

Ag Econ

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7. Title Economic Impacts of International Trade and Domestic Policies on Southern Agriculture			
12. Investigator Name(s) (Last Name and Initials) Kennedy, P. L.			
20. Termination Date 09/30/2013		40. Period Covered (mo/da/year): 01/01/2011 TO 12/31/2011	
Outputs: Specific outputs includes presentations at professional conferences, one peer-reviewed article, and two graduate students (MS & PhD) projects. An economic model was developed to determine the relationship between FDI, exports, and economic growth in the context of FDI from developed to developing countries.			
Outcomes/Impacts: Specific research examined the relationship of FDI with the level of the exchange rate, exchange rate volatility, and exchange rate expectations during the period from 1994 to 2009. Further research was conducted examining the long-run relationship between U.S. FDI and U.S exports to Mexico from 1988Q1 to 2008Q4. Three different types of FDI were used (processed food, manufacturing and total FDI) to examine the relationship between FDI and U.S exports. Granger causality among GDP, exports, and FDI was also examined in Mexico for the period from 1970 to 2008. The causality was tested from the bivariate to the multivariate framework. In research on the relationship between FDI, exports and growth, the analysis revealed a significant impact of the exchange rate and exchange rate expectations on FDI flows. However, the relationship between FDI and exchange rate volatility was not an important variable in determining FDI. Regional trade agreements, such as the European Union (EU) and the North American Free Trade Agreement (NAFTA), were important factors to attract FDI. This analysis found a complementary, but variable relationship between FDI and exports. The analysis further revealed a weak complementary relationship for exports of processed food and a strong relationship for manufacturing exports. The study also showed a significant impact of NAFTA on manufacturing and total FDI and an insignificant impact on processed food FDI. Granger causality between GDP and exports, FDI and GDP, exports to FDI derived from two, three, or four variable frameworks are through a channel of imports, GFCF, and the labor force. In the analysis of the relationship between remittances and FDI, host country demand positively influences U.S. FDI outflows to LAC, which supports the market size hypothesis. An important finding is the complementary effect between remittances and per capita GDP on U.S. FDI. However, this effect holds only when the host country has a minimum threshold of per capita GDP. Thus, in these economies, remittances reinforce the effect of market size in attracting U.S. FDI. With respect to the exchange rate volatility analysis, effects of exchange rate volatility and the real exchange rate on agricultural, non-agricultural and total exports, imports and total trade flows were found to be significant and negative. Although the research replicated the reportedly established notion that exchange rate volatility has an adverse effect on international trade flows, the negative effect that the real exchange rate has on trade flows is a novel finding and bears further investigation. Exchange rate volatility has a greater impact on the agricultural sector, while the real exchange rate has a greater impact on the non-agricultural sector. Effects of FTAs and the Euro are always positive, with FTAs having a greater impact on the agricultural sector and the Euro on the non-agricultural sector.			
Publications: Garcia-Fuentes, P.A. and P.L. Kennedy "Foreign Direct Investment Inflows to Latin America and the Caribbean: Remittances and Market Size," J. International Agricultural Trade and Development, 7,1(2011): 1-21. Parajuli, Shanta; Examining the Relationship Between the Exchange Rate, Foreign Direct Investment and Trade, Ph.D. Dissertation, Department of Agricultural Economics and Agribusiness, Louisiana State University and A&M College; December 2011. Kafle, Kashi Ram; Exchange Rate Volatility and Bilateral Agricultural Trade Flows: The Case of the United States and OECD Countries, M.S. Thesis, Department of Agricultural Economics and Agribusiness, Louisiana State University and A&M			

College; December 2011.

Participants:

P.L. Kennedy (PI), Young-Jae Lee, B.M. Hilbun, Pablo Garcia-Fuentes, Shanta Parajuli, and Kashi Kafle, LSU AgCenter; Andrew Schmitz, University of Florida; C. P. Rosson, Texas A&M University; and W.W. Koo, North Dakota State University.

Target Audiences:

The primary target audiences for the research conducted within this project include government officials, policy-makers, and agricultural economic researchers.

Project Modifications:

Nothing significant to report during this reporting period.

Approved (Signature)	Title	Date
		