The Yin and Yang of Agricultural Trade

Lee Schulz and Chad Hart

lschulz@iastate.edu; chart@iastate.edu

IT'S A fascinating, but uncertain, time in the agricultural markets. Global and US supplies of agricultural products are at or near record levels. At the same time, global demand for agricultural products continues to grow, pressured by both population and income growth. Markets work to distribute the products across the globe, and government policies can definitely shape that distribution. Myriad new trade agreements, trade disputes, and tariffs introduced over the last 15 months are reshaping global agricultural trade flows. Some of that reshaping has been beneficial to US producers, while some of it has been harmful. Trade policy does not exist in a vacuum—while a tariff may be targeted at one specific country, the tariff's impact can (and often does) spread beyond the borders of the two countries involved, which is true of trade agreements as well. The impacts of the trade agreements are not limited to only those countries within the agreement.

Global trade policy is going through a period of major change. There's the US-China trade dispute, the reworking of NAFTA/USMCA and KORUS agreements, the ongoing tensions from the US steel and aluminum tariffs, the trade challenges over Britain's exit from the European Union, and the establishment of the Trans-Pacific Partnership (TPP) without the inclusion of the United States. These policy changes are bringing some trade partners closer together, pushing some further away, and creating conflicting signals in many cases. To explore recent trade flow changes, we examine export sales so far this year versus at this point last year. The four figures follow the same basic pattern. The first six bars show the export sale

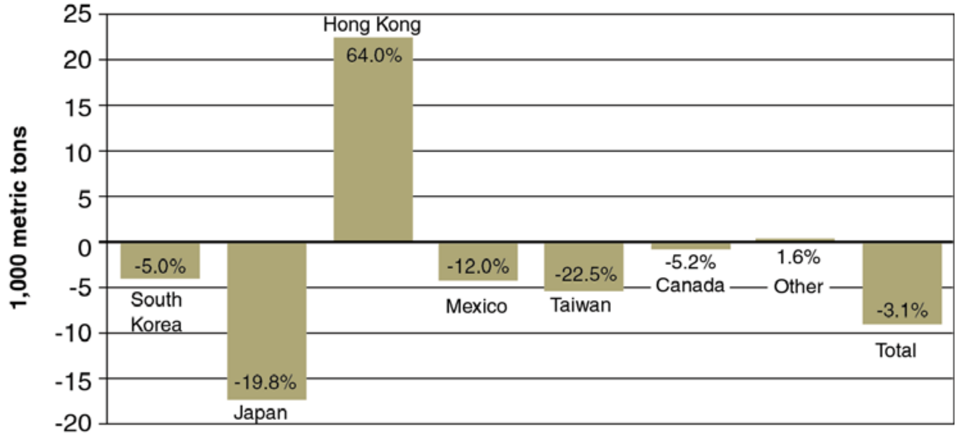

Figure 1. Shifts in US Beef Export Sales
Source: USDA-FAS

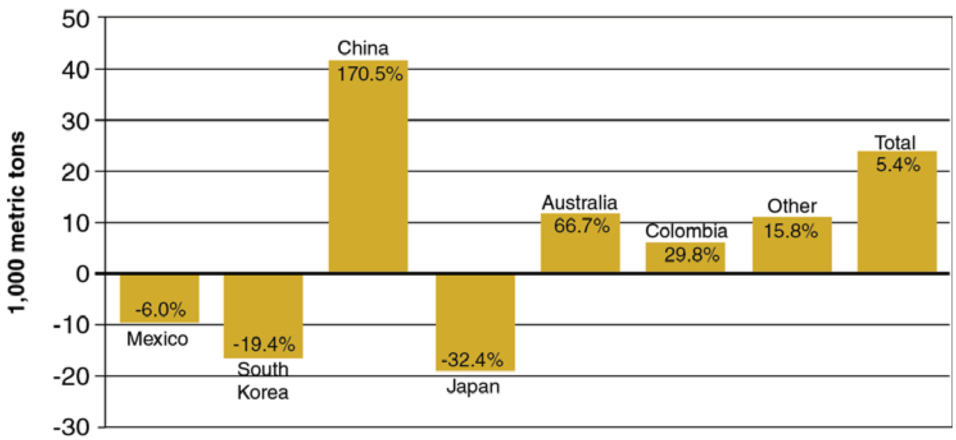

Figure 2. Shifts in US Pork Export Sales
Source: USDA-FAS

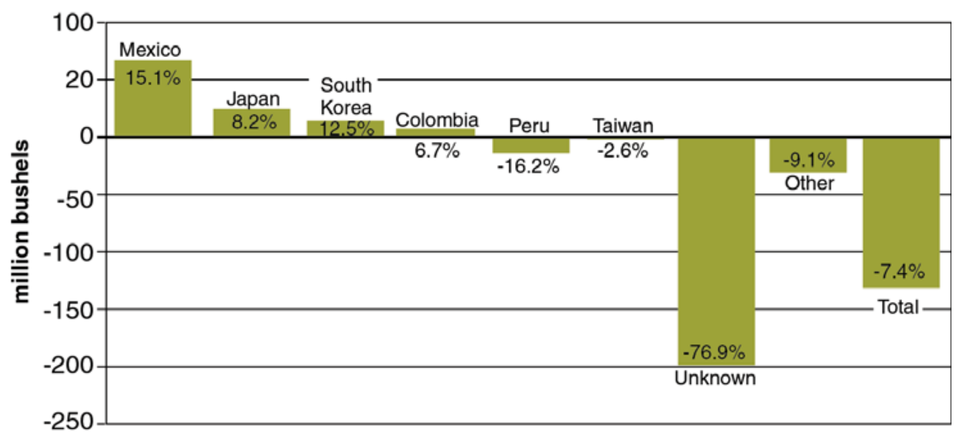

Figure 3. Shifts in US Corn Export Sales
Source: USDA-FAS

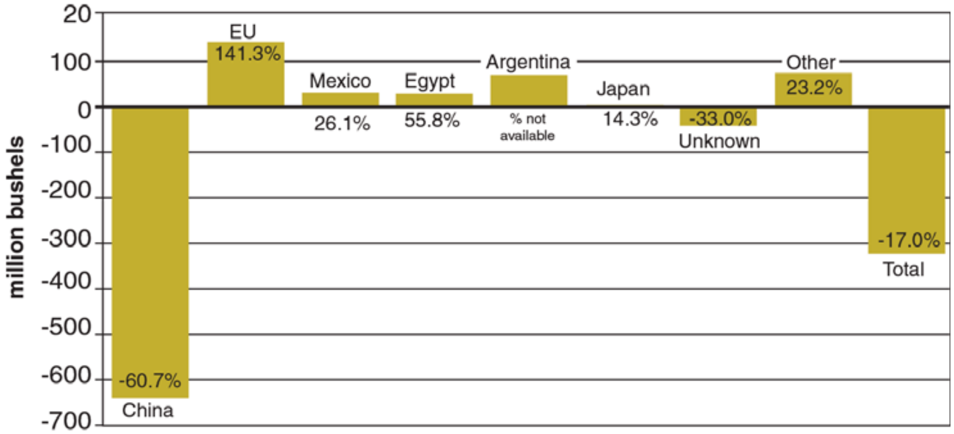

Figure 4. Shifts in US Soybean Export Sales
Source: USDA-FAS

changes to the six largest current export markets for each commodity, listed in order. "Other" shows the export sale changes to the rest of the world. "Unknown" shows the change in sales to unknown destinations (with an export sale, the destination does not have to be listed until the shipment is ready to go). "Total" summarizes the overall change in export sales. The percentage given in each bar is the percent change year-over-year for that country or region.

For the livestock sector, trade has been a positive factor for the past few years. Global income growth has driven meat demand higher and both the beef and pork industries have benefitted from that surge in demand. However, the beginning of 2019 has shown some reversal in that fortune. Beef export sales have dropped by 3.1 percent year-over-year (see Figure 1). While Hong Kong has purchased more US beef, beef sales to our other large markets are down. Some of the reduction was expected—for example, South Korea purchased a record amount of beef last year, partially in preparation for and celebration of the Winter Olympics. However, there is some concern that the progress with the TPP deal is taking a bite out of beef exports. Japan, Mexico, and Canada are all part of TPP, along with Australia, which is another major beef exporter. The lower beef tariffs within TPP are providing opportunities for Australia to gain beef market share at the expense of the United States. But while beef exports are currently down, USDA's projections indicate beef exports could be up by roughly 2 percent at year's end.

The TPP effect may also be showing up in pork exports. Mexico and Japan have reduced their pork purchases from the United States; however, Australia, another TPP member, has expanded its pork purchases. As with beef, South Korea has backed down significantly. But the major shift over the past few weeks is due to China. Throughout 2018, China and the United States have argued about trade and imposed tariffs on each other. When those tariffs hit pork, export sales to China dropped dramatically. During this period, China has also been dealing with the ramifications of African Swine Fever. The Chinese hog industry has significantly culled its herd in an attempt to halt the disease's spread. And while this sizable reduction in pork capacity was expected to force China to expand purchases in the global pork market, those expected sales did not show up as the 2018 calendar year closed. The 2019 calendar year for pork opened similar to beef, with an overall reduction in sales. However, over the past four weeks, the United States has seen a sizable uptick in sales to China. Currently, pork export sales to China are up 170 percent. This increase in sales is happening even though the pork tariff remains in place. It looks as though the African Swine Fever outbreak has finally grown large enough to have major global impacts. Looking forward, USDA expects pork exports to remain roughly 6 percent ahead of last year (see Figure 2).

Shifting to crops, the 2018 calendar year was a mixed bag on the export front. Corn exports were relatively strong, while soybean exports suffered as the US-China trade dispute grew. Export sales so far in 2019 have indicated a further erosion in the global market. For corn, the largest changes have been in sales to unknown destinations. Compared to last year, we have seen a 200 million bushel drop in sales to unknown destinations (see Figure 3). Usually, these sales ultimately end up being shipped to our larger markets. So, while the bars for our six largest export markets are generally headed higher, the reduction to unknown destinations could indicate that this is a short-term illusion.

Meanwhile, for soybeans, the major story is still the dispute with China. While China has made several purchases during the trade truce, the export deficit compared to last year remains incredibly large. The soybean tariffs are responsible for the 600 million bushel plus hole in exports. And as both the United States and China deal with the trade disruption, many other countries are adjusting their soybean trades to compensate, both in terms of quantities and sources. China was very aggressive in the South American soybean markets, displacing traditional customers there. In fact, they were so aggressive that Argentina has had to import soybeans to keep their

continued on page 8