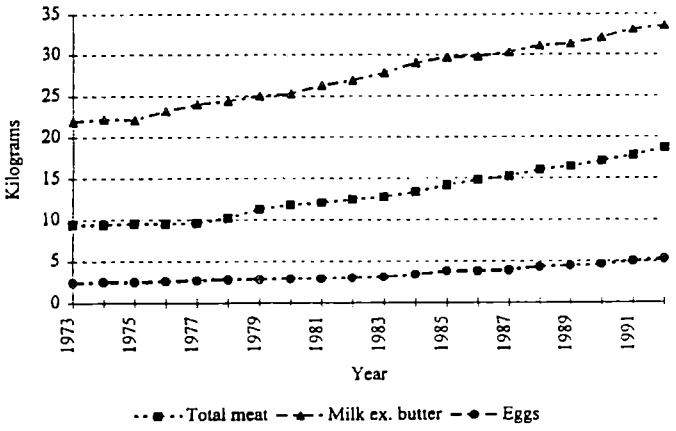
Finally, there is a trend toward fewer subsidies and freer trade. The U.S. farmer is one of the most efficient, if not the most efficient, producer in the world. If other countries reduce subsidy payments and/or trade restrictions, we benefit. For example, the North American Free Trade Agreement has contributed to increased trade amongst the U.S., Canada and Mexico.

Table 4. Asian Productivity Organization Countries Per Capita GNP: 1970 and 1990

		(U.S. Dollars)
Bangladesh	100	194
India	109	358
Indonesia	78	542
Iran	380	2,564
Japan	1,997	25,840
Korea	270	5,450
Mongolia	564	757
Pakistan	157	357
Philippines	220	719
Sri Lanka	180	464
Taiwan	386	7,937
Thailand	206	1,423
APO-12	313	2,637

Source: FAO, Production Yearbook and "Changing Dietary Intake and Food Consumption in Asia and the Pacific".

Figure 3. Per Capita Consumption of Meat, Milk & Eggs: Asia 1973-1992.



Major Commodities – Grain

U.S. exports and imports of major commodities produced in South Dakota contribute to a favorable balance of trade (Table 5). Export sales of wheat accounted for 51 percent of U.S. production in 1994 and are projected at 59 percent of U.S. production in 1995. Corn export demand in the record production year of 1994 was 22 percent and is projected at 31 percent of production for 1995.

Table 5. U.S. Exports and Imports of Major Commodities Produced in South Dakota, 1995.

	Exports	Imports
	(Billion dollars)	
Livestock		
Beef and veal	2.65	1.45
Pork	.85	.43
Poultry-chicken	1.68	.17
Dairy	.71	1.09
Grains		
Wheat	5.44	.23
Corn	7.30	.03
Soybeans	5.40	.03

Source: USDA, US Agricultural Trade Update, March 4, 1996.

Wheat shipments in 1995 totaled 32.3 million tons. Volume was up 6 percent and value was up 34 percent compared to 1994. Egypt, Japan, and Pakistan were major buyers. Corn shipments of 60 million tons in 1995 were 68 percent above 1994. The export value of U.S. corn increased by 85 percent in 1995 compared to 1994.

China's switch from exporter to importer and purchases of U.S. corn by China's former markets played a big role here. The Far East is a major market area for U.S. corn. Soybean export volume of 22.8 million tons in 1995 exceeded 1994 by 26 percent. The dollar value of soybean exports in 1995 increased by 25 percent over 1994. The EU14 and Japan were major buyers.

Major Commodities - Livestock

Livestock also plays a major role in U.S. trade. While net balances are not as dramatic as for grain, increased exports have enabled the U.S. to be a net exporter of pork, and that could be the case for beef in 1996. In the past, most comments about foreign trade in livestock products were negative--imports were hurting prices in the U.S. Now, many comments point to the positive impacts of the export market.

Strong demand for beef in Japan helped boost beef exports from 1994 to 1995 by 15 percent (dollar value). Japan accounted for about one-half of our 595,000 metric tons of beef exports. Poultry sales in 1995 were up about 33 percent in volume and 29 percent in value. Russia (36% of volume), Hong Kong and China were major importers. Pork exports in 1995 were 48 percent above 1994's volume. The dollar value was up 54 percent. Japan was a major buyer.

Implications for South Dakota

Increased exports of agricultural products have two major impacts on South Dakota producers. First, anything sold in the foreign market reduces supplies sold here. That means a higher price for our products.

It is not necessary that products produced in South Dakota be exported to have a positive impact here. South Dakota producers benefit anyway. For grain, exports have been a major positive factor for years. We export a lot of grain from the U.S. We don't import much grain, meaning we have a large net export surplus. While the many factors affecting price make it virtually impossible to precisely estimate the exact impact on our price of each bushel of grain exported, it is safe to say "without grain exports, prices would be well below the cost of production for almost everyone almost all of the time". That is as true in South Dakota as anywhere in the U.S.

Exports also help the livestock industry. Production of beef, pork and poultry all are above or very close to record levels. We could not consume all of the meat produced in the U.S. at current prices. Large (and growing) export sales of beef, pork and

poultry add many dollars to the prices producers receive. Again, that is as true in South Dakota as anywhere in the U.S.

The second major impact is a little more long-term in nature. The more we export, the more we depend on exports. We are becoming more dependent on the foreign market. If we lose that market--or part of it--our agricultural product prices will fall. Something which happens in Japan, China or some other country which imports our agricultural products can have an impact in South Dakota.

It sometimes is a little discomforting to know that our prices depend to a great extent on something over which we have no control. It is important to remember, however, that by continuing to produce the best quality products in the most efficient manner possible, U.S. agricultural producers will go a long ways toward keeping those important foreign markets.

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