

Discussion opening on Montaigne and Sumner

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Overview

- no specific reference to the wine economy, ... but wine as the prototypical case of “quality” product
- focus on global longer-term trends

Contents

- what is going on
- some implications for research agendas



Sumner's "broad trends"

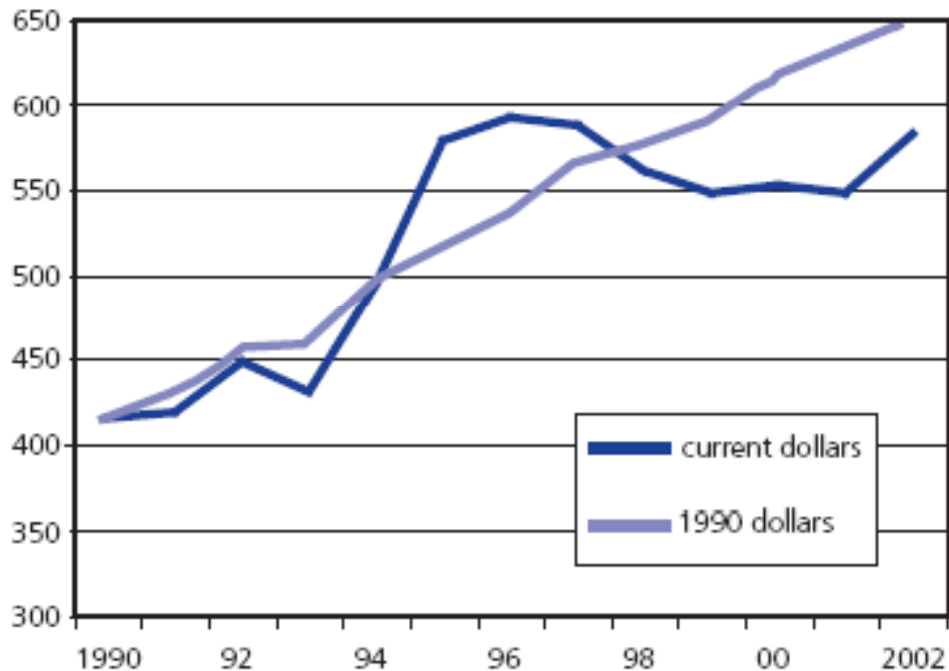
- Declining total consumption, especially in Europe
- Increasing consumption by non-producing countries
- Declining production of Old World wine
- Increasing production of New World wine
- A movement towards **higher quality** wine
- **Increased** international trade
- **Globalization** of taste and production



Agriculture under Globalization

More agricultural trade

World exports of agricultural products^a, 1990-2002
(Billion dollars)



^a Refers to WTO, ITS definition of agricultural products.
Source: WTO, International Trade Statistics, 2003.

Volume:

- 1973-90: +2.4%
- 1990-2002: +4.0%
twice as much agr.
production

Value:

- 1990-2002: +40% in
real terms



Agriculture under Globalization

More agricultural trade

Infrastructural and institutional prerequisites are needed to claim the benefits from globalization or to better cope with increased risks implied by it

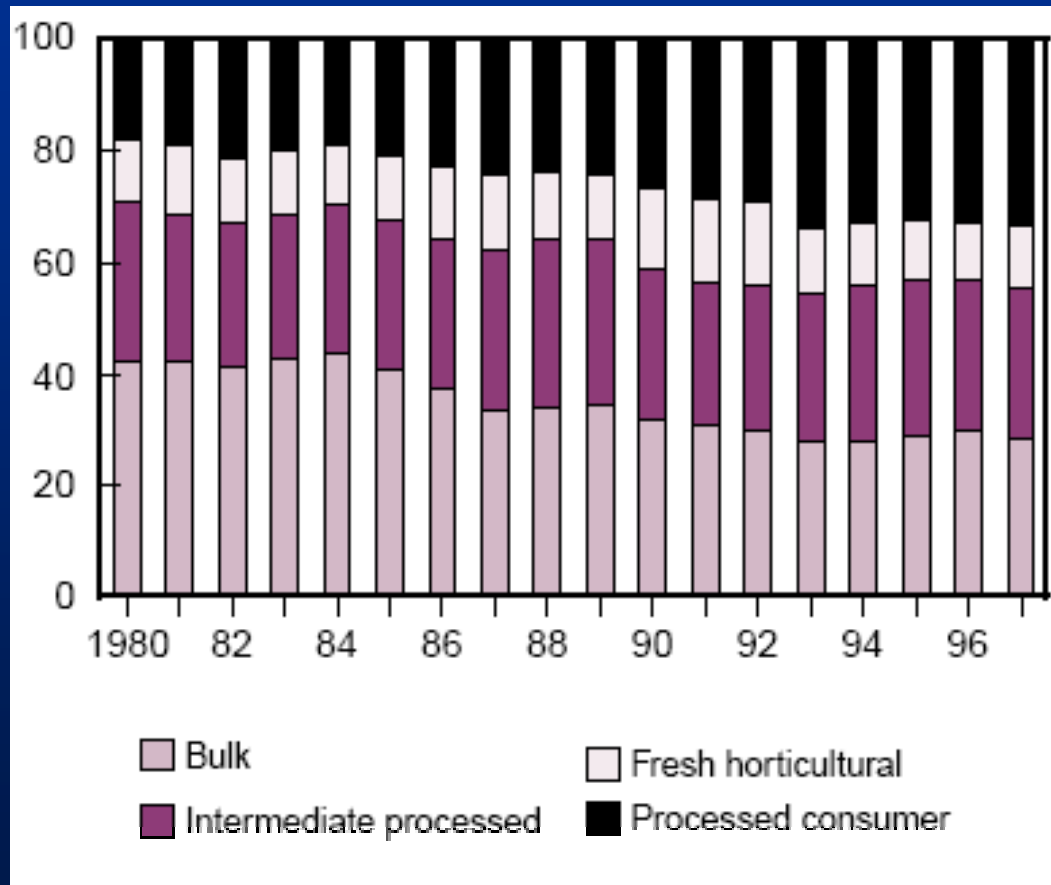


POVERTY



Agriculture under Globalization

Change in the composition of Agr Trade



Significant

- 1990-2002: from 42% to 48% of total AgTrade

Generalized

- Both DC and LDC

Why?

- Engel law
- product differentiation



Agriculture under Globalization

Change in the composition of Agr Trade

Shift from a Ricardian **comparative-advantage-based** trade to a **reputation-based** trade in agricultural products, i.e. a loss of importance of **cost-based competition** and an increase of importance of **quality-based competition**



POVERTY



Positional goods

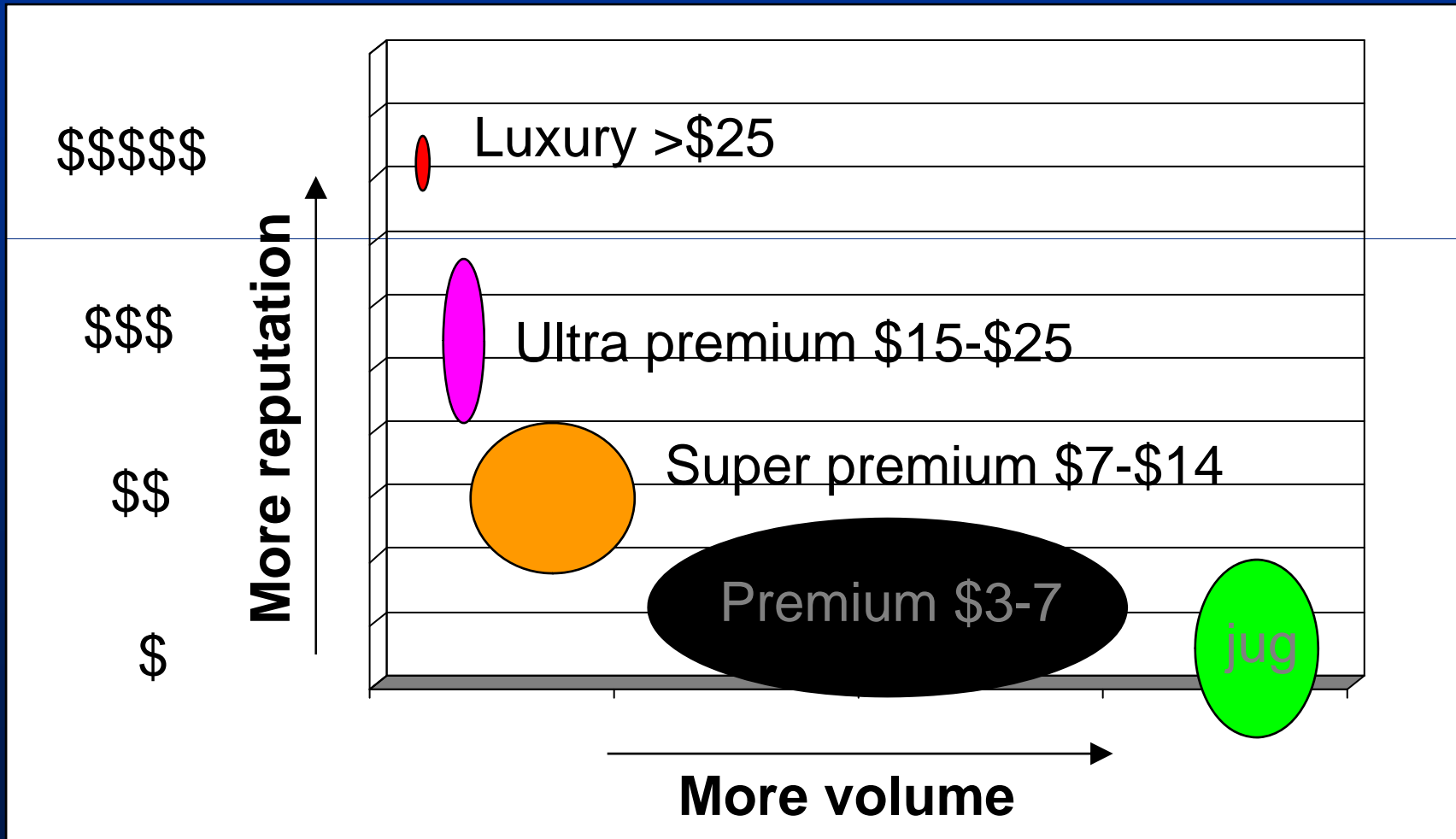
Change in the composition of Agr Trade

- reputation effects matter ... especially under globalization
 - lower transportation costs
 - trade liberalization
 - cheap information circulation
- positional goods (e.g. services and **de-commodified** goods)
 - rank-ordering that is based on **reputation**
 - which is in turn based on **trust, fame** (plus **advertising**), **wealth**, etc.



Positional goods and competition

Wine as a positional good



Positional competition

Positional competition pros

- developing synergies
 - generic reputation vs. specific reputation
 - non transferable assets, e.g. history, culture, landscape, etc.

Positional competition cons

- much harder than competition for pure private goods (Pagano, 2007)
 - trust: objective quality vs. perceived quality



Some research implications

- can commodity-based agriculture still be the **engine of growth** as it used to be in the pre-globalization development patterns?
- what are the ingredients of AGR de-commodification? How to build **reputation**:
 - collective (e.g. AO, region, etc.) vs. individual
 - short-term (e.g. *Wine Spectator*) vs. long-term (e.g. Parker classification)
- are there **patterns of rural development** based on de-commodification?



Some research implications

- globalization is a **discriminating** phenomenon:
 - distributional concerns in DCs:
 - who is really capturing economic rents?
 - what are the implications for rural development?
 - distributional concerns at global level:
 - is commodity-based agriculture disadvantaged under globalization? (positional competition with soaring commodity prices)

