

Brazil seen beating us in soybean trade as china buys essay sample

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The article titled “ Brazil Seen Beating US in Soybean Trade as China Buys” discusses the rising production of soybeans in Brazil. The US is currently the largest grower of the product and therefore holds a comparative advantage in trade amongst nations. Rising supply from Brazil will create competition for the business of the largest demand which is held in China. “ Production in Brazil climbed 53 percent in the past decade, compared with 7 percent in the US” (Javier, Chanjaroean, 2012). In 2012-2013, Brazil is said to produce 81 million tons of soybean as compared to 77. 84 million tons in the US which portrays Brazil’s comparative advantage (Javier, Chanjaroean, 2012). China has imported 59. 2 tons of soybean in the year ended September 30th of which, 45 percent were produced in Brazil and 39 percent were from the US. China utilizes soybeans to create meal for livestock and fish, and to produce cooking oil. It is clear that the US is losing its competitive edge on the production and distribution of soybeans mainly because it no longer possesses the comparative advantage in production. This analysis will discuss what enables a country to rise above its competition via the creation of comparative advantage in trade.

Comparative advantage is the “ theory that countries should specialize in the production of goods and services they can produce most efficiently” (Hill, McKaig, pg. 170). Many countries are able to produce goods better than others due to factor endowments which are brought out in the Heckscher-Ohlin Theory and in Porter’s Diamond. Factor endowments are the extent to which a country is endowed with resources such as land, labour and capital (Hill, McKaig, pg. 177). Costs are lowered if the resource is more abundant. With the case in Brazil, an increase in production due to more land available

allowed for the increase in exports to China. This gave Brazil the competitive edge over the US who experienced a shortage in production of soybean due to drought. "There's no more room in the US" said Junqueira, head of trade commodity finance in Sao Paulo, in an interview. It is clear that the US no longer enjoys the comparative advantage that they once had. Brazil has not even begun to expand into the Amazon forest which shows the vast amount of available land for crops.

Another entity that facilitates the creation of a comparative advantage would be economies of scale. As described by Hill and McKaig, "economies of scale are unit cost reductions associated with a large scale of output" (Hill, McKaig, pg. 181). It states that "if international trade results in a country specializing in the production of a certain good, and if there are economies of scale in producing that good, then as output of that good expands, unit costs will fall" (Hill, McKaig, pg. 181). This was brought out in the New Trade Theory in the 1970s. Since Brazil produces soybean by the millions of tons, it is apparent that large amounts of production are creating economies of scale which helps Brazil once again gain the comparative advantage over the United States.

When countries are benefitted with certain comparative advantages, they are often guaranteed the domination of the international trade market. These trade advantages are spawned from many variables. A couple of these variables are factor endowments, which allow for the production of the good to take place, and economies of scale, which utilize these factor endowments to produce immeasurable amounts of product. Both characteristics aid

countries to overcome competition and to maintain a constant growth in international trade.

References

Hill, C., McKaig, T. (2012). *Global Business Today*. (3rd Canadian Edition). Toronto: McGraw- Hill Ryerson Limited.

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