Food and Agriculture Organization of the United Nations

TRADE POLICY BRIEFS

TRADE & FOOD SECURITY

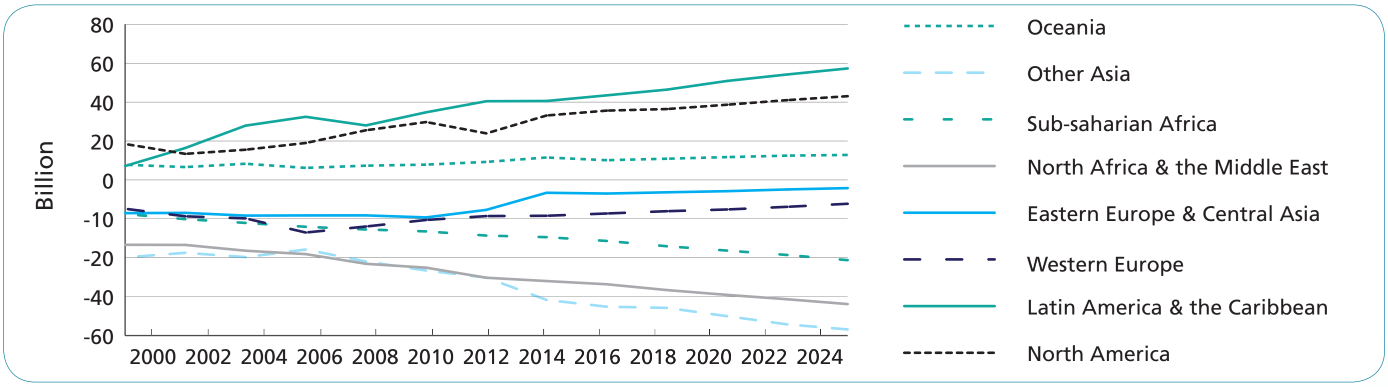
No. 18 ■ MAY 2016

How is agricultural trade evolving and what are the food security implications?

Trends in global trade

Trade in agricultural products has grown almost threefold in value over the past decade, driven by high demand, particularly in emerging economies. Among net importing regions, Asia has been the fastest growing, driven especially by China's evolution to net-importing status in many commodities. Imports into Sub-Saharan Africa and Near East and North Africa have also been growing, driven by an expansion in food demand. Among net exporting regions, Latin America leads, with production increases outstripping consumption growth in the region, whereas North America's position as the second largest exporter is more a result of stagnant consumption than that of production growth. With global demand for agricultural products expected to remain firm in future decades, trade growth is expected to continue, with some regions becoming increasing net exporters, and others increasing net importers.

CHART 1. EVOLUTION OF NET TRADE IN AGRICULTURAL PRODUCTS BY REGION, 2000 – 2024



Source: FAO and OECD. 2015. OECD-FAO Agricultural Outlook 2015- 2024. Paris, OECD Publishing

Composition of trade

Changing patterns of consumption and food use are driving changes in the composition of trade globally, with exports of agricultural commodities increasingly concentrated in a few countries and regions, while imports are more dispersed. Increases in incomes, population and urbanization in developing countries are contributing to changes in lifestyle habits and dietary structure, from a traditional cereal-based diet, to one that is more protein rich and diversified (although in many countries, there remains an excess demand for staples among the poor). As a result, global consumption tends towards value-added products, including processed and prepared food, and increased consumption of meats, vegetable oils and sugar is expected in the future. At the same time, there is a growing demand for coarse grains, driven by the demand for animal feed and biofuel production in developed countries. In aggregate, these patterns of demand for food, feed use and biofuel production are helping shape regional patterns of trade. In Africa, all major commodities are in net import status, whereas in Latin America, most major commodities are in net export status, especially coarse grains and sugar. This situation is expected to intensify over the next decade, with Africa and Asia as the main cereal importers, as depicted in Table 1. Asia, by far the largest consuming and producing region for all commodities except beef – is projected to display a more balanced trade trajectory, with most commodities remaining in net import status, but with rice and vegetable oils in slight

This brief is based on *The State of Agricultural Commodity Markets* 2015-2016

TABLE 1. PROJECTED TRADE BALANCE (VOLUME OF NET EXPORTS, THOUSAND TONNES) IN 2023

	CEREALS			HIGH VALUE COMMODITIES				
	Wheat	Rice	Coarse grains	Beef	Poultry	Vegetable oils	Sugar	Dairy
Africa	-44 987	-18 052	-22 851	- 877	-2 192	-8 775	-11 684	-4 061
Asia & Pacific	-49 963	21 083	-63 999	-2 105	-5 234	5 447	-17 342	-10 749
Europe	45 788	-1 368	30 402	-1 110	877	-2 366	-591	6 409
Latin America & Caribbean	-7 074	-1 192	21 795	3 341	3 677	8 362	38 337	-2 187
North America	46 206	2 419	53 574	42	4 710	235	-4 511	3 620
Oceania developed countries	18 329	299	4 154	2 224	57	-386	3 636	10 114

Net import status   Net export status

surplus. Over the next decade, the US, EU, and Brazil are expected to remain among the top exporters, with some exports highly concentrated in a few countries, such as sugar from Brazil, coarse grains and pork from the US, or wheat from Kazakhstan, the Russian Federation and Ukraine.

Structure of markets

The structure of trade differs significantly by commodity and by region, and is expected to continue to evolve, affected not only by market fundamentals, but also by developments in bilateral and regional trade relations, intrafirm trade and global value chains.

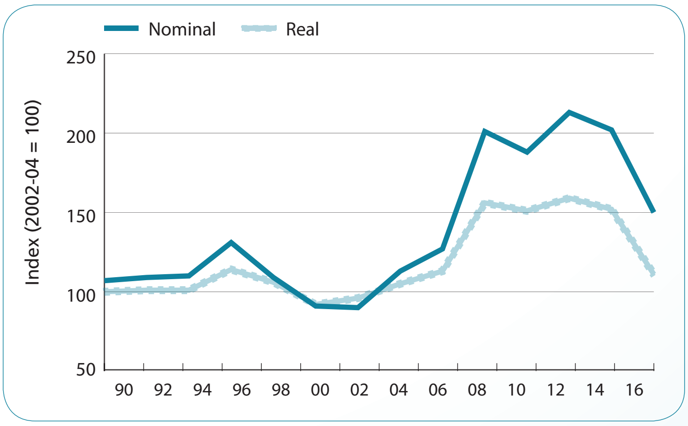
TABLE 2. THE CHANGING ARCHITECTURE OF INTERNATIONAL TRADE

Bilateral and Regional Trade Agreements (RTAs)	RTAs are accounting for an increasing share of global trade. By limiting the number of parties involved and focusing on their strategic areas of interest, they tend to establish deeper trade and economic integration provisions than other agreements. in particular, RTA partners can derive significant benefits from removing non tariff barriers, harmonizing standards, and facilitating trade, rather than reducing tariffs and other formal barriers to market access alone.
Intrafirm trade	Intrafirm trade is gaining ground with the emergence of global value chains and vertical integration. In multinational companies, internal producedures and standards may play a far greater role in determining volumes and conditions of trade transactions than government trade policy. The effects of these developents on competition in production and marketing of food products cannot be underestimated.
Global value chains (GVCs)	Global production is becoming increasingly fragmented and reorganized into complex GVCs. On the one hand, participation in GVCs allows greater competitiveness, better inclusion in trade and investment flows, upgrading towards higher value-added activities, and knowledge and technology spillovers, all of which can trigger favourable structural transformation. On the other hand, it is also observed that there is a high degree of concentration among firms both within countries and internationally, which may exclude small rural producers (who have limited access to knowledge and capital) from participating.

Food prices

Over the next ten years, real prices are expected to continue on their long-term downward trajectory. Food prices have declined from their peak level in 2011. In particular, two years of abundant supplies put further pressure on prices of cereals and oilseeds. Productivity growth – helped by lower input prices – is projected to outpace slowing demand increases. However, experience shows that such a declining trend is periodically interrupted by periods of high and volatile prices. Geopolitical and weather events are expected to exacerbate episodic food price spikes in the future, posing a major threat to food security.

CHART 2. FOOD PRICE INDEX IN NOMINAL AND REAL TERMS, 1990-2016



Source: FAO

This brief was prepared by Ishrat K. Gadhok