Commodity Spotlight

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U.S. Horticultural Trade: Long- & Short-Term Factors

Export markets continue to be a major source of growth in U.S. horticulture. Exports as a share of horticultural production value grew from 20 percent in calendar-year 1990 to a forecast 28 percent in 1998, and will likely continue to grow during the next decade. U.S. horticultural exports are forecast to reach a record $10.8 billion in 1998, up 7 percent from 1997 and nearly double the level of 1990.

Despite the large growth in exports in this decade, the U.S. remains a net importer of horticultural products. As U.S. consumers have become more willing to try new fruit and vegetable varieties, the import share of domestic horticultural consumption has increased, particularly for fresh produce. The fresh-market import share of total U.S. fruit and vegetable consumption, in volume, increased from 18 to 21 percent (excluding bananas, the share grew from 9 to 13 percent). The value of total horticultural product imports grew more than 50 percent since 1990.

If long-term projections hold for the next decade, the U.S. could achieve a trade-balance surplus in horticultural products, fueled mainly by global income growth. While the import value of horticultural products is projected to grow at a steady rate of 4 percent per year between 1998 and 2007—USDA's baseline projection period—exports are projected to grow 5-7 percent per year.

Trade Propelled by Increased Global Income & Market Access

Fruit and vegetables will account for 98 percent of total horticultural export value on average during the baseline period; greenhouse and nursery products constitute the remaining 2 percent. Underlying long-term factors in the outlook for U.S. fruit and vegetable trade include income growth in customer nations and enhanced global market access stemming from trade liberalization. Also at work are short-term factors such as changes in U.S. dollar exchange rates, which intermittently enhance or hinder U.S. trade prospects. The effects of trade impediments and of productivity changes due to technological innovations may be long-or short-term.

Global economic growth will fuel export demand for U.S. fruit and vegetables beyond 2001; as countries become wealthier, their demand for high-valued commodities increases. The effects of income growth on consumption are more pronounced in developing countries which, compared with developed countries, are expected to spend larger shares of additional income on food items like meat and fruit and vegetable products. Moreover, economic growth projections for most developing countries are higher than the world average over the baseline period.

Developing countries account for an increasing share of U.S. fruit and vegetable exports. Hong Kong, Taiwan, South Korea, Indonesia, Thailand, and the Philippines will remain important purchasers of U.S. fruit and vegetables despite their current financial problems. South America is another developing region where growth in U.S. fruit and vegetable exports has been strong in the 1990's. Annual average economic growth in this region is projected to double during the baseline years from the 1990-96 average.

International trade agreements have increased *market access* for specific fruit and vegetable products, which will stimulate future export growth in the U.S. fruit and vegetable industry. Last year, mainland China opened its market to California fresh table grapes and Washington cherries, and Japan permitted entry of most major varieties of U.S. fresh tomatoes. China continues to ban the importation of most U.S. fruit, citing phytosanitary concerns. It was because of phytosanitary concerns that the Japanese market had been closed to U.S. fresh tomatoes until the summer of 1997.

Tariffs on fresh table grapes and cherries to China and on tomatoes shipped to Japan remain high, and these new markets still need to be developed. But signs of their strong market potential include China's projected per capita growth in GDP of over 8 percent annually over the next decade; the steps China has taken to reduce import duties on a wide range of horticultural products including fresh grapes and cherries; China's enormous population base, the largest in the world; and Japan's rapidly growing western-style foodservice industry.

In the short run, the outlook for U.S. fruit and vegetable trade is clouded by *currency devaluations in Asia* since late-summer 1997, particularly in Southeast Asia,

Horticultural products encompass fruit and nuts (including juice and wine), vegetables (including potatoes, dry beans, and mushrooms), and greenhouse and nursery products. Essential oils and ginseng are not included.

South Korea, and Japan. In countries with depreciating currencies, U.S. products are generally priced relatively high compared with domestic goods, dampening demand for U.S. commodities in these markets. Meanwhile, exports from these countries will be priced competitively in the U.S. and other markets.

Because many U.S. horticultural exports are not staple items in the diets of most developing Asian countries, consumers there are more likely to substitute local goods or even to do without, particularly for commodities such as fresh fruit, wine, and nuts. U.S. exports of a number of fruits and vegetables to Asian countries from September to December 1997 were lower than shipments during the same period in 1996, with fresh grapes, almonds, and frozen potatoes among the exceptions. Even before the financial crisis in Southeast Asia, the Japanese yen had depreciated, accounting for much of the decrease in Japan's imports of U.S. fruit and vegetable exports during the past 2 years.

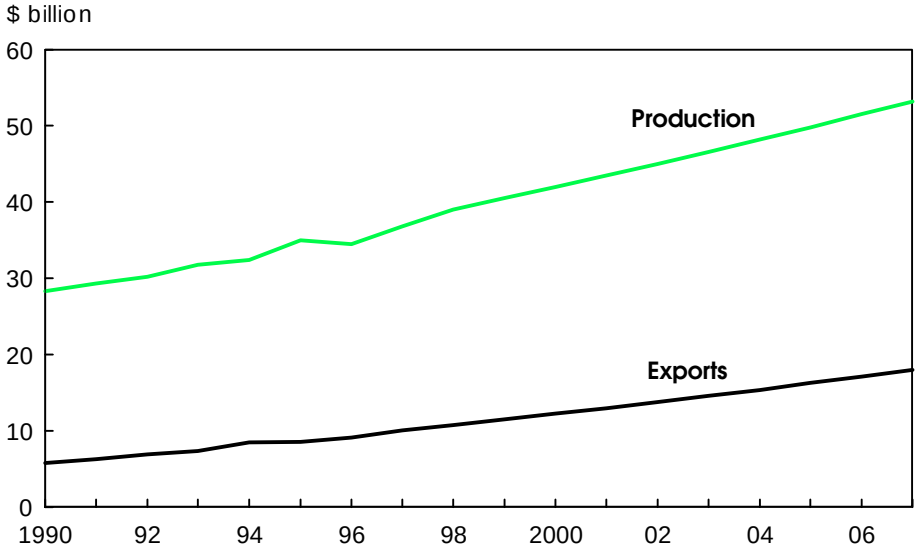
But Japan's imports of frozen potatoes declined neither in volume nor value in 1997, due likely to strong Japanese demand for french fries. Frozen potatoes are top among U.S. fruit and vegetable products exported to this market. Also, record U.S. production of grapes and almonds in 1997 resulted in lower prices for these commodities, and along with high quality, helped the U.S. maintain competitiveness in the Asian market.

The Southeast Asian market, although a relatively small outlet for U.S. fruit and vegetables, grew from 3 percent of U.S. fruit and vegetable exports in 1990, in value terms, to about 5 percent in 1997. South Korea is also a small U.S. market, while Japan accounted for approximately 17 percent of total fruit and vegetable export value in 1997, about the same as in 1990. Once the financial conditions improve in these Asian countries, U.S. fruit and vegetable exports will likely resume their strong performance.

Fluctuations in world supplies also affect U.S. exports—and imports—in the short run. Supply fluctuations are usually unpredictable and in most cases are due to weather, such as the effects of the El Niño phenomenon. The overall impact of El Niño on 1998 fruit and vegetable production could generate some downward adjustment in the export forecast.

The effects of *trade barriers* that diminish export opportunities for U.S. fruit and vegetable producers could be long- or short-term. Natural trade barriers include high transportation costs to distant markets, and artificial barriers include legal measures such as protectionist policies. Liberalization of trade through international agreements has been instrumental

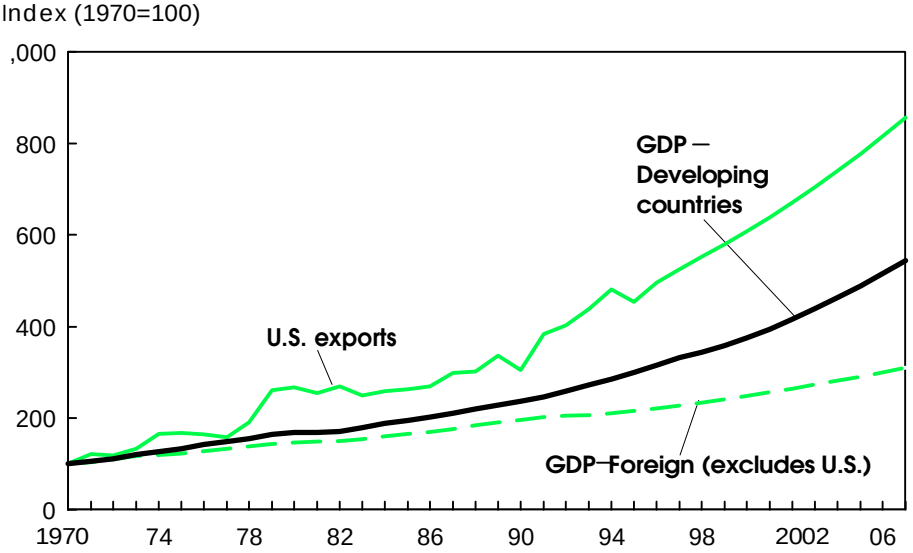
U.S. Horticultural Production and Exports To Continue Growing



Selected major fruits and vegetables: almonds, fresh apples, fresh oranges, fresh grapes, frozen potatoes, fresh lettuce, fresh tomatoes. 1998 forecast, 1999-2007 projected.

Economic Research Service, USDA

Foreign GDP Influences Growth in U.S. Fruit and Vegetable Exports



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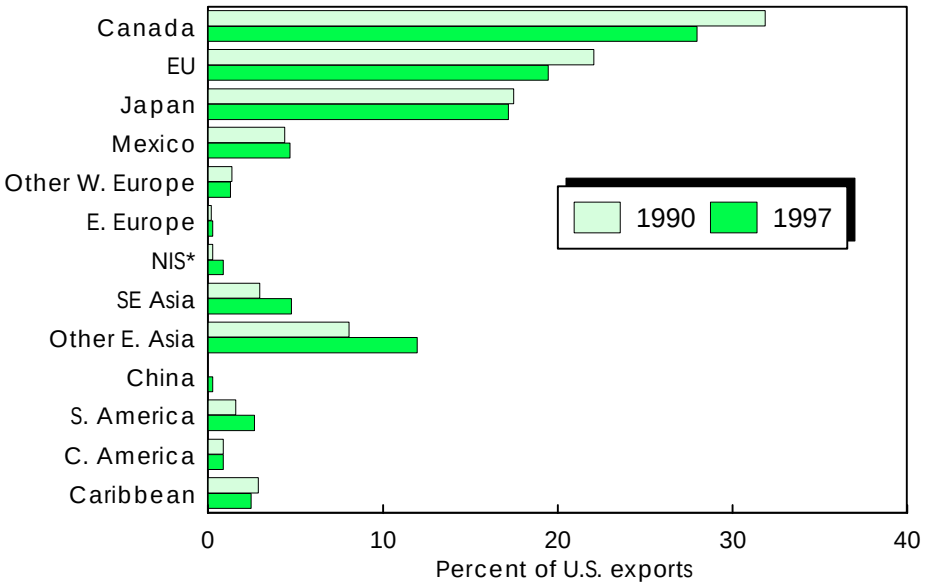
Developing Countries Account for Increasing Share of U.S. Horticultural Exports



Percent of U.S. fruit and vegetable export value. 1998 forecast; 1999-2007 projected.
*Newly Independent States of the former Soviet Union.
Economic Research Service, USDA

in relaxing many legal trade barriers by reducing tariffs and by harmonizing the technical barriers to trade.

Under phytosanitary requirements—technical trade barriers—importing countries set standards that potential trade partners must meet, presumably to protect human health or prevent the spread of pests and diseases. For example, Japanese imports of U.S. apples are limited to Red and Golden Delicious apples from Washington and Oregon. The Japanese, concerned mainly about the spread of fire blight, impose rigorous and costly import requirements on U.S. apple shippers. The Japanese require cold treatment and fumigation with methyl bromide before shipment, and inspection of U.S. apple orchards three times during the production stage—U.S. growers intending to export to Japan must register the acreage. These requirements are apparently having an impact. None of the Washington and Oregon growers have registered acreage for the 1997/98 export program, and no U.S. apple shipments to Japan are expected this season.

In June 1997, Brazil imposed a mandatory fumigation-at-origin requirement for all U.S. fruit entering their market, following detection of the Pacific spider mite in recent shipments. By the end of July, Brazil agreed to limit this fumigation requirement to peaches, nectarines, and apricots. The sharp growth in U.S. fresh fruit exports to Brazil in the 1990's is attributed mainly to increases in key items such as apples, pears, peaches, and plums. Prospects for future stone fruit exports to this market could be dampened if the mandatory fumigation-at-origin requirement remains in effect.

Technological innovations can increase a country's competitive advantage and therefore its world market share if they enable higher quality or promote lower prices. But because new technologies can be exported, any gains in export market shares may be short-term.

Mexico's tomato export sector, producing mainly in the Sinaloa and Baja California regions, has imported U.S.-initiated production technology over the last few years, including the adoption of extended shelf-life (ESL) varieties. These varieties, used in Florida for the past 20 years, are far less suited to Florida's climate than to Mexico's and have boosted Mexico's tomato export capacity significantly. The peso crisis in 1995 provided additional incentive in the short run for Mexican producers to export to the U.S. To increase competitive advantage in the long run, U.S. producers will have to adopt ESL varieties suited to Florida's climate and change harvesting and marketing practices to accommodate ESL varieties.

Safety concerns have heightened among U.S. consumers about produce available in the U.S. market. Two recent food scares in the U.S. involved imports of raspberries from Guatemala and frozen strawberries from Mexico. Fresh fruit and vegetable imports are a large and growing share of total U.S. fruit and vegetable imports. Undertakings to improve food safety standards both in the U.S. and in the countries that supply produce to the U.S. are critical in maintaining consumers' confidence and their demand for fruit and vegetables. An example of such an undertaking is the Administration's legislative initiative to halt imports of fruits and vegetables from countries with inadequate safety standards.

U.S. Export Prospects In the Decade Ahead

Long-term prospects for U.S. horticultural trade appear good, with a trade surplus possible by the end of the next decade. Exports will continue to be a primary source of growth for the industry. Projections for only slight increases in domestic fruit and vegetable consumption over the next decade underscore the continued importance of export demand in raising producer earnings.

Export growth will be driven mainly by world economic growth, particularly in developing regions, and by international agreements to liberalize global trade. The Asian financial crisis will likely result in diminished demand for a number of U.S.fruit and vegetable products in that region in the short run. But because of the strong export growth to Asia during most of the 1990's, and projections of higher economic growth in the region than in the world overall, Asia will remain an important market for U.S. fruit and vegetables, particularly with the emergence of new markets such as China. Similarly, increased economic growth in other developing regions, such as South America, will help expand market opportunities for U.S. exports.

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