

Staying Competitive in a Changing North American Economic and Trade Environment

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■ Introduction

Powerful and complex forces are propelling the livestock and agricultural industry toward new dimensions of management for the 21st Century. Drivers of change in the food system will be interwoven and interlinked. That is, change in one component will ripple through the industry, from strategic policymakers to managers at the farm level. Revolutionary scientific developments in bio- and information technology under the umbrella of economic and general world trade issues will direct how North American agriculture utilizes its natural resource base. Social and political activism by domestic and global consumers, as well as the voting public, will influence strategic game planning in an uncertain global competitive environment.

■ Consumer Trends

The global food market is comprised of two major market segments. Developing countries are smaller and faster growing, but represent enormous potential for food imports. The challenge is that while this market is representative of 80 percent of the world population, it has less than 20 percent of the earning power and wealth. Within the context of world trade negotiations, many of these countries will aggressively adopt biotechnology to meet their food and fiber needs. However, heavily subsidized areas, such as America and Europe, make it difficult for producers or countries providing imports to these developing countries to compete in a sustainable manner.

The other market is that of the developed countries. These regions of the globe have fewer than 20 percent of the population but nearly 80 percent of the purchasing power and wealth. These markets and their consumers have

rapidly evolving food preferences and attitudes that will continue to have major implications for world policymakers and individual producers for the next decade.

Changing lifestyles, levels and distribution of income, and an aging population of food consumers will influence demand patterns. Consumer demands for safety, convenience, nutrition, variety, and what is perceived as value, will escalate in the next decade. This will cause a fragmented marketplace to be created due to increased awareness of food safety, health, and environmental issues.

A system of passporting, traceability, or documenting the product from the genes to the retail store will be a requirement, not an option. Food system executives and policymakers will demand information on a product to ensure that a food safety issue, real or perceived, will not hinder the ability of the industry to compete.

North American trade negotiators will be challenged and driven to establish a fair, level playing field with a defined set of rules. To stay competitive, managers and the industry in general will have to develop systems that link the work in progress in biotechnology with evolving data base information systems. In an uncertain world of terrorism and biological threats, following a prescribed, well-defined path will increase the likelihood of a predictable outcome for the consumer and the public.

People that are stakeholders in the swine industry must be abreast of changes in the consumer and how they will demand their food. Food preparation time at home has decreased from two-and-one-half hours in 1930 to a projected five minutes a day in 2015. Nearly two-thirds of meals will be eaten outside the home by 2015. These aspects along with a trend of redesigning the food system to meet the age wave occurring in many of Canada and America's trading markets in the developed world are challenges facing industry leaders and world trade policymakers.

For example, the population in Europe, Japan, and United States is aging at an accelerating rate. Eighty-three percent of these regions' population over age 65 will have at least one degenerate disease, such as hypertension, digestive disorders, arthritis, or being overweight. In the future, trade policymakers will have to examine issues from a medical and food systems approach. Producers and industry experts who are abreast of these variables will be in position to capitalize on the upside potential. For example, one producer designs his pigs with input from the consumer. They are raised with certain amounts of space, natural light and ventilation, as well as specified inputs. The bottom line is the consumer is willing to pay for these attributes.

■ **Natural Resource Base and Environment**

In the future, pork will be produced where the public wants it to be located. Environmental and natural resource issues have shifted the hog industry from the Midwest to the Middle Atlantic States in America. Now more pork is being produced in remote areas such as Utah and Nevada, and offshore in Mexico and South America in some cases. From a competitive standpoint, water and public interface is creating a migrating hog industry. The public in America and Europe will continue to apply pressure as it relates to manure management and water and air quality.

Fundamental differences between growth and profit objectives and environmental concerns are requiring policymakers to enact legislation for environmental protection, which is carried over into American trade legislation. The bottom line will be a hog industry that is geographically concentrated and consolidated. To remain competitive, top producers will be required to develop a system to obtain the most out of their natural resources in a more ecological manner.

■ **Government Policy and Economic Outlook**

In theory, we are moving to a free market world. In reality, with America and Europe's large dependence on agricultural subsidies, along with intellectual and anti-trust trade sanctions, there is a long way to go.

In the agribusiness WTO trade talks with 144 nations, agriculture is only one of the chits in complex overall trade policy. With the developing world economies facing economic slowdown, there is a tendency for protectionism. The deeper the economic downturn and with increased uncertainty with war and terrorism, one can expect protectionist attitudes, with agricultural trade being the flash point.

Unfortunately, agriculture is interwoven with steel, timber, trade and military discussions. This, along with other complex agreements relating to the war on terrorism and confrontation in the Middle East, make it difficult to predict the United States' agriculture policy.

The current American administration has a zigzag strategy, which is perplexing to agriculture entities and countries that export a large portion of their products, such as Canada. For example, small concessions will be given on certain agricultural products to reduce the strain created by protectionism in steel or other products. In some cases politics overcomes economic common sense.

The bottom line is that the hog industry can expect a heavily subsidized United States agriculture industry. Sixty percent of Americans' net income in agriculture was received from government supports. On the trade side, this positions a hog producer in America with lower input costs, such as feed costs. American hog producers will also take advantage of export enhancement programs and country of origin labelling.

With a global economy that is facing a worldwide recession, trade pressures from America will continue to create uncertainty for the hog and agricultural industry in Canada. A major uncertainty will be how China behaves with the WTO rules. With China supplying more agricultural products for the Asian region, this is an uncertain variable that at best has implications to the hog industry.

The conclusions drawn from American trade policy, as it relates to agriculture, is that they do not walk the talk, which is undermining credibility and moral authority globally. If the United States does not master its politics, it can expect to be mastered by others.

■ Implications to Competitiveness

With a complex and uncertain environment, what are the strategies for producers, agribusinesses and policymakers?

First, one has to develop a strategy of managing the variables that can be controlled and managing around the uncontrollable factors. Producers have to employ a strategy of being the low cost supplier at the global level. This means asset utilization and allocation will be critical. Maximizing the return from capital and human assets will be a high priority. Cost control and efficiency, with a strategy of being in the top 25 percent of the industry benchmarks and standards, will be critical.

Normal supply and demand imbalances created by weather, technology, market supply and demand will pose challenges for policymakers, producers and managers of the industries that serve the hog industry. Political and trade issues, global market abnormalities and consumer activism will create larger deviations from the norm. Agribusiness strategy in this environment will be one of flexibility and focus, with strong capital and working capital position. Disciplined growth and expansion strategies will be a requirement.

Finally, marketing and management will be a high priority. At all levels of management, one will have to know the cost of production and be able to shift strategies depending upon challenges and the trade environment. The industry must be well informed of consumer trends and how they will influence

production and marketing strategies. Perhaps some of the largest opportunities will come in second and third generation technology as it relates to medical and food specific attribute products.

Future trade issues will be influenced by uses of products and by-products from the hog industry by an aging population in developed countries. Legislation in America will be slow and methodical concerning this era of technology and will be influenced by consumer and political activism.

■ Conclusion

If one expects the United States to play fair in world trade negotiations, then they are going to be terribly disappointed. With the high probability of an extended United States and global recession with periods of unrest and protectionism, strategies to supplement the agricultural industry will be prevalent. The hog industry in Canada and policymakers outside the United States will have to develop stopgap measures to protect their agribusiness industry. Whether it be the environment, natural resource policy, or industry concentration, manage the aspect you can manage and manage around the others.