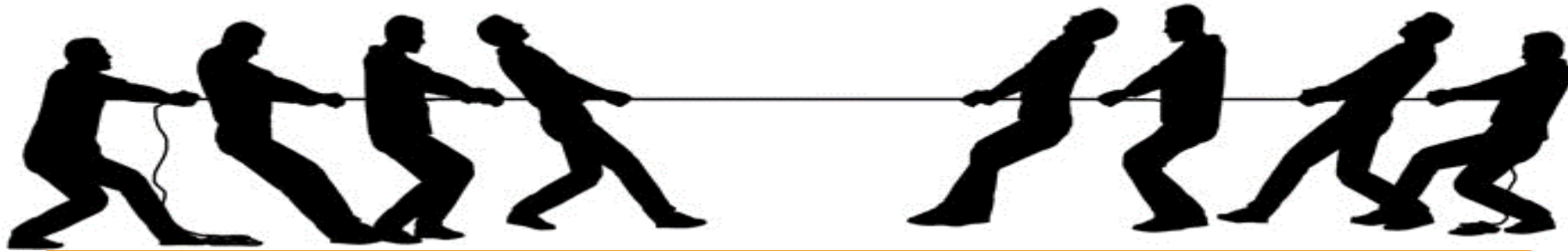


Globalization to overcome Protectionism in Global Trade



Presentation at Palm Oil Trade Fair & Seminar, Kuala Lumpur, Malaysia on 28th Aug. 2018

Presentation By:

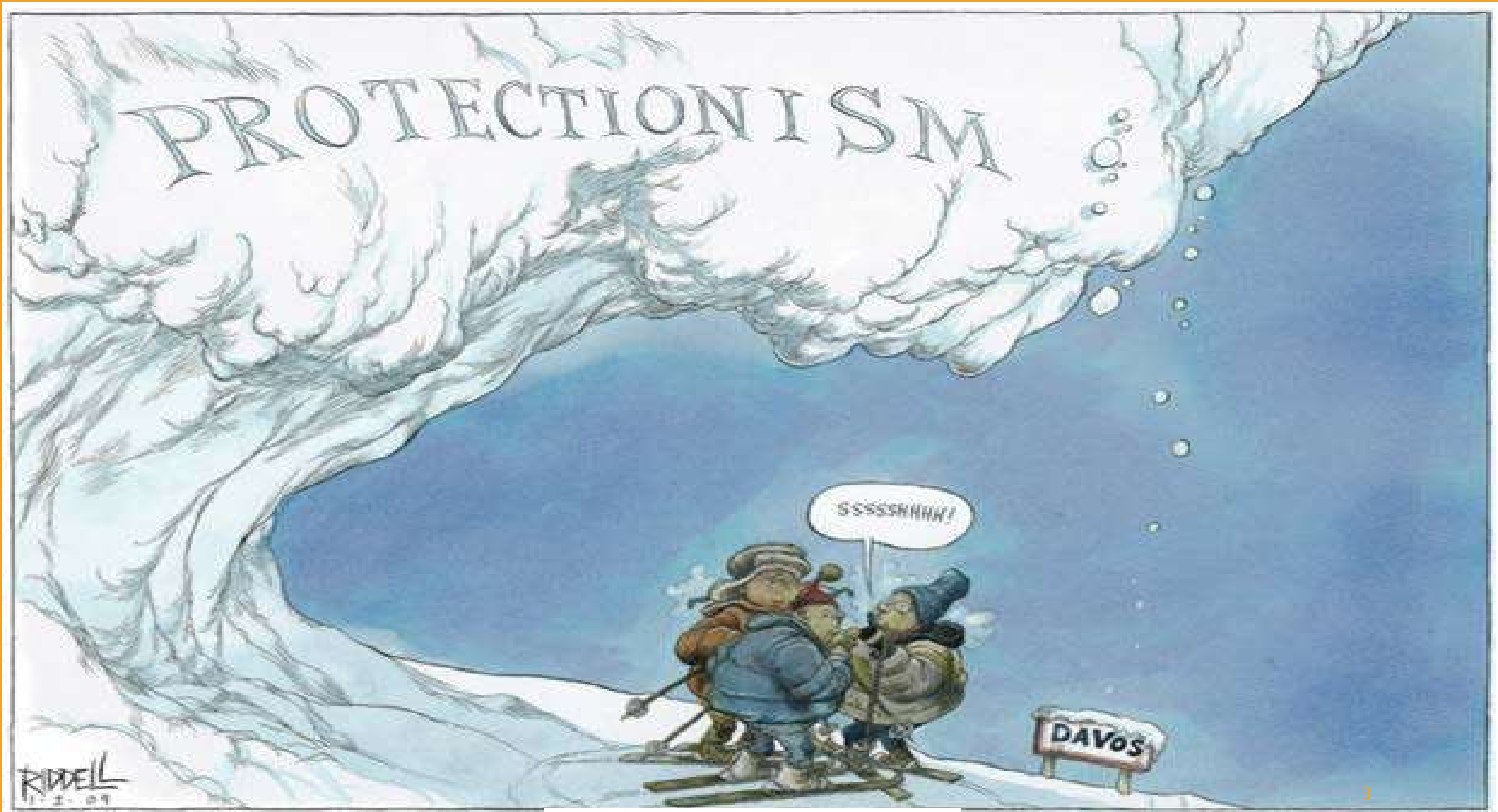
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RIDDELL
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Globalization vs. Protectionism: Search for Equilibrium

- Central to Smith Adams thinking in The Wealth of Nations (1776) was the notion of equilibrium: The economy would reach a balance in which buyers and sellers, workers and firms would have no incentive to change their economic behaviour (i.e. Quantity supplied or demanded) in the light of the set of prices and wages that would be grounded out in the market by the pursuit of individuals' self interests".
- "The proposition that resources seek their most profitable uses, so that in equilibrium the rate of return to a resource in various uses will be equal", the Nobel Laureate George Stigler once wrote, is still the most important substantive proposition in all of economies. (Stigler. 1976 p1201)

Globalization vs. Protectionism: The Role of WTO

According to WTO Website:

- The World Trade Organization (WTO) (created in 1995) is the only international organization dealing with the global rules of trade between nations.
- Its main function is to ensure that trade flows as smoothly, predictably and freely as possible.
- The result is assurance. (?) Consumers and producers know that they can enjoy secure supplies and greater choice of the finished products, components, raw materials and services that they use.
- Producers and exporters know that foreign markets will remain open to them. (?) The result is also a more prosperous, peaceful and accountable economic world.

In Chess Game – Offence & Defence are Integral part

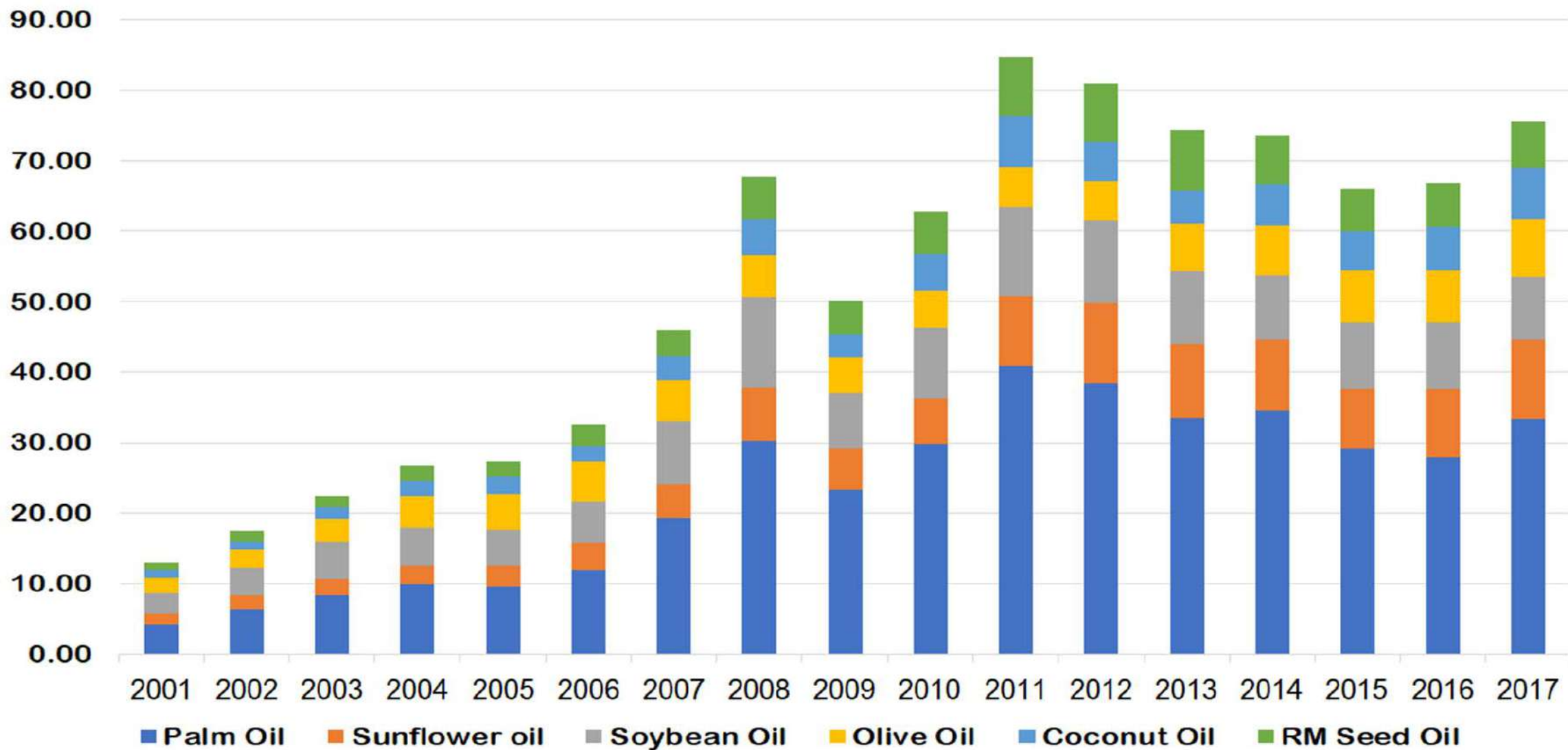
- The world has become more connected on multiple levels, especially economically. **Governments are motivated to limit and alter market outcomes for political or social ends.**
- While governments can limit the rise in prices of some products, they cannot control how much people want to buy or how much firms are willing to sell.
- The laws of demand and supply still hold. Trade policy is an example where regulations can redirect economic forces, but it cannot stop them from manifesting themselves elsewhere.
- **Globalization influence protectionism.**

Protectionism: An Indirect Subsidy from Consumers to Producers

- When a government legislates policies to reduce or block international trade it is engaging in protectionism. Protectionist policies often seek to shield domestic producers and domestic workers from foreign competition.
- Protectionism takes three main forms: tariffs, import quotas, and nontariff barriers.
- Now the big question is : **Will protectionism continue?**

Case of Edible oil sector

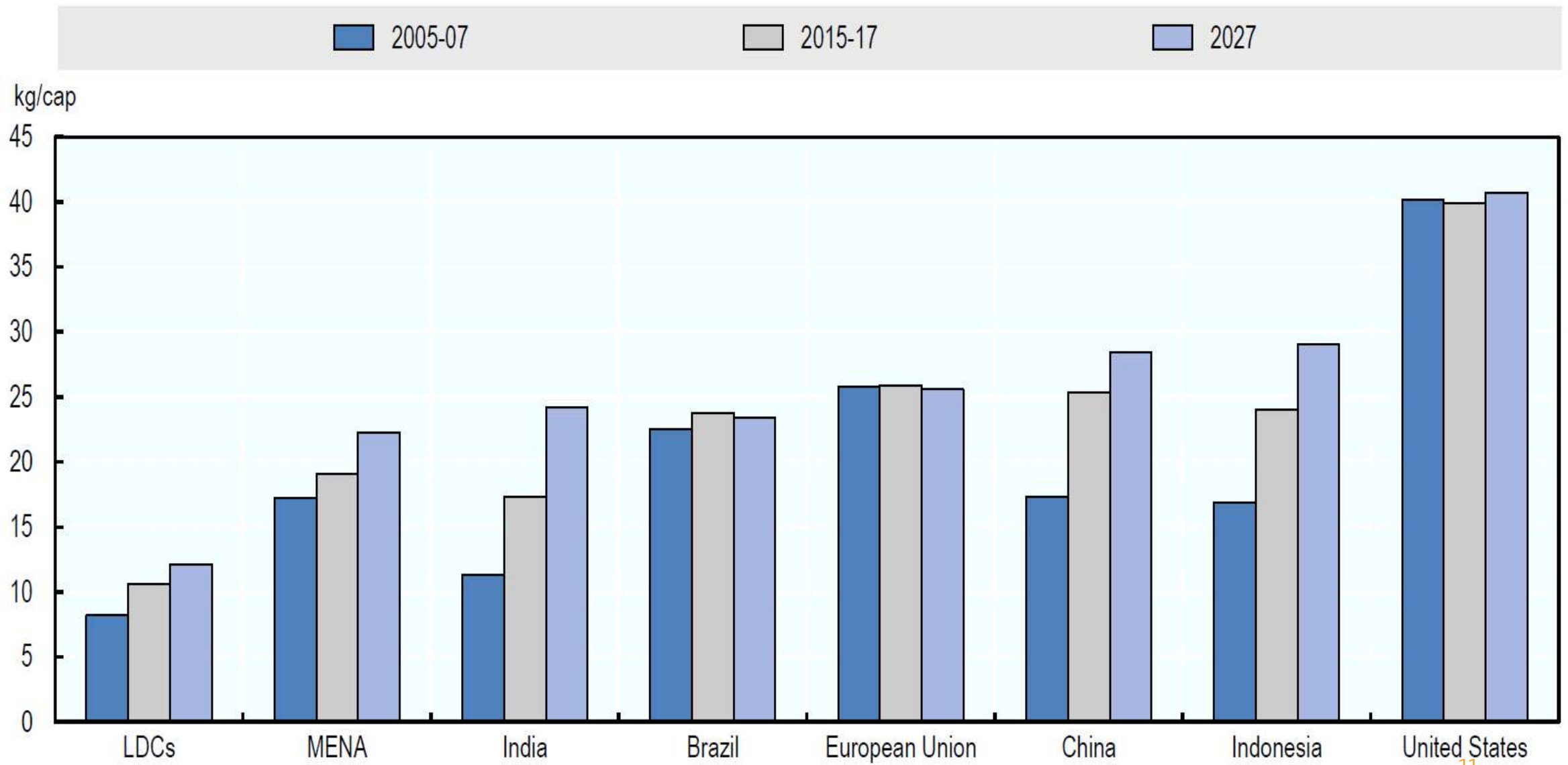
Global Edible Oil Trade



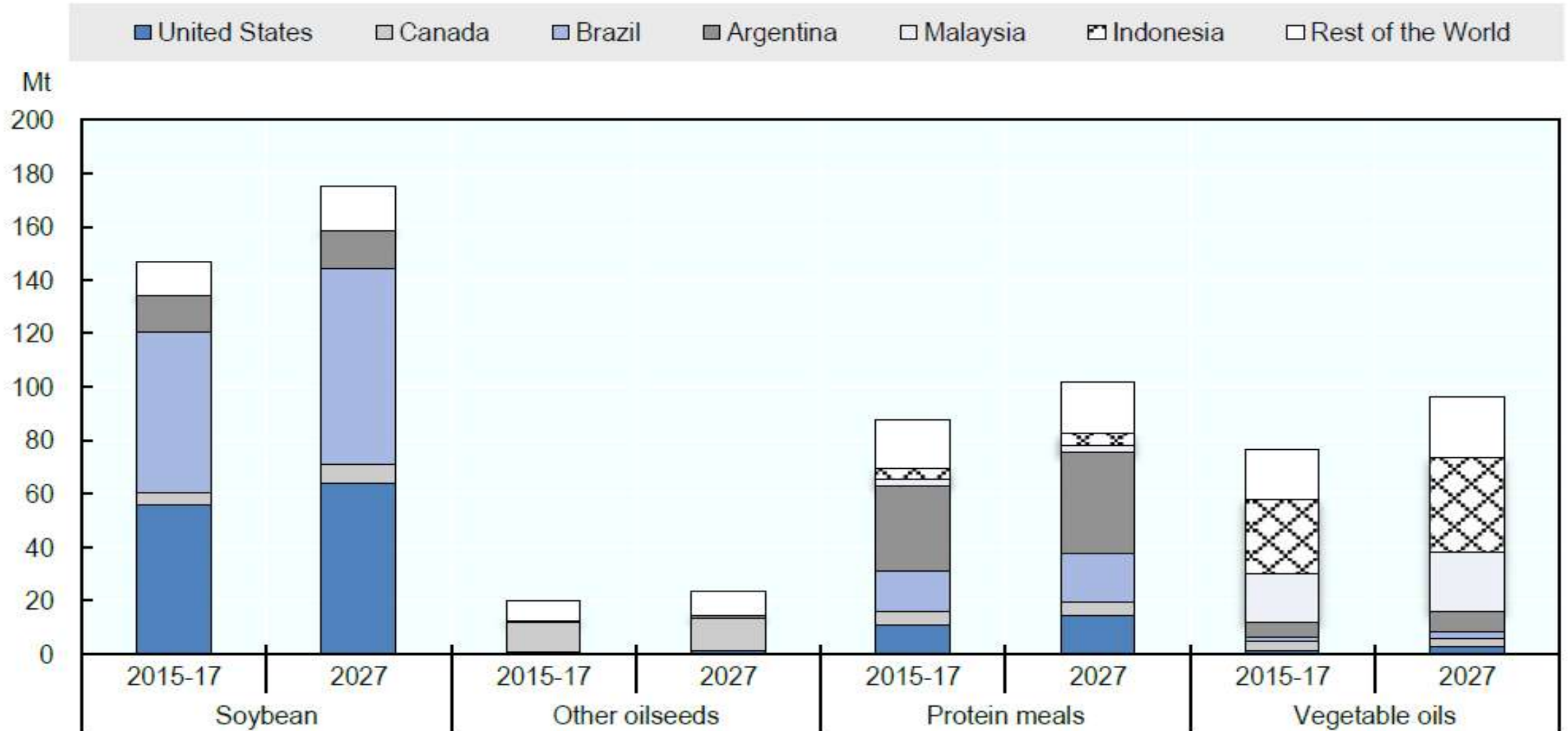
Whether Subsidies Support Globalisation or Protectionism?

- The federal government spends **more than \$20 billion a year on subsidies for farm businesses**. About 39 percent of the nation's 2.1 million farms receive subsidies, with the lion's share of the handouts going to the largest producers of **corn, soybeans, wheat, cotton, and rice**.
- The government protects farmers against fluctuations in prices, revenues, and yields. It subsidizes their conservation efforts, insurance coverage, marketing, export sales, research, and other activities. Federal aid for crop farmers is deep and comprehensive.
- However, agriculture is no riskier than many other industries, and it does not need an array of federal subsidies. **Farm subsidies are costly to taxpayers, but they also harm the economy and the environment. Subsidies discourage farmers from innovating, cutting costs, diversifying their land use, and taking other actions needed to prosper in the competitive economy.**

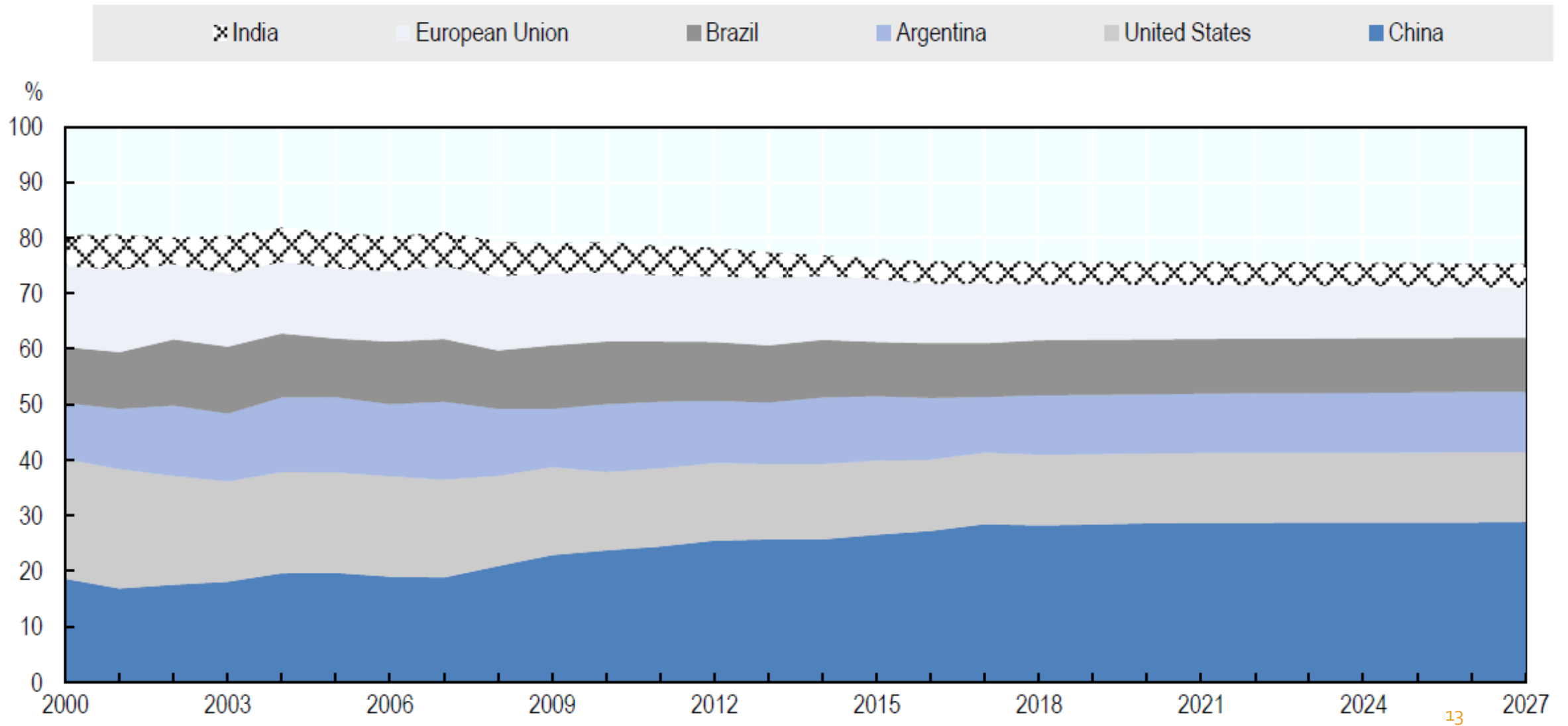
Per capita food availability of vegetable oil in selected countries



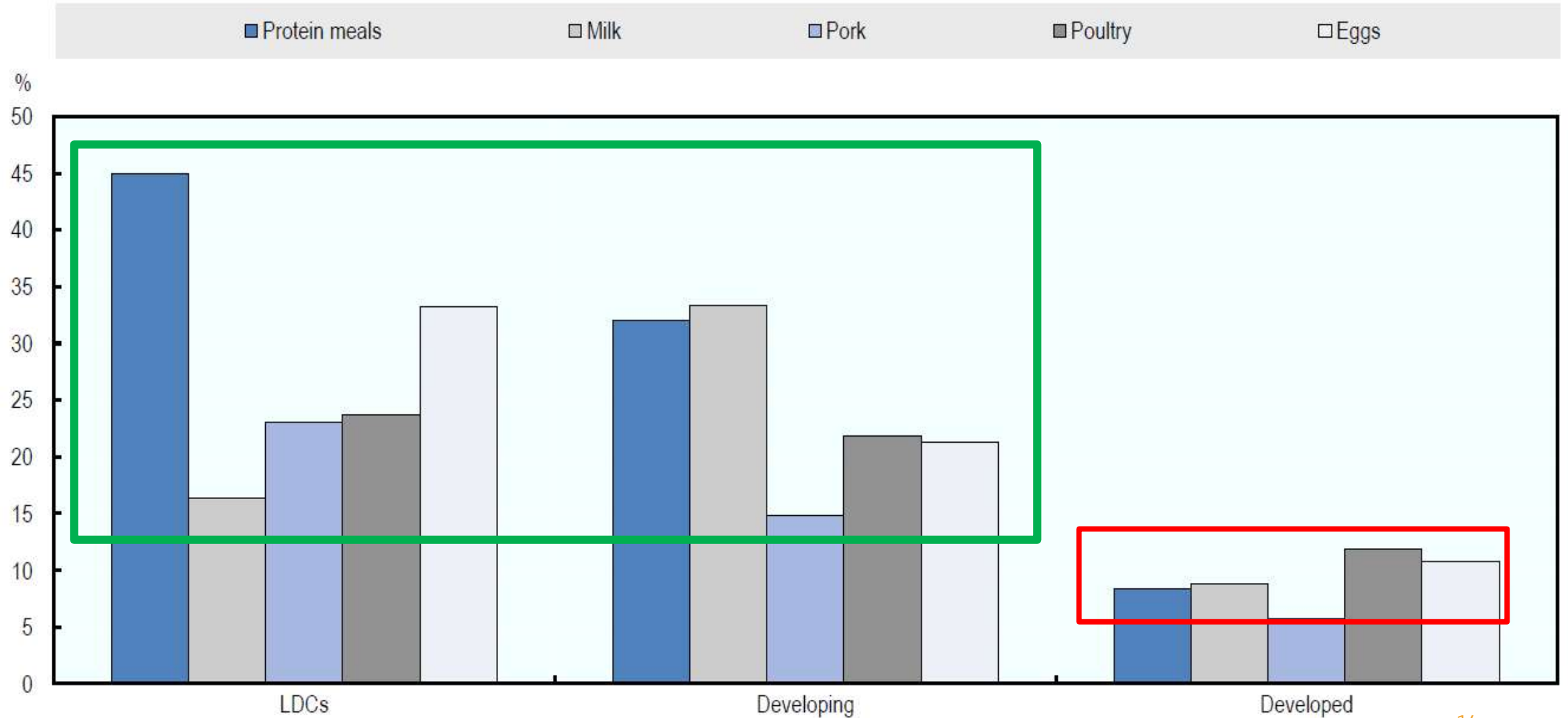
Oilseed Production in next 10 years



Share in global oilseed crush for leading regions



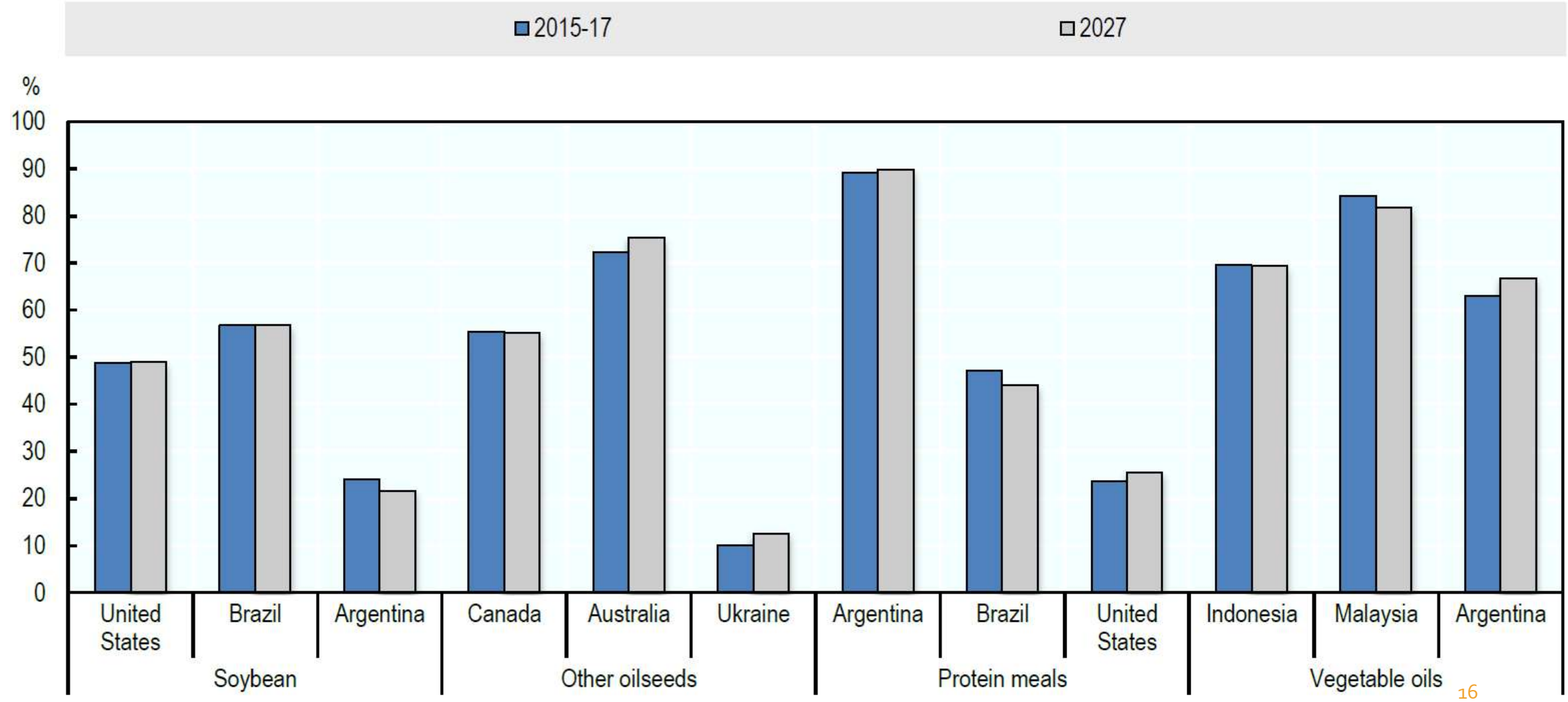
Growth in protein meal consumption & animal production



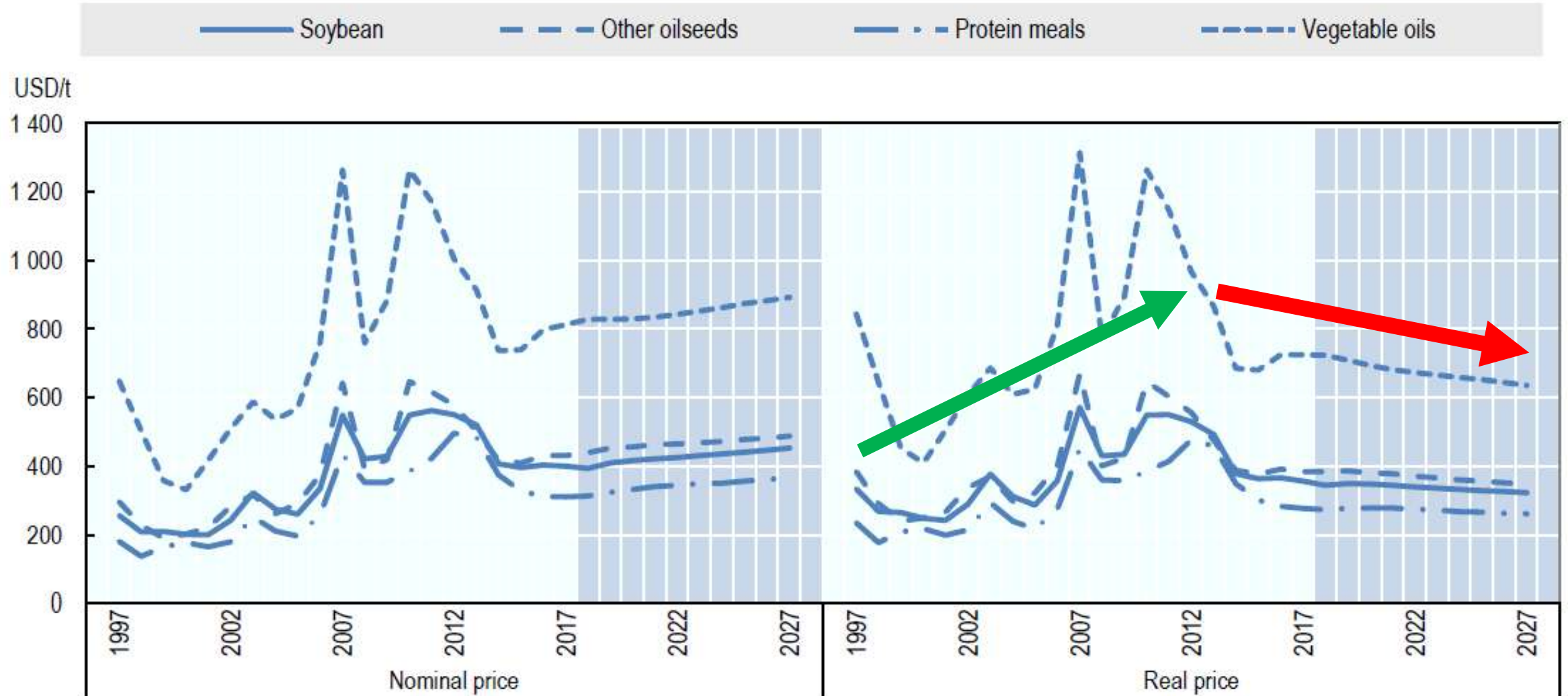
Projected Oil meal Market

- As the global expansion of meat production is projected to be concentrated in the main oilseed processing countries, domestic use of protein meal will increase and trade will only expand slightly in the coming decade, resulting in a declining share of trade in world production.
- The expected growth in world trade is around 1.5% p.a. over the projection period, down from 3.6% p.a. during last decade.

Share of **exports** in total production of oilseeds and oilseed products for the top three exporting countries



Projected World Oilseed Prices



Projected Trade Dynamics for next 10 years

- Vegetable oil exports, which amount to 41% of global vegetable oil production, continue to be dominated by a few players. **Indonesia and Malaysia will continue to account for almost two-thirds of total vegetable oil exports during the coming decade.** Argentina is the third largest exporter reaching about 7.9% of the world vegetable oil exports in 2027.
- In all three countries, exports account for more than two-thirds of the domestic production of vegetable oil. However, this share is projected to contract slightly in Indonesia and Malaysia as domestic food consumption plus biofuel and oleochemical consumption is expected to grow more than exports.
- **India is expected to continue its strong growth in imports at 4.7% p.a., reaching 26 Mt in 2027, or about 27% of world vegetable oil imports.**

Demand Projections by author based on various recommended consumption parameters (in million tons)

Category	Production In 2015 (Estimated.)	Demand By 2030 (Projected)	Required Growth in production per year (in Million tons)
Pulses	17.2	40.0	1.52
Coarse Cereals	41.7	102.0	4.02
Wheat	88.9	95.0	0.41
Rice	104.8	156.0	3.41
Oilseeds	26.7	70.0	2.89
Milk	146.3	182.0	2.38
Fish	10.1	16.0	0.39
Egg	39.2	57.0	1.19
Meat	6.0	15.0	0.60
Fruits	86.0	110.0	1.60
Vegetables	167.0	180.0	0.87
Tea	0.9	1.1	0.01
Sugar	25.0	33.0	0.53
Total food Demand	759.8	1057.1	19.82

Please note: Demand for many other items which make part of food system is yet to be estimated.

Source: The POLITIECONOMY, Int'l Research Journal of Political Economy, Volume 3, Issue 1, September 2016, Page 135

Consumer Behaviour and Trade

- Consumer concerns regarding soybeans and palm oil production stem, respectively, from the high share of soybean production derived from genetically modified seeds and the expansion of oil palm plantations into rain forests.
- Certification schemes, labelling, and environmental legislation might curb area expansion in key palm oil producing countries and purchases by major importers, which would eventually affect supply growth.
- These concerns present specific constraints to the further expansion of oil palm plantations and their exports for Malaysia and Indonesia.

What is expected over next 10 years?

- In nominal terms, all oilseeds and oilseed product prices are projected to increase slightly over the outlook period.
- Due to saturated per capita food demand, stagnation in the biodiesel sector and ongoing livestock intensification in many emerging economies, vegetable oil prices will decline at a faster rate than protein meal prices in real terms over the outlook period.
- Prices for soybeans and other oilseeds are also projected to decline in real terms. Nevertheless, volatility should be expected due to market uncertainties.

Drivers for Globalization

- Free trade is supposed to reduce barriers such as tariffs, value added taxes, subsidies, and other barriers between nations..
- Globalization represents free trade which promotes global economic growth; creates jobs, makes companies more competitive, and lowers prices for consumers.
- Furthermore, the sharing of technology with developing nations will help them progress. True for small countries but stealing our technologies and IP have become a problem with larger competitors.

Drivers of Protectionism

- In the case for protectionism, if a country is trying to grow strong in a new industry, tariffs will protect it from foreign competitors. That gives the new industry's companies time to develop their own competitive advantages. However, domestic industries and markets can only grow so much until they must embark on global trade, otherwise they won't be able to meet growing supply and demand.
- Protectionism does temporarily creates jobs for domestic workers. The protection of tariffs, quotas or subsidies allows domestic companies to hire locally, but again, if a company in a protectionist state wants to expand, they won't be able to.
- In the long term, trade protectionism weakens the industry. Without competition, companies within the industry have no need to innovate. Eventually, the domestic product will decline in quality. It will be lower quality and more expensive than what foreign competitors produce.
- Political class do not consider these factors, but they focus on immediate problem in hand for political considerations i.e. employment and income to domestic farmers.
- The Washington Post story says "the problem is that the big G20 countries added more than **1,200 restrictive export and import measures** since 2008.

The Way Forward – Responsible Globalization

- Edible oil trade will seed very volatile situation in coming years.
- Prices will remain under pressure unless otherwise there is any natural calamity.
- Political consideration will drive the edible oil trade in coming years because production technology and economic principles have played their role effectively.
- Assist the countries and companies in creating new markets by promoting consumption.
- There should be regular communication with all stakeholders. **Surprises or damages due to delayed response encourage political response in economic matters.**

**Globalization is not a natural human behaviour,
but protectionism is.**



**Align your commercial interest in such a way that both
sides can have win-win situation.**

Can we jointly do something meaningful together...

Think about it.

Thank you very much for giving me this opportunity.

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