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### Views and Perspectives from Cyberville

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The winter chill is descending out of the north as the days get shorter. Many of you are putting the final touches on harvest and getting your livestock facilities winterized. In this kickoff article for the farm management newsletter series, I am writing from “Cyberville” as my air and auto travel has come to a screeching halt since mid-March due to the COVID-19 pandemic. However, the increased use of technology has created opportunities to engage with individuals throughout North America and around the world. Let's examine some of the elements that will impact our businesses, family, and personal lives in 2021. In later editions of the newsletters, we will discuss the nuts and bolts of operating a business during a pandemic and beyond.

The term “glocal” will be critical for business management in the decade of the 2020s. This means to think globally while filtering information to the reality of your business or personal life. Any black swan event creates disruption and uncertainty for some while others see opportunity. Expect to see the acceleration of deglobalization driven by world governments, political agendas, businesses, and consumers.

A trade paradigm shift, driven by China’s dual circulation strategy over the next five-years, will be very prominent. In Thomas Friedman’s book *The World is Flat*, he discusses that the competitive playing field between industrial and emerging countries is leveling. Moving forward, China will play an increasing role in global trade in an attempt to become the world’s leading economic and military power. China’s dual circulation strategy first focuses on more consumption by its population in the consumer goods and service industries, which is about \$4.5 trillion of its \$14 trillion economy. China's next goal in the dual circulation strategy is to become the dominant player in the Asian region. By 2050, four of seven people in the world with increased buying power will live in the Asian region. Overall, global trade will become more regional, as evidenced by the creation of the Regional Comprehensive Economic Partnership, or RCEP, the recent Asian regional trade alliance which includes China. This shift will result in more intense competition for the U.S. agriculture industry where one in five dollars is a result of agricultural exports.



Next, an evaluation and analysis of supply and marketing chains will be on political, consumer, and societal agendas. The balance among consolidation, concentration, and regionalized or local market supply chains will be strategic points for any agricultural business. Will you have a market for your products and suppliers for your inputs? What are plans A, B, C, and D when you analyze your cash flows and profits with these considerations?

Agriculture trade agreements will be intertwined with other industry segments such as technology and manufacturing, which will create uncertainty that leads to increased economic volatility. China's Belt and Road Initiative in their fourteenth five-year plan will have more emphasis on medical innovation to gain influence in strategic regions of the world.

More net farm income is being generated through government support payments. In the United States, \$36 to \$50 billion of net farm income is a result of government support payments. Globally, approximately \$2 billion a day in government payments are made to agricultural producers. Moving forward, the key is to have gradual changes in the amount of government payments rather than a rapid change, which would wreak havoc on cash flows and balance sheets of producers. Over the next two years it will be interesting to observe how other segments of the economy, both in the U.S. and abroad, compete for reduced government support payments. The duration and amount of the payments could influence the U.S. agriculture industry's competitiveness throughout the remainder of the decade. Another unintended consequence of government supports will be higher local, state, and federal taxes. There could even be the possibility of a wealth tax, which would put U.S. agriculture and its large land equity base in the crosshairs.

Expect to observe a disjointed economic recovery in the U.S. and abroad. Some countries and segments of the economy will observe a V-shaped recovery, such as China and parts of Southeast Asia. Others may observe an economy that is 50 to 75 percent of pre-pandemic levels. COVID-19 has really impacted industries such as the airlines, hotels, and sporting and entertainment complexes. In addition, some sectors of the economy will grow to 125 to 150 percent of pre-pandemic levels. A prime example is Amazon and video conferencing technology delivery platforms such as Zoom, GoToMeeting, and Webex. The linkage and alignment of various segments of the agriculture industry to this uneven recovery could impact the profits and cash flows of individual agriculture producers, and the industry as a whole.

The grain industry must maintain a close eye on China, which is rebuilding its protein sector. Market gyrations that are directly impacted by China's strategy of stockpiling key commodities could be an element to watch closely. The value of the dollar, which is likely to depreciate compared to other major currencies, is an element demanding attention. The ethanol industry, which utilizes a significant amount of the U.S. corn crop, is going to be impacted by competition from oil producing regions of the world such as Russia and OPEC.



On the livestock side, access to markets and processor concentration will be top of mind. The movement toward local and regional markets will favor some individuals who align with niche markets. The food chain shutdown brought more intense competition from non-meat and non-dairy alternatives. These companies lowered the price, repackaged their products, and offered consumers incentives such as masks. Labor, immigration regulation, and possible increased minimum wage mandates will be key for the economic stability of the agriculture industry in 2021 and beyond.

Finally, a rural renaissance is occurring as people move away from metropolitan areas and are able to work remotely. For this to continue, the key is access to broadband internet service. High speed internet will act as a magnet for those relocating around the U.S. and abroad. In addition, internet access is becoming more important for technology integration that is being utilized by a number of agriculture producers across the U.S.

These are just a few views and perspectives from “Cyberville.” Many individuals will be glad to put 2020 in the rearview mirror and capitalize on the opportunities that the COVID-19 pandemic has bestowed on the agriculture industry.

