

Module 7

Unit: Geography and Ag Trade

Ag Trade vocabulary summary

As a result of trade, various segments of a country's economy may find themselves economically less well off than before trade. These individuals or groups will usually make their concerns known to others, including their political leaders.

If we go back and review the "Everything Depends" scenario, what might be some of the potential reactions to the events that occurred?

The beginning event is a **tariff** on imported fertilizer put in place by the Ukrainian government. Why a tariff? Perhaps the government was trying to protect the profitability of domestic fertilizer companies.

If this results in higher wheat prices in Ukraine because of the increased cost of production, who will be impacted? One group will be Ukrainian consumers because they will have to pay higher bread prices.

How will the price of fertilizer in Ukraine change if the value of the Ukrainian currency declines relative to the value of the exporting country's currency? A currency devaluation will have the same affect as an import tariff, resulting in higher fertilizer prices for Ukrainian farmers, even though the world price may not have changed. For example, if the value of the Ukrainian Hryvnia drops from one Hryvnia per U.S. Dollar to two Hryvnias per U.S. Dollar, it will take twice as many Hryvnias to purchase the Dollars needed to buy the U.S. fertilizer. So the price of imported fertilizer increases. **Currency devaluation** makes imports more expensive and exports cheaper.

If the Ukrainian wheat farmers have high fertilizer prices and low yields, they should have high wheat prices. However, if bread makers start to import wheat from other countries, it will lower the domestic wheat price. If domestic wheat farmers are facing lower yields and lower prices, they may lobby their government to stop importing wheat. The wheat farmers might push the government to use **Red-tape barriers**. These could be obstacles to importing wheat based on real or perceived threats to food safety or just routine issues such as getting permits. Recent issues in this area include Genetically Modified Organisms in the genetics, hormones and drugs used in livestock production, concern over food processing and handling methods to name a few.

How might US consumers react? If US consumers have to pay higher prices for bread because the US is exporting wheat to Ukraine, the US may implement an export tax on wheat exports in an attempt to limit wheat exports. Few developed countries use export taxes because most are usually trying to promote exports. However, developing countries have often used export taxes on food products to protect the food supply and price for domestic consumers.

Cotton is a basic input in the clothing industry. If the world has an oversupply of cotton, it will create a financial hardship for Chinese cotton farmers. How might China react to this situation? They could place an **Import Quota** on the amount of cotton coming into China. That would help raise the domestic price of cotton. The Chinese can also have an **Export Subsidy** on the export of clothing to increase exports of clothing which will increase the domestic demand for cotton. They can also ask cotton-producing countries to implement **Voluntary Export Restraint** to reduce the amount of cotton imported into China. In addition, by holding the **Exchange Rate** of their currency artificially low, they can increase exports of clothing which will increase the demand and price for domestic cotton.

In reality, countries do all of the above at certain times with various goods. The governments are reacting to the pressures placed upon them by their constituents. Various countries have formed alliances with each other to help break down these barriers and make trade easier. The **European Union** is an example. Just getting to one standardized currency reduces the cost of doing business with each other. The **North American Free Trade Agreement** is another. However, there are groups that loose as a result of the trade shifts in the production and processing of goods. These groups often become very vocally opposed to these alliances.

As more trade agreements are made and as global trade increases, the number of trade disputes appear to be increasing. The **World Trade Organization** is being called upon to help resolve these issues when they occur. They use their influence to get countries to come into compliance with trade agreements and resolve trade disputes.

Everyone talks about the need for “free trade”, but few people really want it. What we really want is “free exports” of our products and restrictions on imports from our competitors. This attitude will result in a continuation of our complex trading policies and limit the gains that results from freer global trade.