The Changing Trade Landscape in Asian Grain Markets: A U.S. Perspective

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ABSTRACT

Wheat markets on the Asian continent represent the most important destinations for U.S. wheat—both by volume and value. In addition, projected increases in population and incomes in Asian countries suggest there are significant growth opportunities for U.S. wheat exporters going forward. As Asian incomes grow, the transition from buying "wheat" to buying "quality wheat" will work in favor of U.S. producers. The key to maintaining current Asian markets, and growing in expanding markets, is developing and maintaining a stable and equitable trade environment. Although the United States is well positioned to compete in such an environment, it does face significant competition from other exporters. According to U.S. Department of Agriculture projections, the U.S. share of the world wheat trade is expected to decline over the next decade. Thus, maintaining current Asian relationships and expanding where growth opportunities exist will be key to the future of U.S. wheat exports. Any bilateral trade frictions between the United States and current or potential wheat customers could erode any competitive advantage the United States has in a more stable trade environment. The key to success, then, is a continued focus on quality and building strong, stable, and favorable relationships with U.S. customers.

Trade between the United States and Asia has grown significantly over the last decade, but it has not been without controversy and has not impacted all sectors equally. Total U.S. exports, imports, and the balance of trade for goods between the United States and Asian countries are shown in Figure 1. As shown in the graph, the balance of trade has grown increasingly negative over the last decade from a U.S. perspective. The growing trade deficit has been a major concern of the current U.S. administration and was used to help justify the imposition of tariffs on goods imported into the United States, especially from China, beginning in 2018 (1).

Much of the U.S. trade with Asian countries occurs under the umbrella of Asia-Pacific Economic Cooperation (APEC). APEC is a forum organized to facilitate economic trade and investment and regional cooperation among its 21 members.

Asian members of APEC include the People's Republic of China; Hong Kong, China; Indonesia; Japan; the Republic of Korea; Malaysia; the Philippines; Singapore; Chinese Taipei; Thailand; Vietnam; Brunei Darussalam; and Papua New Guinea. Non-Asian member countries include Australia, Canada, Chile, Mexico, New Zealand, Peru, the Russian Federation, and the United States. Together, APEC members account for about 60% of world gross domestic product (GDP), and 47% of all trade (7).

All APEC decisions are made by consensus, and commitments among the individual trading partners are voluntary. However, the Office of the U.S. Trade Representative argues that participation in APEC has led to a reduction in tariffs and other trade barriers between members over time and has led to economic growth in the region (7).

In 2018 the U.S. trade deficit with all APEC countries was about US$677 billion, an increase of 9.6% from 2017 (7). As suggested by Figure 1, the great majority of this deficit was from trade with Asian partners. (Note, the difference between the trade deficit reported with APEC countries and the trade deficit with Asian countries illustrated in Figure 1 does not fully account for the U.S. trade deficit with non-Asian APEC countries. The trade deficit with APEC Asian countries shown in Figure 1 is slightly overstated because it includes non-APEC Asian countries like India, for example.) However, the United States did run trade surpluses with three of the four non-Asian APEC countries in 2018.

Since APEC is a loosely formed consortium and decisions and commitments are not binding on individual trading partners, several member countries have entered into more substantive trade agreements with each other. For example, the United States entered into the original North American Free Trade Agreement (NAFTA) with Canada and Mexico, which was replaced by the more recent United States-Mexico-Canada Agreement (USMCA). The United States also has a separate agreement with specific APEC members, including the Republic of Korea, Australia, Chile, Peru, and Singapore; and in January 2020 signed an agreement with Japan.

During the Obama Administration, there was a concerted effort to strategically focus on liberalizing trade between the United States and Asia (7). This effort was crystalized in the signing of the Trans-Pacific Partnership (TPP) by 12 countries. (The original 12 TPP signatories included Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru,

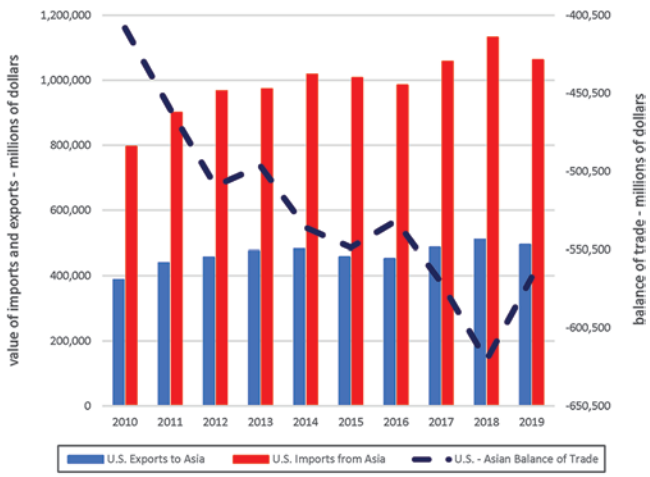

Fig. 1. Balance of goods trade between the United States and Asia—nominal dollars. (Source: U.S. Census Bureau)

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Singapore, Vietnam, and the United States.) All 12 TPP signatories were members of APEC, and together accounted for about 40% of global GDP (or 2/3 of APEC GDP) at the time of the signing. The only non-Asian APEC country not included in TPP was the Russian Federation. Several Asian countries were also excluded, including China and Indonesia.

To go into effect, the TPP agreement had to be ratified by the legislative bodies of all 12 signatories within 2 years of the initial signing. In the United States, this was put off until after the 2016 election, and it soon became clear that the agreement was not likely to be ratified by the United States since both major presidential candidates campaigned against ratification. Once sworn in, President Trump quickly directed the Office of the U.S. Trade Representative to issue a letter to the other 11 signatories withdrawing from TPP.

Most U.S. agricultural sectors favored TPP because it was expected to improve access to Asian markets and put U.S. exporters of agricultural products on even ground with export competitors from Australia and Canada (6,10). Further, there was concern that if the United States left TPP the other 11 signatories might move forward on a separate agreement, and the United States would be placed in a noncompetitive position for exporting agricultural products to Asian markets. In fact, the other 11 countries did continue negotiations, and in March 2018 signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (2).

U.S. Agriculture and Asian Trade

The general U.S. trade balance with Asia, particularly China, at least partially led to the imposition of import tariffs against most U.S. trade partners and attempts to "rebalance" trade from the U.S. perspective. However, trade in agricultural products was already a bright spot in the overall U.S. trade picture, and as a result, retaliatory tariffs from trading partners were largely focused on U.S. agricultural exports. Combined with the United States' rejection of TPP, there was significant concern regarding future trade prospects for U.S. agriculture, particularly with Asia in 2018 and 2019.

For the last several decades leading up to the 2018 trade frictions, Asian markets had been viewed as a significant growth opportunity for U.S. agriculture. The generally increasing volume of major field crop exports to Asia over the last decade is shown in Figure 2.

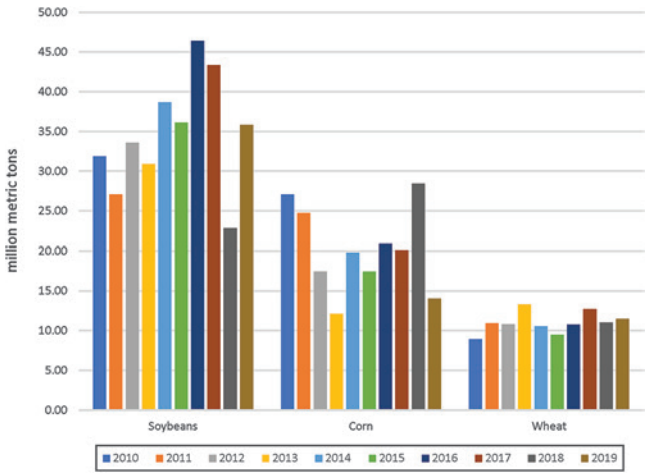

Fig. 2. Select U.S. agricultural exports to Asia. (Source: U.S. Department of Agriculture, Foreign Agricultural Service)

The expected export growth potential was based on two things: 1) Asian population growth; and 2) per capita income growth in many Asian countries. Asian and total world populations and relative growth rates since 1990 are shown in Figure 3. Over the last three decades, the total population in Asia has remained between 50 and 61% of the total world population (18).

The population growth rate on the African continent has been more than double the Asian growth rate since 1990, but it applies to a much smaller total population. Between 1990 and 2020, the human population on the African continent increased from about 12% of the total world population to just over 17% (18). Thus, while Africa is also viewed as a growth market for U.S. agricultural exports, it does not represent nearly the market opportunities afforded by the population on the Asian continent. Further, incomes in most African countries have not grown at nearly the rate exhibited by most Asian countries (Fig. 4; per capita gross domestic product is shown illustrated as a proxy for per capita income) (17). Higher incomes not only result in increased demand for commodities, but, in the case of food, allows for purchases of higher valued products.

The importance of Asian countries as trade partners for U.S. agriculture is illustrated in Figure 5. The graph shows the Asian trade share of all U.S. exports for the three largest U.S. field crops—soybeans, corn, and wheat). More than 80% of U.S. soy-

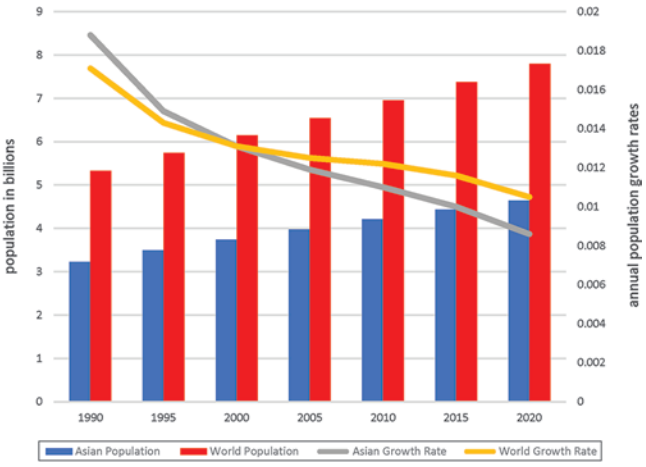

Fig. 3. World versus Asian population dynamics. (Source: World Population Review)

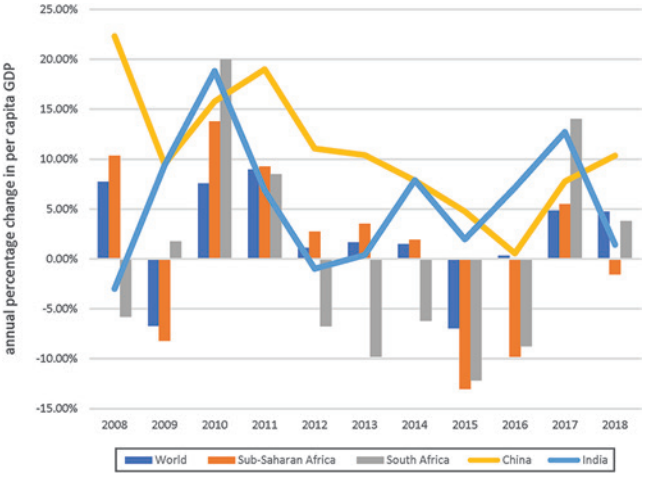

Fig. 4. Annual percentage changes in per capita gross domestic product. (Source: The World Bank)

beans are consistently exported to Asia. China is the primary buyer of U.S. soybeans, which explains the severe drop in the Asian share in 2018—this occurred as the United States and China escalated their trade war, and China not only put significant tariffs on U.S. soybeans, but also focused on sourcing soybeans from U.S. export competitors. As trade frictions began to deescalate, soybean exports from the United States to China began to rebound, and in 2019, total soybean exports to Asia represented 70% of all U.S. soybean exports.

Although not quite as dramatic, exports of both corn and wheat to Asia also represent a significant amount of total trade. U.S. corn exports to Asia have been below pre-2015 levels for the last several years, but still represent about 40% of total U.S. corn exports. Wheat exports to Asia have increased from just over 30% of total U.S. export volume to almost 50% in the last 11 years. In the 2018–2019 marketing year (wheat marketing years run from June 1 through May 31), the Philippines was the largest buyer of U.S. wheat, replacing Mexico as the USMCA trade agreement was being negotiated. Although Mexico has replaced the Philippines as the largest U.S. wheat customer since the ratification of USMCA, Asian countries remain important buyers. Through the first week of May 2020, the Philippines and Japan were the second and third largest receivers of U.S. wheat shipments, followed by South Korea, Taiwan, and Indonesia, in that order (13).

U.S. Wheat Trade and Asia

Despite trade disruptions caused by trade frictions and, more recently, the Covid-19 pandemic, Asia remains a significant growth market for U.S. wheat. However, competition for trade share in Asian markets is stiff. Unlike corn and soybeans, wheat is produced all over the world, and the U.S. share of the world wheat trade is significantly smaller than that of corn and soybeans. For example, in the May 2020 World Agricultural Supply Demand Estimates (WASDE) report, the U.S. Department of Agriculture (USDA) estimated that the U.S. share of the world wheat trade for the 2019–2020 marketing year would be about 14% (15). For soybeans and corn (the soybean and corn marketing years run from September 1 through August 31), they estimated the U.S. share of the total world trade to be 30 and 27%, respectively.

More critically, the USDA's current long-term forecasts are for total U.S. wheat exports to continue to grow through 2020, but at a slower pace than Russia, the European Union (EU), and Ukraine (Fig. 6). Thus, U.S. world market share is expected to decline over the next decade (11).

World market share has important trade and price implications for two reasons. First, the smaller the world trade share of a major export commodity, the less sensitive domestic prices are to local, regional, or even national disasters because other world producers and exporters can more easily cover the loss. For wheat that is produced globally, production problems with even a couple major exporters could have less price influence than a soybean production problem shared by both the United States and Brazil, because the United States and Brazil account for such a large share of the total world trade in soybeans.

The second reason is that if there is a political fallout between two trading partners, and the net exporter represents only a small share of the total world trade, then it is easier for the net importer to replace supply without making a major concession to the net exporter. Further, the smaller the net exporter's total world trade share, the smaller the price impact will likely be from changing suppliers. This, of course, assumes that all suppliers are delivering the same quality of the commodity, and in the case of wheat, this is not always true. Nonetheless, the combination of these two issues does increase the challenges associated with maintaining and growing U.S. wheat exports compared with commodities for which the United States enjoys a larger world market share.

The focus on future wheat trade with Asia encompasses two objectives: 1) maintain market share and trade opportunities in historically important markets where growth opportunities may be more limited; and 2) aggressively pursue markets where growth potential is significant. Both are critical, and success will be influenced by the ability to negotiate and maintain trade agreements (in the current political environment, these will likely need to be bilateral), manage exchange rate risk (as the U.S. dollar becomes stronger relative to the currencies of both export competitors and customers, U.S. exports will become less price competitive), political stability, and the ability to meet specific customer demands (quality characteristics, etc.).

In the first category of Asian trade partners are countries like Japan and South Korea. These are countries where U.S. wheat has had a significant presence for years. They also tend to buy based on quality. These two countries have consistently, over the

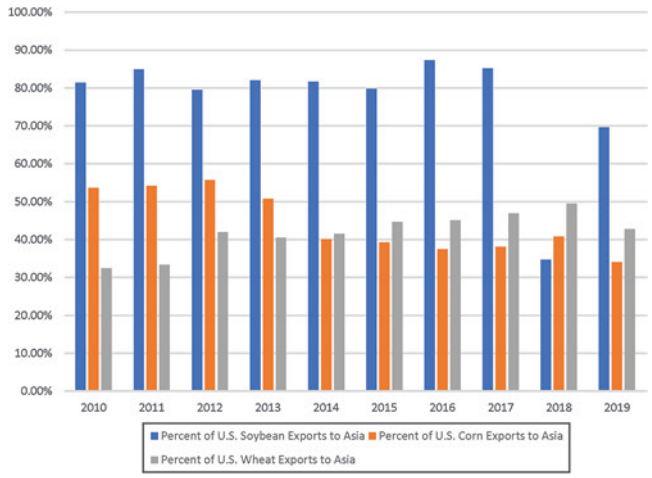

Fig. 5. Share of U.S. exports to Asian markets (calendar year). (Source: U.S. Department of Agriculture, Foreign Agricultural Service)

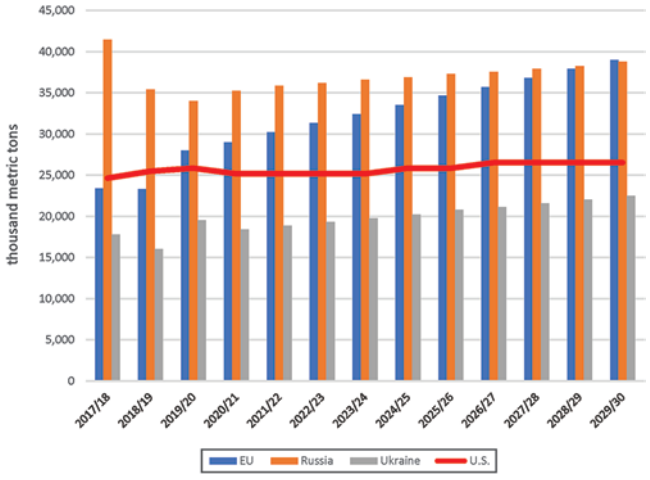

Fig. 6. Projected U.S. wheat export growth through the 2029–2030 marketing year. (Source: U.S. Department of Agriculture, Economic Research Service)

last five years, bought between 11 and 14% of total U.S. wheat exports (Fig. 7) (13).

Over the same time period, Japan and South Korea have purchased between 30 and 40% of U.S. white wheat shipments. However, unlike the share of all U.S. wheat exports going to Japan and South Korea, white wheat purchases by Japan and Korea as a percentage of total U.S. white wheat sales has trended down in recent years. This is not because these countries are buying less white wheat (Fig. 7), but because sales of U.S. white wheat are growing in other regions.

Soft white wheat is viewed as a higher quality wheat class and usually sells at a premium over most other classes. In fact, even though Mexico is usually the largest U.S. wheat buyer by volume, Japan is often the largest buyer of U.S. wheat by value, partially because of its volume of white wheat purchases. Thus, while the total percentage of white wheat shipped to Japan and South Korea is trending lower, they remain very important customers for U.S. wheat exporters.

The U.S. relationship with these two important trading partners is formalized in specific trade agreements that guarantee the United States competitive access to their markets. The U.S.-Korea Free Trade Agreement (KORUS) was implemented in March 2012 after being signed five years earlier (9).

The U.S.-Japan Free Trade Agreement was negotiated in 2019 and was critical to offsetting any competitive issues encountered accessing Japanese markets after leaving TPP and the ratification of CPTPP. The U.S.-Japan agreement essentially provides U.S. wheat exporters with the same tariff treatment extended to U.S. wheat export competitors (namely Australia and Canada) through the CPTPP agreement. This was critical in ensuring continued access to the Japanese market for U.S. wheat exporters.

Asian growth markets for U.S. wheat fall into two different subsets: those where the United States already has a significant presence, but future growth opportunities still exist, and those where the U.S. presence to date has been less significant. The first subset includes countries like the Philippines, Taiwan, and Indonesia. These are markets where U.S. wheat has had a strong historical presence but has also seen significant export growth over the last several years. Again, if white wheat purchases are used as a proxy for overall demand for quality wheat, a significant growth in purchase preferences for quality is seen (Fig. 8).

The percentage of U.S. wheat shipped to the Philippines, Taiwan, and Indonesia has grown from 18 to more than 23% of total shipments between 2014–2015 and 2018–2019 (Fig. 8). The growth in white wheat purchases is even more impressive—from about 30% in 2014–2015 to 42% in 2018–2019 (the Philippines and Japan have alternated as the largest purchasers of U.S. white wheat for the last several marketing years) (13). If these growth markets are combined with the mature markets discussed earlier, the five countries combined accounted for 40% of all U.S. wheat shipments in the 2018–2019 marketing year and 71% of total white wheat shipments.

A significant concern associated with export growth opportunities in the Philippines, Taiwan, and Indonesia is that the United States does not have any formal trade agreements guaranteeing access for U.S. agriculture with these countries. None of them are technically in CPTPP either, so they are not yet providing preferential access to the United States' largest export competitors, but a more formal free trade agreement with each of the three would be helpful in ensuring the United States can capitalize on future trade growth. There has been some discussion about pursuing trade deals, but as of late May 2020), formal negotiations had not commenced (2,4,14).

Growth markets where the United States has historically not had a significant presence, or at least an inconsistent presence, in wheat exports are represented by countries like China and Vietnam. (There are several other Asian countries, like Malaysia, that also fall in this category, but in the interest of space, the focus will be on just these two.) In the case of China, the United States has shipped significant volumes of wheat at times, but over the last five years shipments have been quite inconsistent, falling to almost nothing following the trade frictions between the United States and China in the 2018–2019 marketing year.

Sales of U.S. white wheat to China increased significantly between the 2014–2015 and 2017–2018 marketing years, even as China's total wheat stocks represented close to half the total global stocks (Fig. 9). Chinese white wheat purchases fell to close to zero in the 2018–2019 marketing year but increased significantly in 2019–2020 following the signing of the phase I agreement between the United States and China (13). This suggests that, even though China is the world's largest wheat producer, the United States still has potential to move quality wheat into China if trade relations are normalized.

Vietnam is also a market that represents opportunities for increased wheat purchases from the United States as they begin to focus more carefully on quality. One challenge that U.S. wheat

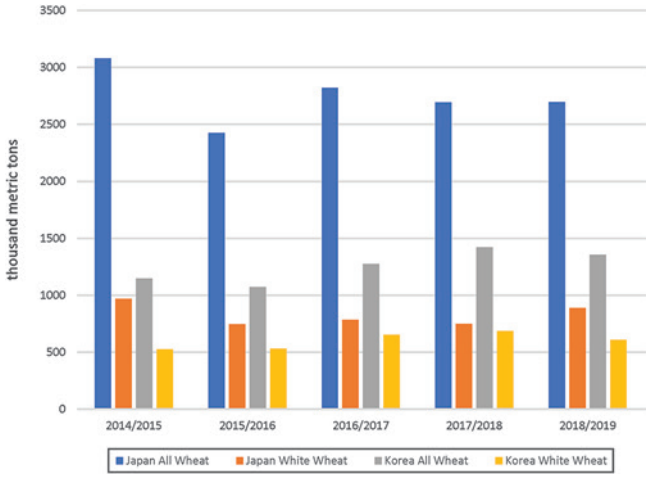

Fig. 7. U.S. wheat exports to mature Asian markets by marketing year. (Source: U.S. Department of Agriculture, Foreign Agricultural Service)

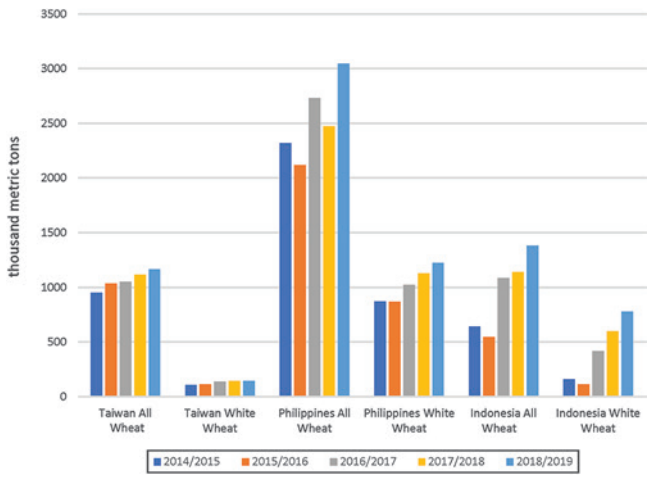

Fig. 8. U.S. wheat exports to growing Asian Markets by marketing year. (Source: U.S. Department of Agriculture, Foreign Agricultural Service)

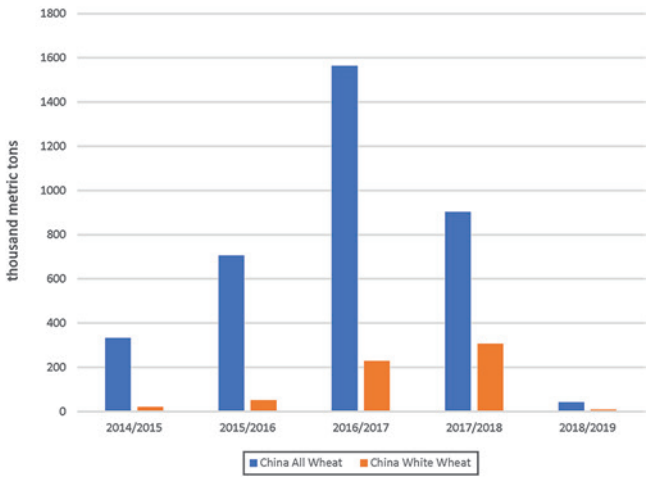

Fig. 9. U.S. wheat exports to China by marketing year. (Source: U.S. Department of Agriculture, Foreign Agricultural Service)

exports may face going into Vietnam, however, may end up being market access. Vietnam is a member of the CPTPP trade group (meaning they can give preferential treatment to other trading partners who are U.S. wheat export competitors), and the United States does not have a trade agreement with Vietnam guaranteeing market access at terms afforded to its export competitors. Similar to the Philippines, Taiwan, and Indonesia, there is interest in pursuing a bilateral trade agreement with Vietnam, but until that happens and the agreement is secured, U.S. agriculture faces the possibility of unequal access to Vietnamese consumers.

Summary

The Asian market is currently the most important U.S. market for wheat exports. The top five Asian buyers of U.S. wheat account for 40% of total U.S. offshore wheat exports, despite the fact the Mexico is usually the largest buyer of U.S. wheat by volume. Markets in Asia are represented by both large and stable buyers, like Japan and South Korea; large current buyers with significant potential for increased purchases, like the Philippines and Indonesia; and historically minor customers who also present substantial growth opportunities, like Vietnam. As incomes rise across the Asian continent, an increased focus on wheat quality will give U.S. exporters an opportunity to continue to grow market opportunities, assuming favorable trade arrangements can be negotiated and maintained with individual trading partners.

Current trade agreements with Japan and South Korea ensure competitive access to the more mature Asian markets for U.S. wheat, but negotiating similar arrangements with some of the less developed and growing Asian economies will be critical in helping the United States realize the growth potential that exists in other parts of Asia. If the United States succeeds at that, then the future of wheat produced in the United States and consumed on the Asian continent is quite bright.

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