



# Global Highlights

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## International Trade and Globalization

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### Shifting protectionism in Agriculture

- Food staples such as corn, wheat, soy oil, and more recently, rice are the latest newcomers to the commodity price boom. After a long period of low prices, these commodities have matched the price gains of oil and metals. In addition to booming demand in fast developing Asia, this boom has received support from competition for corn and soy from the biofuels industry, as well as a severe drought in Australia and other key exporting regions.
- What is novel in this case is that governments have reacted strongly to secure ample supplies of food for their domestic markets, severely damaging international trade in the process.
- In food importing countries, such as Mexico, Indonesia, Bangladesh or Senegal, among several others, where prices have risen at a time of growing scarcity, there have been street protests raising fears of social unrest.
- During the last few months the trend has generalized, following successive spikes in specific commodity prices. When wheat prices jumped due to failed crop forecasts for Australia, the US and other producers, Ukraine, Russia, and other minor producers banned exports of wheat. Even though wheat inventories are at their lowest levels in decades, there should be enough supplies to avoid shortages, but prices will remain higher than justified by fundamentals, due to this new protectionist trend.
- The latest round of protectionism has hit the rice market. After market prices began to rise, and the Philippines tried to secure supplies from Vietnam, panic spread all over, with Egypt, Vietnam, India, Indonesia and Cambodia banning or limiting exports of rice. If they are enforced, these restrictions will affect 30% of world exports of rice, raising the ghost of shortages and famine in many poor countries.
- Recent [press reports](#), as well as a recent article in [The Economist](#) are denouncing this new form of protectionism as a severe blow to international trade, as well as a harbinger of political turmoil.
- Just to underscore the latest point, it is worth recalling the recent plea by the [World Food Programme](#) for donors to come up with additional resources to cover a USD 500 million budget shortfall due to higher food prices.
- This dramatic reversal of agricultural protection, from farmers to consumers, and from developed to developing countries, poses a severe threat to international trade as importing countries take defensive action to secure supplies, pushing prices further up, even though the [latest FAO report](#) forecasts a significant increase in cereals production in the coming campaign. Preliminary estimates of planted areas in the US, just published by the [USDA](#) have brought some relief to soy and wheat markets, at the expense of corn.
- The WTO, the US government, the European Commission and other leading institutions have been absent from the debate. If they do not react by providing some leadership out of this cycle of protectionism and fear, the problem will escalate, with severe consequences for inflation and political stability in the developing world.