Special Article

Trade Prospects Support Bright Outlook In USDA's Long-Term Baseline

Strong global trade prospects and a market-oriented domestic agricultural policy combine to produce a favorable outlook for U.S. agriculture over the next 10 years. In USDA's long-term baseline projections, assumptions of generally favorable global economic growth, combined with liberalized trade associated with both the GATT agreement and unilateral policy reforms, support strong growth in global trade and U.S. agricultural exports. While the baseline was completed before the full extent of the Asian crisis was evident, the long-term scenario represented in the projections would not be greatly altered if Asia recovers as expected over the next 3 to 4 years and resumes its long-term growth.

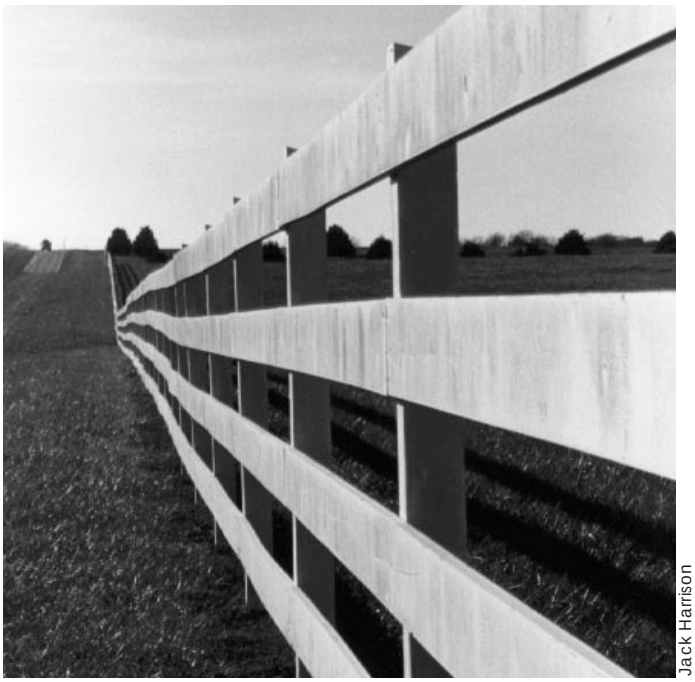
Greater market orientation in the domestic agricultural sector under the 1996 Farm Act puts U.S. farmers in a favorable position for competing in the global marketplace. Agricultural producers now respond to signals from the marketplace rather than to government commodity programs, making agricultural production economically more efficient.

With convergence of productive capacity and projected demand, nominal market prices rise, farm income increases, and the financial condition of the agricultural sector stabilizes. Management of risk will be important for farmers, reflecting the reduced role of government in the sector. The sector will be highly competitive, with successful producers having strong technical and managerial skills, and the trend toward fewer but larger farms will continue.

A combination of small increases in farm-level prices and moderate increases in marketing costs means that consumer food prices will continue to rise less than the general inflation rate. The largest price increases generally occur among the more highly processed foods, such as cereals and bakery products and other prepared foods, foods whose prices are related more to the costs of processing and marketing than to the costs of farm commodities. Expenditures for meals eaten away from home account for a growing share of food spending, reaching almost half of total food spending by 2007.

Macroeconomic assumptions used for the baseline provide a setting for strong growth in agricultural demand, both domestically and in international markets. Domestic macroeconomic assumptions include deficit reduction resulting in a balanced Federal budget, which leads to lower interest rates, rising investment, higher productivity, and stronger growth in gross domestic product (GDP) than in the last decade. Real GDP growth averages about 2.5 percent from 1998 to 2007, with consumer price inflation averaging about 3 percent.

Global economic growth averages over 3 percent annually in the next decade, well above growth during 1990-96. Macroeconomic



Jack Harrison

growth in developed countries averages about 2.5 percent through 2007 as low inflation and low interest rates lead to an improvement from the 2-percent growth in the first half of the 1990's. Aggregate growth for developing countries over the next 10 years is projected to average near 5.5 percent, compared to 5-percent growth in 1990-96. The developing Asian economies are expected to remain growth leaders in the longer term, despite 1997's currency devaluations and related economic slowdowns in Southeast Asia.

Importantly, the projected growth for many developing countries occurs at income levels that can promote increasingly diverse diets and increase demand for more meats and other high-value products. Income growth enhances demand for agricultural goods, both through increases in direct food use and through derived demand for livestock feeds to meet increases in meat demand.

Economic growth of the former Soviet Union (FSU) and countries in Eastern Europe improves over the next few years, following economic decline during the transition from centrally planned economies. Countries that are further along in the transformation to market economies and in integration into the global

The projections and discussion in this article draw from long-term projections published in the Departmental report, *USDA Agricultural Baseline Projections to 2007*. The projections were prepared in October-December 1997 and the report was released at USDA's annual Outlook Forum in February 1998.

economy (such as Poland) have higher projected growth earlier in the baseline.

Baseline projections incorporate provisions of the 1996 Farm Act and assume that the act is extended through the end of the baseline. The 1996 Act redesigned income support programs and discontinued supply management programs for major field crops. Production flexibility contract payments established by the act are generally unrelated to current plantings or to market prices. In aggregate, these payments decline from 1997 through 2002, when they expire. Expanded planting flexibility under the act permits producers to base cropping choices more fully on signals from the marketplace. The 1996 Farm Act also phases out price supports for dairy and requires the consolidation and reform of Federal milk marketing orders.

The baseline assumes that the Conservation Reserve Program (CRP) will increase to its maximum authorized level of 36.4 million acres by 2001. CRP enrollment involves a competitive selection process based on an environmental benefits index that takes government costs into consideration.

The baseline assumes full compliance with all bilateral and multilateral agreements affecting agriculture and agricultural trade. Projections assume full compliance with the internal support, market access, and export subsidy provisions of the General Agreement on Tariffs and Trade (GATT) Uruguay Round Agreement. The baseline assumes no accession to the World Trade Organization by the FSU, China, or Taiwan; no enlargement of the European Union (EU) beyond its current 15 members; no implementation of more liberalized trade among the countries of the Asia-Pacific Economic Cooperation; and no expansion of the North American Free Trade Agreement. Agricultural and trade policies in individual foreign countries are assumed to continue to evolve along their current paths.

Field Crop Prices Strengthen

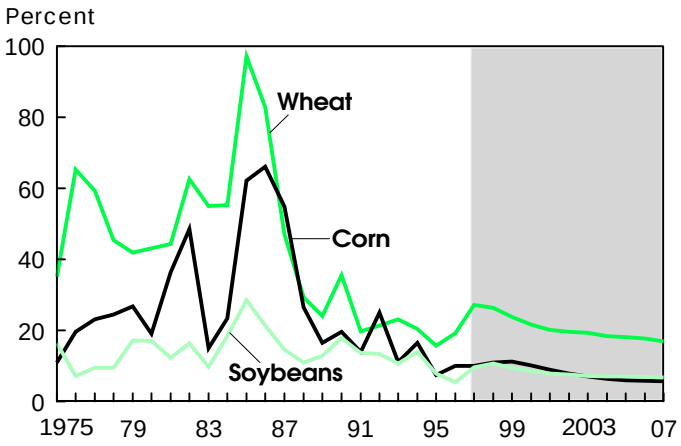
Productive capacity for crops in the U.S. is projected to rise in the next decade as a result of increases in land use and productivity. Yields for most crops are projected to rise at or near their long-term trend levels. These gains reflect, in part, the acquisition of agricultural land by larger, generally more efficient farms, continuing a long-term trend. Nonetheless, gains in use outpace yield increases for corn, wheat, soybeans, and rice, so additional land is brought into production. Additional area is drawn into production based on market incentives, since production flexibility contract payments are not dependent on current production decisions.

Baseline Projects Increase in U.S. Planted Area for Most Field Crops, As Gains in Use Outstrip Yield Growth

	Average annual growth, 1991-95 to 2007		
Crop	Use	Yields	Planted area
		Percent	
Wheat	1.1	0.6	0.5
Corn	2.2	1.5	0.8
Soybeans	2.3	1.4	1.0
Rice	1.3	0.7	0.3
Cotton	1.2	1.2	0.0

Economic Research Service, USDA

Field Crop Stocks-to-Use Ratios Continue To Decline



1998 forecast; 1999-2007 projected.
Economic Research Service, USDA

By 2007, planted acreage for major crops rises about 20 million acres above average plantings in the early 1990's. More than half of this increase in cropland use has already occurred. Increased planting flexibility under the 1996 Farm Act has facilitated these acreage increases and will continue to do so over the rest of the baseline period. Planting flexibility also allows farmers to adjust the mix of crops planted in response to changes in relative net market returns among the crops.

Export markets are the largest source of demand growth for most U.S. crops. Reduced trade barriers under the Uruguay Round agreement combined with strong global economic growth raise world agricultural trade and U.S. crop exports. U.S. exports of feed grains and wheat expand the fastest. Increasing coarse grain exports largely reflect stronger economic growth in developing regions, where higher incomes result in diet diversification and rising demand for meat. This leads to expanding foreign livestock sectors and demand for feed.

Increases in global wheat trade also reflect rising incomes in developing countries. However, U.S. wheat export growth slows somewhat after 2000 as global wheat prices rise high enough to permit unsubsidized competition from the EU. This allows the EU to export wheat beyond its GATT agreement quantity limits on subsidized wheat exports. Rising global import demand for soybeans and soybean meal reflects expansion of developing country feed-livestock sectors and increases U.S. soybean and meal exports during the baseline period. However, tightening domestic supplies and rising prices allow U.S. competitors from South America to capture a greater share of world soybean and meal trade. U.S. cotton exports maintain a 25- to 26-percent share of a growing global market.

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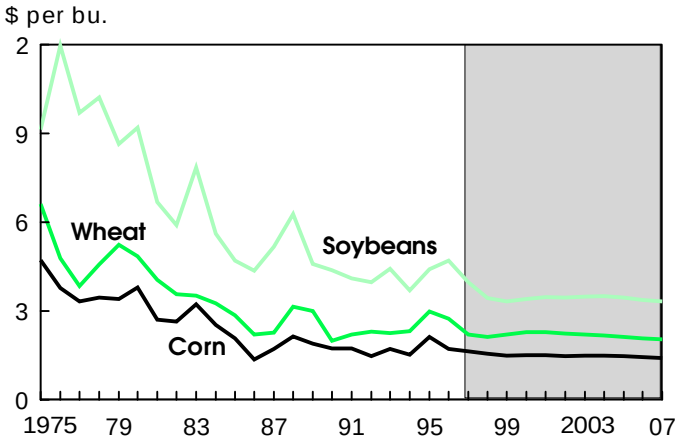
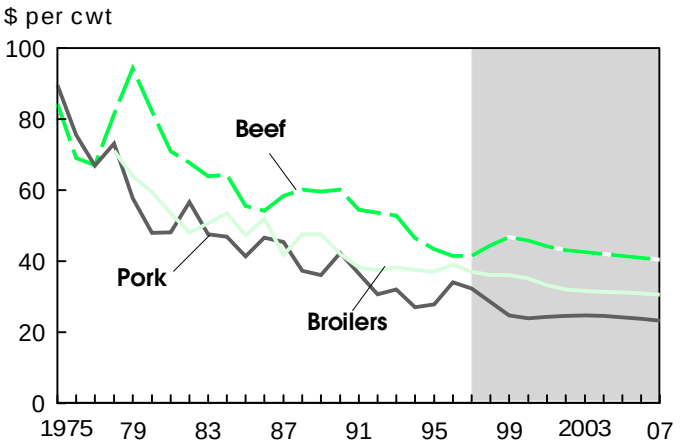
Real U.S. Prices Decline Slightly for Crops . . .



. . . and for Livestock



1998 forecast; 1999-2007 projected. Beef prices for Choice Steers, Nebraska; pork prices, Iowa, southern Minnesota market; broiler 12-city market price.

Economic Research Service, USDA

Domestic demand for most crops is projected to grow slightly faster than population. Notably stronger domestic demand for rice reflects increasing numbers of Americans of Asian and Latin American origin and a greater emphasis on dietary concerns. Gains in corn sweetener use and in corn used for ethanol production also exceed population growth rates. Increases in domestic soybean crush reflect continued strong growth in poultry production and demand for soybean meal. Domestic wheat use, however, is nearly flat as declining wheat feed use offsets food use gains. Greater U.S. exports of cotton yarn, fabric, and semifinished products will promote growth in domestic mill use of cotton, although increases in textile imports—mostly apparel—and competition from manmade fibers limit domestic gains.

Long-term trends in supply/demand balances for the major field crops imply tightening stocks-to-use ratios and strengthening nominal prices from 1999 to 2007. The historical downward trend in real (inflation-adjusted) crop prices is projected to slow.

Sugar production rises in the baseline, led by gains in beet sugar production, which accounts for a growing share of domestic sugar production. Per capita sugar use rises about 2.5 pounds per person over the next 10 years, with growth slowing from recent years due to continued substitution of other sweeteners such as high-fructose corn syrup.

Tobacco production generally declines in the baseline due to reduced domestic use and declining leaf exports. Domestic use falls as cigarette exports stabilize and domestic consumption continues its long-term decline due to higher taxes, increased regulation limiting smoking and sales, and heightened awareness of links between smoking and various diseases. Leaf exports decline due to the price and quality competitiveness of other producers.

The farm value of U.S. horticultural crop production (including greenhouse/nursery) increases over 3 percent annually through 2007. While there will be some gains in per capita consumption of fruits and vegetables domestically, an increasing share of horticultural production value will go to export markets, reflecting foreign income growth and trade liberalization.

Record Meat Supplies Projected

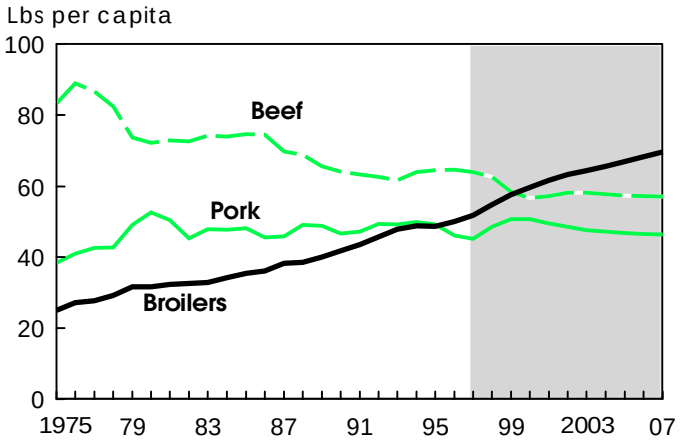
Record total meat supplies are projected through the baseline, including an increasing proportion of poultry. Per capita consumption of red meats declines, and toward the end of the baseline, per capita poultry consumption surpasses per capita red meat consumption on a retail-weight basis. Declining real prices for meats along with increasing real disposable income allow consumers to buy more total meat with a smaller proportion of disposable income. Per capita consumption of eggs rises in the baseline as greater use of eggs in processed foods offsets declining shell-egg use.

The livestock sector continues adjustments over the next few years following the high feed costs of 1995/96. As grain prices have fallen, pork and poultry production have rebounded. However, with tight forage supplies and longer biological production lags for cattle, beef production falls through 2000. For the remainder of the baseline period, lower feed prices than in 1995/96, replenishment of forage supplies, low inflation, and strong demand (domestic and export) result in returns to producers that encourage increases in red meat and poultry production.

Cattle herds rebuild from a cyclical low in 2000 (97 million head) to near 102 million head by 2007. Shifts toward a breeding herd of larger cattle and heavy slaughter weights partially offset the need for expanding cattle inventories to previous levels. The beef production mix continues to shift toward a larger proportion of fed beef. The U.S. remains the world's primary source of high-quality, fed beef.

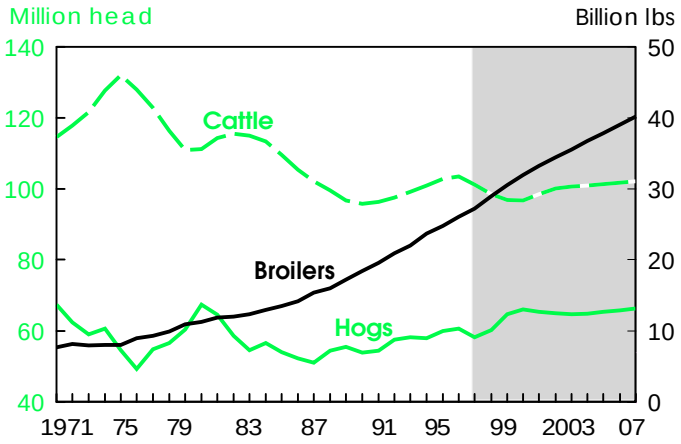
Pork production becomes more vertically coordinated, with larger, more efficient operations. This structural shift results in a more inelastic industry supply curve, dampening hog sector cycles. The U.S. becomes an increasingly important net pork exporter, reflecting cost competitiveness of U.S. operations, as

Per Capita Broiler Consumption Overtakes Beef Consumption . . .



Boneless weight.

. . . and Broiler Production Rises



1998 forecast; 1999-2007 projected.
Economic Research Service, USDA

well as greater environmental constraints for some competitors that limit their production gains.

Technological advances and improved production management will continue to be important in the broiler and turkey industries, but will be unable to hold down production costs as significantly as in the past 10 years. Competition in global poultry markets holds U.S. poultry exports to moderate gains, although export gains are expected for broiler parts, especially for dark meat.

Dairy productivity gains offset declining cow numbers over the next 10 years, allowing milk production to grow. Real milk prices fall, pushing weaker operations out. However, milk production continues to expand in the West and on large dairy operations in the North. Expansion in commercial use of dairy products is led by sales of cheese and dairy ingredients for processed foods, while fluid milk sales remain flat.

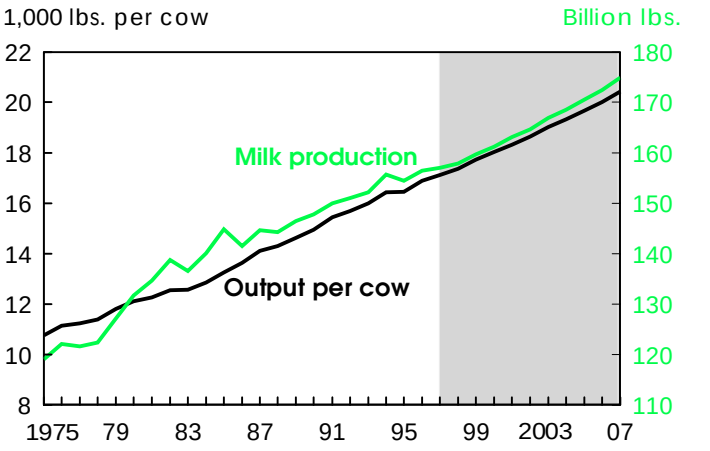
Net Farm Income Rises, Boosting Farm Sector Net Worth

Net farm income rises gradually through the baseline period as strong agricultural demand leads to increased output and strengthening prices. However, gains are slightly less than inflation, so real net farm income is down through 2007. The agricultural sector relies increasingly on the marketplace for its income as direct government payments fall throughout the baseline and represent less than 3 percent of gross cash income beyond 2000. As provided for in the 1996 Farm Act, production flexibility contract payments decline from 1997 to 2002.

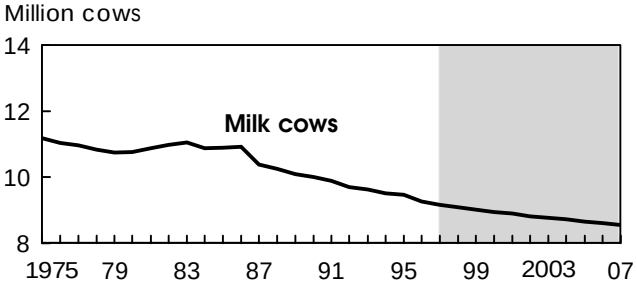
Both crop and livestock receipts are up in nominal terms due to larger production and higher prices. Production expenses increase in the baseline, with expenses for nonfarm-origin inputs—such as labor, fertilizer, and pesticides—rising faster than expenses for farm-origin inputs. Cash operating margins stabilize, with cash expenses representing about 75 percent of gross cash income.

Higher nominal farm incomes and relatively low interest rates assist in asset accumulation and debt management, leading to an improved balance sheet for the farm sector. Farm asset values increase throughout the baseline, led by gains in agricultural land values. Increases in farm debt rise less rapidly than in the past,

Milk Production Continues To Increase . . .



. . . While Herd Size Declines



1998 forecast; 1999-2007 projected.
Economic Research Service, USDA

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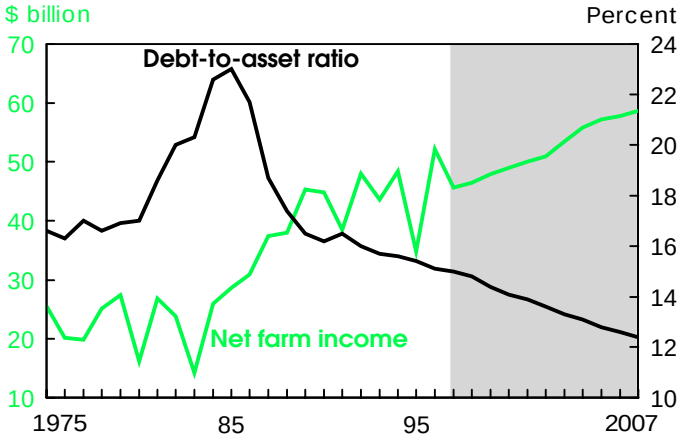
U.S. Farm Financial Outlook Is Favorable



1998 forecast; 1999-2007 projected.
Economic Research Service, USDA

and debt-to-asset ratios continue to drop from over 20 percent in the mid-1980's to less than 13 percent by the end of the baseline.

With asset values increasing more than debt, farm equity rises significantly. Increasing nominal farm income in the baseline, combined with rising farm equity, means relative financial stability in the farm sector. The trend toward fewer but larger farms continues, as producers who are more efficient and better managers acquire the production resources of exiting farmers.

The 1996 Farm Act transferred risk of income variability from the government to farmers. Although baseline projections assume no shocks, normal variations in supply and demand will occur; net farm income is potentially more variable from year to year because production flexibility contract payments are fixed regardless of market prices. Total revenue will reflect market price variation more directly, where previously a portion of this risk was managed through deficiency payments linked to market prices.

Marketing alternatives to manage risk and buffer a portion of this potentially greater income volatility will become more important for many farmers. Some farmers will expand their use of futures and options markets, possibly using new instruments such as yield contracts. Many producers continue to use crop insurance for yield protection and may expand coverage using revenue insurance now available in some areas. Other alternatives to manage risk include diversification of production, contracting in advance for the future sale of the commodity, integrated ownership, and involvement with more value-added processing beyond the farm gate.

Trade Prospects Remain Bright, Led by High-Value Products

The USDA baseline projects strong growth in global trade of bulk and high-value agricultural commodities, together with strengthening bulk commodity prices. With U.S. agriculture facing relatively sluggish growth in domestic demand and becoming increasingly dependent on trade for growth, expanding global demand and prices support steady gains in farm output and market-based incomes.

The total value of U.S. agricultural exports rises steadily from $57.3 billion in fiscal 1997 to nearly $85 billion in 2007. U.S. agricultural import values also rise, but with exports increasing more, the net agricultural trade balance rises about $12 billion from $21.5 billion in 1997. High-value product (HVP) exports grow more rapidly than bulk commodity exports and are projected to account for about 63 percent of total U.S. agricultural exports by 2007. HVP export gains are led by exports of horticultural products and animal products. Although bulk exports are projected to grow more slowly than HVP exports, faster growth in most bulk exports compared with the 1980's is expected to be a key source of export strength during 2000-2007.

Several factors drive the favorable prospects for global farm trade. Key among these is the outlook for relatively strong economic growth across developing countries, including those in Latin America, North Africa, and the Middle East where economic performance was generally weak during much of the 1980's and early 1990's. The anticipated restoration of positive growth in the transition economies of Eastern Europe and the former Soviet Union is another key shift in the macroeconomic outlook. Compared with developed economies, consumer food demand in both the developing and transition economies should be highly responsive to improvements in income. Also fundamental to the

Baseline Design & Uses

USDA's longrun baseline provides projections for the agricultural sector through 2007. Projections cover agricultural commodities, agricultural trade, and aggregate indicators of the sector, such as farm income and food prices. The projections are a conditional longrun scenario with no shocks and are based on specific assumptions regarding the macroeconomy, agricultural policy, the weather, and international developments. The projections incorporate provisions of the Federal Agriculture Improvement and Reform Act of 1996 (1996 Farm Act) and assume that current agricultural law remains in effect through 2007.

The baseline projections are one representative scenario for the agricultural sector for the next decade. The projections are not intended to be a Departmental forecast of what the future will be. Instead, the baseline provides a description of what would be expected to happen under the 1996 Farm Act, with very specific external circumstances. Thus, the projections in the baseline are conditional on those assumptions.

Once the baseline is established, an important use of the projections is in analyzing alternative scenarios. The baseline provides a point of departure for discussion of alternative farm sector outcomes that could result under different assumptions, ranging from different macroeconomic assumptions to agricultural policy changes to weather shocks.

trade outlook are the increasingly market-oriented domestic and trade policy regimes across many developed and developing countries. These reforms—arising from multilateral, regional, and unilateral initiatives—should permit the impacts of expanding consumer demand to be transmitted into world markets.

As the 1996 Farm Act steadily increases the dependence of U.S. agriculture on market returns, the economic health of the sector will be increasingly linked to developments that affect global demand and U.S. competitiveness. Despite the solid fundamentals in the outlook, many uncertainties could alter projected gains in world trade and strengthening of world prices.

Rising Developing Country Incomes To Benefit Feed Grains . . .

Coarse grains are projected to show the fastest trade growth among bulk commodities, due to rising meat consumption and feed demand across developing regions. Trade in soybeans and meal, while projected to be slower than feed grains, will also be driven higher by expanding feed-livestock sectors in developing countries.

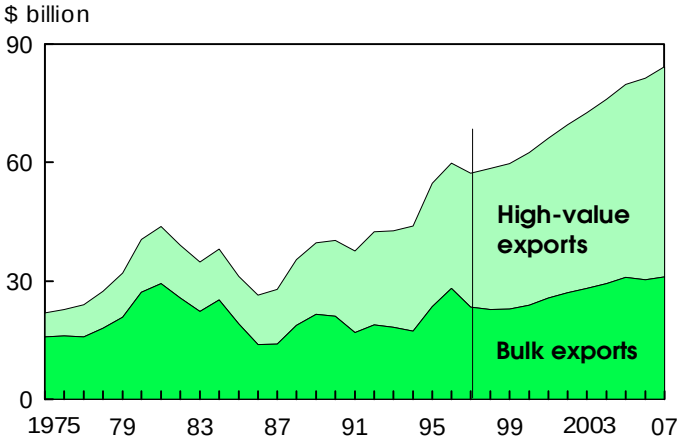
World import demand for coarse grains is projected to strengthen in the baseline, with annual growth averaging 3.4 percent through 2007. Global trade is projected to exceed in 2001 the 1980/81 record of 108 million tons and to reach over 132 million tons by 2007.

Stronger economic growth is expected to fuel higher coarse grain imports by China, Southeast Asia, North Africa, the Middle East, and Latin America. East Asian imports are projected to remain steady, as declining feed demand in Japan due to rising meat imports is roughly offset by moderate growth in feed demand in Korea and Taiwan. Taiwan's feed imports are expected to begin recovering by 2000, as hog numbers start to rebound from the 1997 foot-and-mouth disease (FMD) outbreak and as poultry production continues to expand.

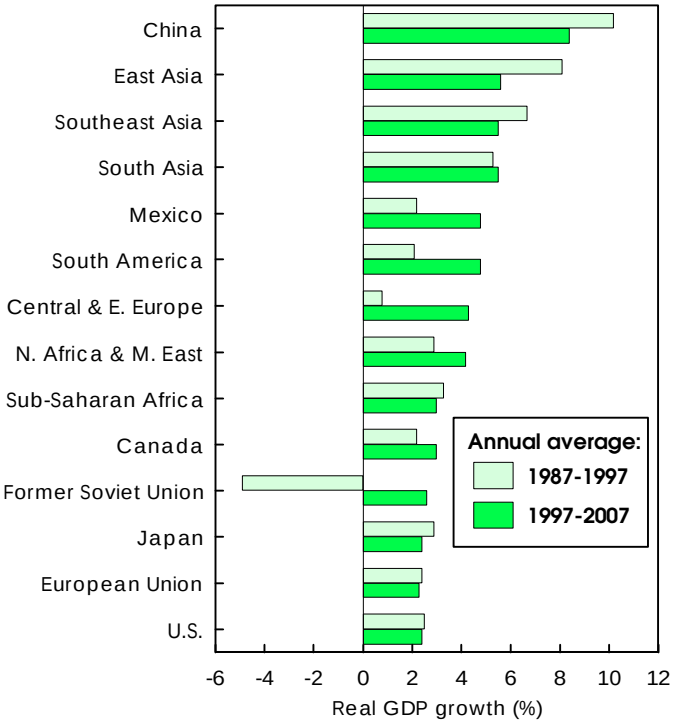
Southeast Asian feedgrain imports are expected to be slowed by the effects of the financial crisis, but show strong longer term growth. The FSU, one of the world's largest importers during the 1980's, is expected to be a small net importer of coarse grains late in the baseline, as animal numbers increase with an improving economy.

Significant growth in both corn and barley trade is expected. The largest gains in corn imports are expected to occur in China, Southeast Asia, and North Africa and the Middle East, where demand for feed for livestock is expected to continue expanding rapidly. For barley, much of the demand growth will occur in China and other malting barley markets. Growth in feed barley trade is expected to be slowed by constrained supplies and substitution of other feeds. China's coarse grain demand, however, is central to the projected growth in global trade, and the recent drop in China's imports has created additional uncertainty.

Baseline Projects Strong Growth for U.S. Agricultural Exports . . .



. . . and Global Economic Growth Is Key



1998 forecast; 1999-2007 projected.
Economic Research Service, USDA

U.S. exports of coarse grains are projected to rise in the near term, as China returns to being a net corn importer and competition from Eastern Europe declines. The U.S. share of world coarse grain trade is projected to grow to more than 66 percent, but will decline somewhat near the end of the baseline as stronger prices boost foreign production and U.S. area expansion is increasingly limited by the CRP and crop competition. Although Argentina's corn exports are projected to rise, wheat and oilseed prices are likely to limit corn expansion in

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Argentina, leaving the U.S. the major beneficiary of robust import demand for corn.

Growth in world soybean and meal trade is projected to remain strong, although somewhat slower than during the last 10 years because of weak demand growth in the FSU, Japan, and the EU. Combined trade of soybeans and meal is projected to grow about 2.1 percent annually through 2007, with growth in soybean trade projected at 1.8 percent and meal trade at 2.3 percent. Developing economies account for virtually all of the projected soybean and soybean meal import growth. Import demand is projected to expand most rapidly in China. Economic difficulties slow Southeast Asian imports during 1998 and 1999, but growth is then expected to resume. Income growth also supports robust gains in livestock and feed protein demand in South America, the Middle East, and North Africa.

The U.S. soybean market share is projected to remain about 68 percent through 2007, while the U.S. share of the soybean meal market shrinks from 19 percent to 16 percent. U.S. market shares remain lower than achieved in the 1980's because limited potential for expanding U.S. area and rising domestic feed demand—partly driven by growing meat exports—constricts U.S. exportable supplies. Brazil's stronger internal feed demand is expected to slow its meal exports, but Argentine and Indian exports are projected to show solid long-term growth.

. . . As Well As Food Grains & Oils

Wheat trade is also expected to respond to stronger income growth and continued urbanization in developing regions. World wheat trade is projected to grow about 2.5 percent annually through 2007, significantly faster than in the previous 10 years. Most growth is expected to occur in lower- and middle-income countries across Asia, Latin America, North Africa, and the Middle East. China's wheat imports, a key source of uncertainty in the outlook, are projected to rebound from recent low levels, as domestic yields fall back to trend levels, area remains limited, and demand growth outstrips production. In nonproducing areas of Asia, income gains and urbanization will continue to shift consumer preferences away from rice and other traditional staples and toward wheat-based foods and meat. In North Africa and the Middle East, rising incomes and market-oriented farm reforms, including privatization of trade, are expected to boost imports.

U.S. wheat market share is projected to grow until 2000, then decline slowly when prices become high enough for the EU to export without subsidy. In the later years of the baseline, U.S. exports are increasingly affected by slow yield growth, large acreage in the CRP, and increased competition from the EU and others. While EU exports are likely to be controlled by the Uruguay Round limits on subsidized exports during 1998-2000, the extent of EU competition after 2000 will depend on EU policies, particularly management of its land set-aside program. The baseline assumes a 10-percent set-aside to take advantage of export opportunities for wheat while minimizing risks of building excess stocks of barley. Initially, land constraints and competitive prices for other crops are expected to limit wheat exports by Argentina, Australia, and Canada, but competition by these and nontraditional exporters is expected to increase in response to strengthening prices later in the baseline.

Rice trade is projected to grow about 2 percent annually through 2007, with growth strengthening after 2000. Anticipated growth remains about the same as in the 1980's and the early 1990's. Long-grain varieties are expected to continue to dominate trade, despite anticipated gains in medium-grain (japonica) rice imports by Japan and South Korea under the Uruguay Round agreement. The U.S. rice export market share is expected to remain near the recent level of 13.5 percent through 2000, then decline to about 11 percent by 2007. Small U.S. production gains, strong domestic use, and high prices relative to competitors are expected to limit the volume of U.S. rice exports.

World vegetable oil trade is projected to grow 2.7 percent annually, less than the rates achieved in the 1980's and the early 1990's. Rising incomes and import demand in China, India, and Pakistan will be the main drivers of trade growth. Soybean oil trade is projected to slow more than total vegetable oil trade, with projected annual growth of 1.8 percent during 1997-2007. That compares with growth of about 9 percent in the early 1990's, when U.S. and EU subsidies contributed to sharp import gains in developing countries. During 1997-2007, growth in soybean oil trade will be curbed by reduced U.S. export subsidies, negligible oilseed expansion in the EU, and higher relative prices that shift demand toward competing oils, particularly palm oil. The U.S., Argentina, Brazil, and the EU continue to account for more than 90 percent of world soybean oil exports—Argentina remains the largest exporter.

World cotton trade is expected to grow 1.7 percent annually through 2007, reversing much of the decline suffered during the previous 10 years. The contraction of world cotton trade that began in the late 1980's stemmed from the sharp decline in Russian demand and the continued shift of the spinning process from traditional cotton-importing countries to cotton-producing countries.

During the baseline period, demand is expected to begin rebounding in Russia and Central and Eastern Europe, and consumption gains in Mexico, Brazil, and China are expected to outpace production and push up world trade. In addition, pest and disease problems are expected to constrain growth in Pakistan's raw cotton production and textile exports, strengthening raw cotton demand by some other textile exporters that rely on imported cotton. U.S. cotton exports are also expected to

USDA Baseline Availability

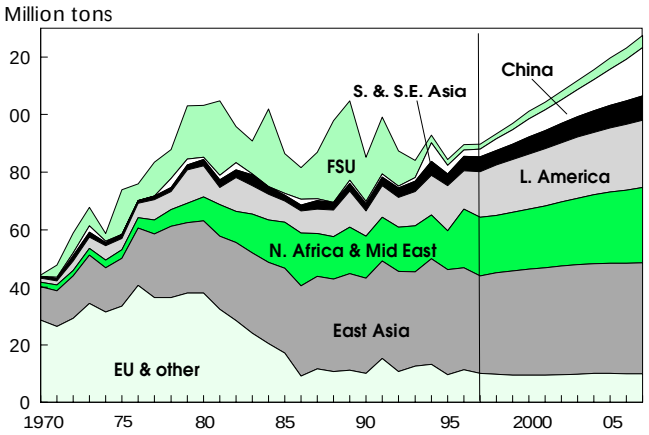
USDA's 1998 baseline projections are available electronically on the Internet at: http://www.mannlib.cornell.edu/ data-sets/baseline/94005.

An ERS briefing room for agricultural baseline projections has also been set up at: http://www.econ.ag.gov/briefing/baseline/.

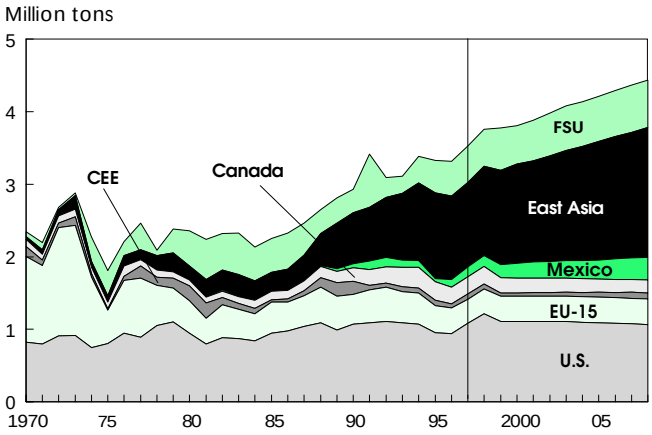
Special Article

World Grain and Meat Imports to Rise

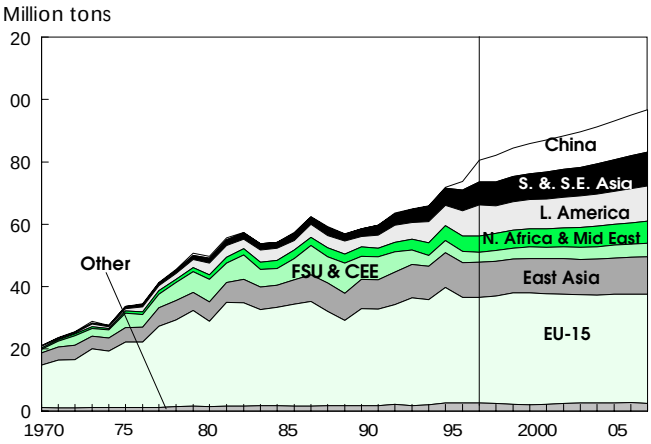
Coarse Grains



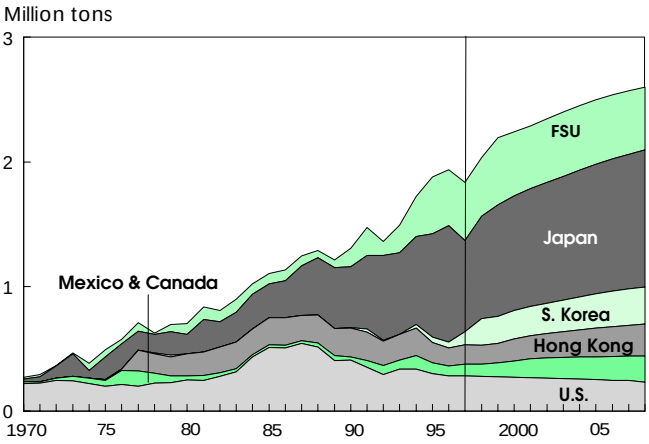
Beef



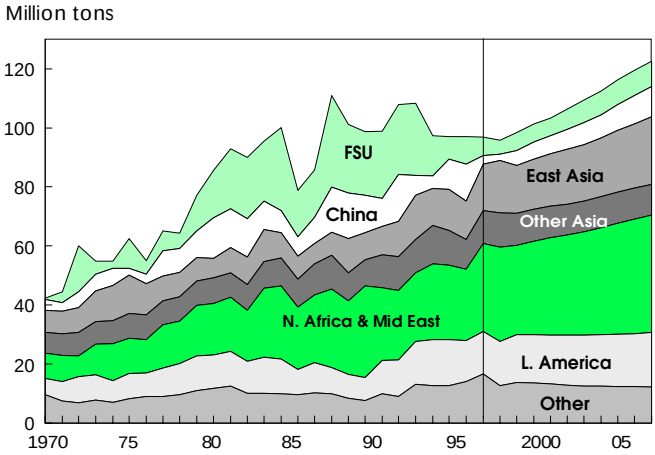
Soybeans and Meal



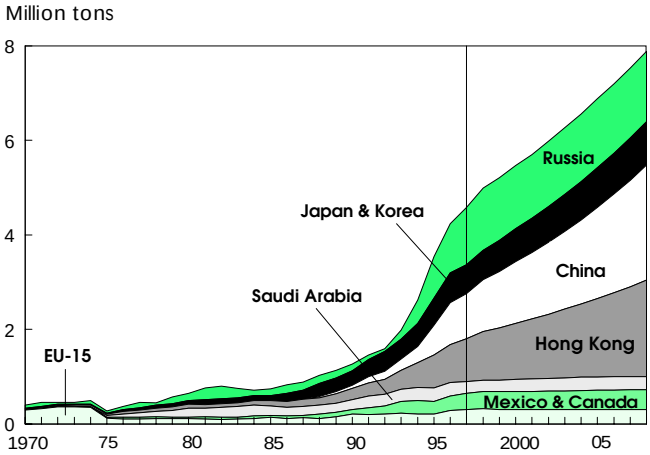
Pork



Wheat



Poultry



1998 forecast; 1999-2007 projected.

FSU = former Soviet Union; CEE = Central and Eastern Europe.

Economic Research Service, USDA

Special Article

Effects of Asia Financial Crisis on U.S. Agricultural Trade Value

The macroeconomic assumptions used for the USDA baseline were made in the fall of 1997 when the outcome of the Asian financial crisis was highly uncertain. The baseline assumed a moderate Asian crisis scenario in which the currency devaluations and related economic slowdowns were confined to Thailand, Indonesia, Malaysia, and the Philippines, not spreading to other countries in East Asia, South Asia, or China. Impacts on those four Southeast Asian countries were assumed to affect growth only through 2000, with policy reforms and international financial support leading to a recovery of economic growth in subsequent years.

A more recent analysis of the impacts of the Asian financial crisis was conducted by USDA in late December 1997, after the baseline was completed (*AO* February 1998). For this analysis, growth and exchange rate impacts in the four major Southeast Asian economies were deepened from those assumed in this baseline, and impacts were extended to Japan, Korea, Taiwan, Australia, Argentina, Brazil, and Mexico. Growth and exchange rate impacts were assumed for 1997-2000, with the crisis resolved in 3 to 4 years. Income growth was slowed for China, but no devaluation was assumed.

In addition to the moderate impacts of the Asia crisis on U.S. agricultural exports of about 1 percent annually already included in the baseline projections, the late-December assessment estimated that U.S. agricultural exports would be further reduced by 3 percent in 1998, 5 percent in 1999, and 4 percent in 2000. Annual exports in later years would reflect the degree of economic recovery in affected countries. In this worsened crisis scenario, fiscal-year 1998 impacts affect high-value product exports, such as meats and horticultural products, more than bulk commodity exports. Export reductions for bulk commodities and high-value products are about equal in later years. These estimated reductions reflect only the effects of the Asia crisis and do not include other changes in the trade outlook that occurred since the baseline analysis was conducted.

trend upward during 1998-2007, with the U.S. market share remaining near 25 percent.

Meat Trade To Sustain Growth

Rising meat demand and increased market access in East Asia and China are expected to be the key sources of sustained growth in world beef, pork, and poultry trade. Much of the growth in beef and veal import demand is projected in the Pacific Rim countries, where higher incomes and lower trade barriers, which reduce internal prices, are expected to increase demand. While economic problems associated with the Asian currency crisis may slow Asian imports in the near term, significant growth is expected in the longer term. Larger beef imports are expected by Mexico and Russia, where income growth will increase beef demand more rapidly than domestic production can respond.

The U.S., Australia, and Argentina are all projected to continue to increase beef exports through 2007, with Australia and the U.S. likely to vie for the role of leading exporter. Argentina has the potential to expand sales to new markets now that it has been recognized as free of foot-and-mouth disease (FMD) and is projected to gradually expand exports to become the fourth largest beef exporter. Cutbacks in subsidized EU exports and a reduction in beef production in New Zealand will limit export growth.

World pork trade is projected to continue to expand, driven largely by rising demand in several of the major pork importers, including Mexico, Japan, and Hong Kong. The FSU and Central and Eastern Europe are expected to have significant, although somewhat variable, influence on the world market. The U.S. will assume a dominant export role in global pork trade, increasing exports by almost 70 percent between 1998 and 2007. Robust U.S. export growth reflects a restructured U.S. pork industry with greater export orientation and internationally competitive costs. The U.S. is expected to gain market share from Taiwan, whose exports of pork are assumed to cease until 2003 in the aftermath of the FMD outbreak in 1997. EU pork exports will increase, as it continues to export unsubsidized pork over and above the Uruguay Round limits on subsidized exports.

Continued rapid growth in poultry meat trade is projected, based on anticipated gains in the largest import markets, including the FSU, China, Japan, Hong Kong, Mexico, Canada, and the Middle East. Most of the growth in world trade is expected to come from expanded shipments of relatively low-priced poultry parts, especially in emerging markets in middle- and lower-income countries. The U.S. is expected to maintain a large share of this expanding market since many of those products are less preferred in the U.S. Exports of processed products are expected to grow, but to remain a relatively small percentage of total trade.

Paul Westcott (202) 694-5335 and Rip Landes (202) 694-5275
westcott@econ.ag.gov
mlandes@econ.ag.gov AO