6- The Role of Trade

Except for period 1930-1970 Ag trade always important

Highest U.S. ag export value $68 billion 2006, forecast 2007 $72 billion

Highest import value 2006 $64.5 billion, forecast 2007 $68.5

Share of value-added increasing
now over half
varies as bulk commodity trade varies
Why trade and what pattern?
absolute advantage vs comparative advantage
Gains-from-Trade

United States

Rest-of-the-World
Reasons offered for barriers to trade

1. protection against painful adjustment

2. maintaining government support programs

3. protect national security

4. protect infant industries

5. protect national health

6. retaliation

7. improve balance of payments

8. improve terms-of-trade

9. provide revenue
1. Evolution of U.S. Trade Policy and agriculture

A. Until 1930s U.S. used mostly tariffs on manufactures

B. In 1930s U.S.
   1. raised tariffs high (Smoot-Hawley)

      2. imposes import quotas on “program” crops  
         Section 22

   3. two price plans, dumping, disposal
Import Tariff
tax collected at the border

Importer                        World Market                        Rest-of-the-World
Import Quota
C. In 1950s and 1960s:
   1. introduce export subsidies (Section 32),
      a. promotion,
      b. food aid (PL-480),
      c. surplus disposal

   2. obtain GATT waivers for Sections 22 & 32

   3. International Commodity Agreements
Export Subsidies, Two-Price Plans, Dumping

United States  World Market  Rest-of-the-World
D. Export boom in 1970s:

1. end export subsidies

2. reduce food aid

3. no surplus disposal, instead embargoes

4. Trade Act of 1974

5. Exchange Rate Changes
   Rising dollar like import subsidy or export tax
E. Early 1980s U.S. agr exports collapsed, policy shift
1. 1983 subsidized flour exports to Egypt

2. boost food aid, export promotion
   a. direct credit sales – blended credit
   b. credit guarantees – GSM 102, 103

3. 1985 farm bill export oriented
   a. lower support prices
   b. new export subsidies
   c. push for new GATT round
F. Late 1980s slow progress GATT, interest in RTAs

1. Canada-U.S. Free Trade Agreement (CUSTA)


3. propose Free Trade Agreement of the Americas (FTAA)
G. 1994 Uruguay Round Agreement

Trade operates under rules established by WTO (GATT)

purpose avoid Beggar-thy-neighbor policy

mutually agreed

3 basic principles
reciprocity

national treatment

transparency
Several rounds, Doha Development Round underway

limit export subsidies

reduce domestic support

market access
Tariff-Rate Quota (TRQ) 
a stepped tariff 
current U.S. sugar, beef, dairy products
Uruguay Round also tighter Sanitary and Phytosanitary Restrictions (SPS)

Article XX of WTO/GATT allows if:

- based on science
- based on acceptable risk
- not disguised protection
- harmonized, equivalent to international standard
- allows regionalization

Problems in identifying

Analytically complicated

Balancing trade-off in gains-from-trade to cost of disease outbreak

Technical barriers (TBTs)
product standards, similar to SPS

H. 1990s trade policy erratic
   end fast track, 1994 -2002

   increased use trade remedy laws

   carousel retaliation

   no use of EEP, but expand credit & promotion

   push for new WTO round
I. Development Round (Doha) proposals:

- increased market access
- end export subsidies
- reduce further domestic support
- no multifunctionality
- leave SPS agreement alone
- tighten rules on state trading enterprises (STEs)
2. Competitiveness of U.S. agriculture an emerging issue

A. Many definitions and often confusing
   price at or below competition
   or costs low enough given world prices
   expanding market share

B. Often hear U.S. is the lowest cost producer and U.S.
   wants a "level playing field."

Costs Soybeans 1998/99

<table>
<thead>
<tr>
<th>Cost</th>
<th>U.S. Midwest</th>
<th>Brazil Parana</th>
<th>Brazil Mato Grosso</th>
<th>Argentina BA</th>
</tr>
</thead>
<tbody>
<tr>
<td>VC</td>
<td>1.71</td>
<td>2.78</td>
<td>3.17</td>
<td>1.90</td>
</tr>
<tr>
<td>FC</td>
<td>3.40</td>
<td>1.38</td>
<td>0.72</td>
<td>2.02</td>
</tr>
<tr>
<td>Total</td>
<td>5.11</td>
<td>4.16</td>
<td>3.89</td>
<td>3.93</td>
</tr>
<tr>
<td>Transp Dom.</td>
<td>0.43</td>
<td>0.85</td>
<td>1.34</td>
<td>0.81</td>
</tr>
<tr>
<td>Intl.</td>
<td>0.38</td>
<td>0.57</td>
<td>0.57</td>
<td>0.49</td>
</tr>
<tr>
<td>Total</td>
<td>5.92</td>
<td>5.58</td>
<td>5.80</td>
<td>5.23</td>
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What about the playing field?
depends on time of comparison and what is compared.

producer support, 1998 - 2000, u.s. dollars

<table>
<thead>
<tr>
<th>nation</th>
<th>per farmer</th>
<th>per hectare</th>
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<tbody>
<tr>
<td>u.s.</td>
<td>20,803</td>
<td>120</td>
</tr>
<tr>
<td>e.u.</td>
<td>16,028</td>
<td>762</td>
</tr>
<tr>
<td>australia</td>
<td>2,894</td>
<td>2</td>
</tr>
<tr>
<td>n. zealand</td>
<td>336</td>
<td>3</td>
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source: oecd producer support
### Producer Support from Government as a % of Income

<table>
<thead>
<tr>
<th>Year</th>
<th>Aus.</th>
<th>Canada</th>
<th>Japan</th>
<th>US</th>
<th>EU</th>
<th>N. Zea.</th>
<th>Korea</th>
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<tbody>
<tr>
<td>1986</td>
<td>10.57</td>
<td>37.87</td>
<td>64.75</td>
<td>24.21</td>
<td>42.34</td>
<td>19.62</td>
<td>65.25</td>
</tr>
<tr>
<td>1990</td>
<td>9.62</td>
<td>33.16</td>
<td>51.60</td>
<td>17.02</td>
<td>31.90</td>
<td>2.09</td>
<td>74.36</td>
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<tr>
<td>1995</td>
<td>5.96</td>
<td>19.46</td>
<td>62.19</td>
<td>10.27</td>
<td>35.57</td>
<td>1.53</td>
<td>72.00</td>
</tr>
<tr>
<td>2000</td>
<td>4.34</td>
<td>19.08</td>
<td>59.44</td>
<td>23.51</td>
<td>33.68</td>
<td>0.45</td>
<td>66.28</td>
</tr>
<tr>
<td>2007P</td>
<td>5.52</td>
<td>18.43</td>
<td>45.49</td>
<td>9.86</td>
<td>25.72</td>
<td>0.71</td>
<td>59.84</td>
</tr>
</tbody>
</table>

Source: OECD
High compared to Australia and New Zealand.

Same story with respect to Brazil, Argentina, and to some extent Canada.

So by leveling the playing field, does the U.S. mean?

a. dropping its support to levels in the southern hemisphere
b. or letting their support rise to U.S. levels?
C. In long-run competitiveness determined by:

- endowments

- investments in education

- investments in infrastructure

- investments in technology

- resource mobility

- public policy