DOES EXPORT MARKET CONCENTRATION MATTER
A CASE STUDY OF URUGUAYAN BEEF EXPORTS

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ABSTRACT

As one of the 10 main world beef exporters, Uruguay with a relatively big beef industry, exports 80% of its total beef production. Even though beef production has always been a relevant sector in the Uruguayan economy, during the last 8 years strong growth in exports caused Uruguay to become competitive in the world beef market. Strong investment by the country's beef industry significantly increased the harvest and processing capacity. Cattle harvesting records were set in 2005 and 2006. The export destinations of Uruguayan beef have been changing drastically during the last 8 years. The outbreak of FMD (Foot and Mouth Disease) in 2001 with the consequent closing of traditional markets, has determined new trade patterns and a different export destination mix. During 2005, 72% of the beef exports had the United States as destination, increasing the fear of dependence in one country. If a Geographic Diversification Index is calculated among the main world beef exporters, the results show that in 2005 the structure of the Uruguayan beef exports is the most concentrated among them.

The described scenario constitutes a start at evaluating the actual Uruguayan export mix. This study aims to discuss whether the actual export market concentration makes Uruguay vulnerable and constitutes an economic problem and whether the government can, and should, attempt to diversify trade for economic reasons. The main research questions that emerge from the above situation and that guide the study are the following: 1. Should Uruguay follow its neighbours and also try to diversify? Or, should Uruguay continue to nurture the US and its growing demand? 2. Is it risky to have most of the eggs in one basket? Does it mean the export revenue is not stable and not growing? 3. Does concentration imply more export volume and revenue volatility than if Uruguay had a smaller share of its beef trade with the US? Will a diversification strategy of exports make Uruguay better off? 4. Who and what determine the trade patterns? Is it even feasible for the government to change the Uruguayan share of beef trade with the US?

The paper is structured in three main sections besides the conclusions, references and appendix. The first section introduces the reader to the country giving a brief overview

of the beef sector, emphasizing the beef industry characteristics as well as its domestic and export markets. The second part describes what is meant by diversification, and the reasons why it is so important. Then, the section exposes what has determined Uruguayan beef market structure and trade patterns to date, and an approximation of a possible future scenario for Uruguayan exports to the US is analyzed. Since geographic diversification is the main concern, the third section focuses on that preoccupation and assesses whether the current state of affairs is problematic from an economic point of view. To systematically describe the current trade mix and consider if it is problematic or too volatile, the concept of return versus risk in investment portfolios is applied to country trade portfolios. Export growth and export revenue are used as measures of return and export volatility as a measure of risk. Due to the fact that this analogy is not a perfect fit, one should not view this framework as providing a definitive answer about Uruguay’s optimal geographic export mix. Instead, it is a starting point to describe and assess the tradeoffs between trade growth and its volatility and identify whether there is a serious problem with Uruguay’s export mix that requires further investigation. Different countries’ comparison of beef export volumes and revenues are shown, and questions of diversification by beef type and by destination are briefly addressed. Before concluding, alternative risk measures and export mix analyses are done in order to finish assessing all the research questions. The findings reveal that there are no compelling reasons to adopt policies designed to diversify exports. According to the analysis of trade expansion and volatility in the last years and a comparison with Uruguayan counterparts, Uruguay’s export mix does not appear to be problematic from an economic point of view. The evidence from the recent past suggests that further geographic diversification is unlikely to have made the country significantly better off, and it could have caused it to be in a worse position by decreasing volatility but reducing the trade even more. Finally, the evidence showed that the efficacy of government efforts to change trade patterns is questionable. Individuals, rather than governments, determine economy wide trade patterns. Beef cuts, not carcasses, drive most trade, and cuts that the United States import are not easily traded with the same conditions outside the country. Instead of trying to change trading and investment decisions made by Uruguayan businesses and individuals, the government should turn its attention to mitigate risks and smooth revenues within the actual importing market’s trade agreements. Removing or smoothing trade barriers will yield the biggest gains.