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Issues in Agricultural Exports

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ISSUES IN AGRICULTURAL EXPORTS

In my presentation today I would like to concentrate on three main aspects of agricultural trade and development: First, I will examine recent trends in agricultural trade of developing countries. My focus will be on exports to developed country markets of the 21 main agricultural commodities provided in the attached table. Second, I will attempt to analyze briefly some of the factors underlying these trends. Finally, I will discuss a few proposals for domestic and international action.

Historically sales of food and agricultural raw materials have provided the bulk of developing countries' exports. Yates estimated that in 1913 agricultural products accounted for about 68 percent of total export earnings of the countries of Latin America, Africa, and Asia, excluding Japan. By 1952 agriculture's share of export earnings of the same countries had fallen to 48 percent. The declining relative importance of agricultural products accelerated during the 1960's. Between 1959-60 and 1967-68, developing country sales of the 21 agricultural commodities to the industrial countries grew from $8,960 million to $10,290 million. This modest increase amounted to an annual growth rate of 1.7 percent. This is less than one-third the growth rate of total exports to industrial nations. At the beginning of the decade, the agricultural commodities included accounted for 45.2 percent of total LDC exports to the five industrial nations. By the end of the decade, they accounted for only 34.0 percent.

In 1967-68 the United States imported agricultural products valued at more than $3.1 million from developing countries. Developing country sales of agricultural commodities to the U.S. rose by $281 million during the 1960's. Large gains were recorded by meat, fruits, and vegetables - "luxury foods" with relatively high income elasticities. Despite the inroads of substitutes and protective quotas, imports of raw jute and sugar also rose significantly.

Despite increased levels of protection by the EEC and higher levels of internal production, the Community increased its agricultural imports from LDC's by $641 million between 1959-60 and 1967-68. With rising levels of per capita income, consumption of both red and poultry meat increased in the EEC, and LDC exports of meat and live animals to the EEC more than doubled during the decade.

There were large increases in developing countries' export earnings from particular agricultural commodities. Perhaps the best performance was registered by fruits and vegetables. The industrial nations increased their imports of fruits and vegetables from the developing nations by 8.9 percent annually during the study period. Developing countries' receipts from the sales of fruits and vegetables rose by $773 million during the decade. This commodity group accounted for more than 58 percent of the total dollar increase in developing countries' agricultural export earnings.

Despite these absolute increases, the share of agricultural goods in total imports fell in the developed countries.

These trends are well known. Perhaps equally well established is the presumption that receipts from agricultural commodity exports are subject to large year-to-year fluctuations. Thus the two main issues affecting developing country agricultural exports are (a) a declining share in total imports, (b) large year-to-year fluctuations.

Agricultural exports still account for a large share of total developing country exports. Their sluggish growth implies that developing countries will continue to face serious difficulties in obtaining the foreign exchange to finance growing import needs. As a result growth objectives might be more difficult to attain. On the other hand fluctuations in export receipts might disrupt development planning. At the very least they might necessitate the holding of large foreign exchange reserves to meet annual shortfalls in foreign exchange receipts. But holding large reserves is something that developing countries can ill afford to do.

While the facts are well known, there is considerable controversy surrounding the factors that are responsible for these developments. It is important that a proper perspective on the controversy be obtained. Policy measures advocated to remedy the situation depend heavily on the relative evaluation of the importance of the various factors responsible for present developments.

The first set of factors affecting exports of agricultural commodities from developing countries, I will call demand factors. They are factors relating the international demand for agricultural commodities. They have generally conspired to inhibit rapid growth.

The first is the well known low income elasticity of demand for foodstuffs. As incomes grow the quantity demanded for most foodstuffs grows proportionately less. This is an old problem which will always be with us, and about which little can be done, except perhaps to undertake a higher degree of processing of foodstuffs. Processed foodstuffs, e.g., well packaged frozen shrimp, have a much higher income elasticity. Countries such as India and Mexico have started exporting large quantities of shrimp in the U.S. market in recent years.

The second factor that inhibits demand for agricultural exports is the existence of restrictions on imports imposed by industrial countries. Some of these restrictions are related to efforts by industrial countries to assist their farming community, some are purely for revenue purposes. Irrespective of motivation their net effect on agricultural exports is detrimental. A few years back it was estimated that elimination of all revenue duties on agricultural imports from developing countries will increase their foreign exchange receipts by $200 million. Similarly, it has been estimated that elimination of restrictions on sugar imports by all developed countries would increase their imports from the developing countries by $950 million.

The third factor that has affected demand for agricultural commodities is the development of synthetic substitutes particularly for agricultural raw materials. The most important agricultural commodities affected were rubber, cotton, jute, wool and hides. Total imports of these five commodities fell during the period 1959-68. The development of synthetics has been partly autonomous and partly induced by actions of developing countries themselves, as we will see later on.

A final factor adversely affecting international demand which has not been very important up to now but which might become important in the 1970's, stems from the very success of agricultural policies in developing countries. As the "Green revolution" spreads to many developing countries, they become more self-sufficient in foodstuffs and to that extent their demand for agricultural imports from other developing countries is reduced.

I turn now to the other set of factors affecting agricultural exports of developing countries: I call these, supply factors.

To me the most striking phenomenon in agricultural exports in the 1960's was the fact that developing countries lost a considerable share of their market in many commodities to competitors from developed countries. If they had maintained their share of total agricultural exports of 1959-60, developing countries' exports in 1967-68 would have been $1 billion or about 10% higher. This is not a demand phenomenon. It relates to the developing countries' ability to compete in the very commodities in which they presumably possess a comparative advantage.

Various factors are responsible for this decline in competitiveness. Developing countries often lack the know how to organize an efficient marketing system and maintain competitive quality. Lack of flexibility in their economies does not often allow them to shift resources quickly to adjust to changing market conditions. But by far the most important factors inhibiting supply and decreasing competitiveness have been the policies commonly pursued by developing countries themselves.

Economic development policies in the past decade have emphasized import substitution industrialization. This means that developing countries typically have erected import controls of considerable magnitude in order to establish industrial activities. Strong incentives have thus been created for the channeling of the bulk of incremental resources to the protected industrial sector and away from the traditional sector which provides the bulk of developing countries exports. I will not dispute the wisdom of pursuing a well conceived industrialization policy as a means of attaining overall development objectives. But a concomitant result of industrialization policies has been a relative neglect of the traditional agricultural sector, with adverse repercussions on the ability of developing countries to earn foreign exchange.

In a related set of policies governments of developing countries have often maintained overvalued exchange rates and heavy export taxes on agricultural exports. Although domestic income distribution objectives often have been present, the primary motivation of these policies has been to increase the value of commodity exports by exploiting the monopoly power developing countries believe they posses in international markets. While the price elasticity of demand for many agricultural commodities is undoubtedly relatively low, it is clear that many developing countries found it to be in fact higher than they expected, and by trying to price their commodities high in part induced the expansion of substitutes. The result has been that they suffered as a group in the competition for foreign markets with developed countries, as well as lost some markets to synthetics.

Let me address myself briefly to the question of fluctuating receipts. The factors behind these fluctuations are well known. Long gestation periods, climatic variations as well as the fact that imports often constitute a minor portion of domestic consumption, all contribute to fluctuating prices and to a lesser extent receipt of agricultural exports. I will discuss some of national and international efforts of stabilization later on. At this point I want only to point out that the problems that unstable receipts cause have been reduced to some extent by the fact that developing economies have in the last decade started to diversify their exports. Since they are now relying less on agricultural exports for their foreign exchange, their balance of payments as well as their overall planning has become less vulnerable to fluctuations.

This review of factors affecting agricultural exports of developing countries leads me to the following thoughts about future action by the developing countries themselves, developed countries and the international community.

First, let us look at the developing countries' policies. It is clear that they can do little about the low income elasticity problem. At best, as I noted earlier, efforts should be directed towards increased processing, and increasing the resources allocated to production of commodities such as fruits for which demand is more income elastic.

The most effective set of policies that developing countries can employ is to maintain exchange rates which do not penalize commodity exports and endanger their competitive status vis-a-vis developed country producers. In the same context, policies taxing exports of agricultural commodities must be carefully reviewed so as to enable developing countries to maximize their foreign exchange receipts without jeopardizing their market position by encouraging the development of synthetic substitutes.

Developed countries future efforts must center on the progressive dismantling of trade barriers affecting developing countries' exports. However, protective policies in developed countries are intimately related to domestic efforts to assist the farming community. Difficult questions of equity and income distribution are involved and progress will by necessity be slow. The U.S. is participating with other GATT members in preliminary discussions on the removal of non-tariff barriers many of which are erected against agricultural imports from developing countries. It is hoped that these negotiations will bear fruit, in the next few years.

On the side of revenue duties, some progress has already been made and the U.S. has recently announced its decision to eliminate such duties on many items of importance to Latin American producers.

Finally, developed countries can assist in providing technical assistance in the export promotion field. Efforts in this direction are already under way through the GATT/UNCTAD International Trade Center. The U.S. through A.I.D. has assisted in such programs in Central America, India and elsewhere.

In the international sphere producers of several commodities might benefit from the establishment of international commodity agreements. Such agreements have been tried often but success has been limited to a few commodities. The problem frequently is the confusion that prevails about the objectives of such agreements. First, there is confusion as to whether the objective is to **stabilize prices or to actually increase** prices above their equilibrium point. Second, there is confusion as to whether the objective is to stabilize income to domestic producers or stabilize foreign exchange receipts.

It is clear that when the objective is stabilization of domestic producers' incomes, this objective could best be achieved via national and not international stabilization measures.

While commodity agreements can be used both to stabilize and to increase prices, the problems of attaining the latter objective are far more formidable. They become almost insuperable if the agreement is designed for stabilization but in fact tries to increase prices.

If developing countries conclude an agreement that increases prices of commodities to consumers in developed countries the result is a forceful transfer of resources from the latter to the former. It is possible only if the producers participating in the agreement have effective monopoly control on the market. In practice most such agreements have failed because of the inability to secure full participation of all present or potential producers and the resistance of consumer interests. The likelihood of failure is increased when efforts to increase prices are made in the face of declining or stagnant demand.

It could be argued that such agreements are desirable, because if effective, they result in desirable transfers from developed to developing countries. However, it should be stressed that alternative means of making resource transfers to developing countries exist - such as the aid programs - which involve less inefficiency in resource allocation.

In conclusion, it would appear to me that agreements can be useful if they are truly designed to stabilize fluctuations and they are likely to be feasible if they include both consumers and producers.

On the overall picture, I would like to conclude, that the prospects for rapid increases in agricultural exports are not bright. For this very reason considerable attention must be focused on the policy options that I mentioned earlier. It is encouraging that some things <u>can</u> be done to improve the situation. But concerted action by both developed and developing countries would be required for this improvement to materialize.

Agricultural Imports by Developed Countries[1/]

	1959-60		1967-68		Annual Percentage Change	
	World	LDC's	World	LDC's	World	LDC's
	annual average, $ million					
	(1)	(2)	(3)	(4)	(5)	(6)
Mineral Fuels	6,007.8	4,796.6	12,432.3	9,579.6	9.5	9.0
Agricultural						
Alcoholic and non-alcoholic beverages	682.9	253.3	1,082.4	125.3	5.9	-8.5
Cocoa	527.1	479.6	588.9	529.0	1.4	1.2
Coffee	1,619.1	1,584.5	1,870.5	1,821.9	1.8	1.8
Corn	470.7	184.4	1,082.1	314.5	11.0	6.9
Cotton	1,397.2	801.3	1,312.3	854.2	-0.8	0.8
Crude animal and vegetable materials	395.6	163.8	627.5	238.9	5.9	4.8
Dairy products	732.7	42.5	768.3	9.4	0.3	-9.5
Feeding stuff	428.9	269.8	1,018.2	456.7	11.4	6.8
Fruits and vegetables	1,523.5	793.2	3,210.7	1,566.2	9.8	8.9
Hides	460.3	192.6	532.6	190.2	1.8	-0.2
Livestock	362.4	54.0	530.6	75.1	4.9	4.2
Meat	1,552.4	345.4	2,326.2	444.6	5.2	3.2
Oilseeds	971.1	514.2	1,306.3	475.3	3.8	-1.0
Rice	152.4	57.2	181.7	99.7	2.2	7.2
Rubber	1,239.7	1,056.8	830.5	643.9	-4.9	-6.0
Sugar	1,047.5	922.9	1,502.3	1,271.9	4.6	4.1
Tea	421.5	390.1	403.5	378.4	-0.5	-0.4
Tobacco	640.8	186.9	832.8	159.3	2.6	-2.0
Vegetable oils	489.6	316.8	560.4	373.4	1.4	1.4
Wheat	714.4	65.5	949.2	49.0	3.6	-3.6
Wool	1,436.0	283.2	1,276.9	213.2	-1.5	-3.5
Total Agricultural	17,285.8	8,960.0	22,793.9	10,290.1	3.5	1.7
Other Primary	5,336.4	1,869.3	9,361.4	4,314.5	7.3	11.0
Total Imports	53,884.0	19,803.9	99,708.0	30,296.0	8.0	5.5

1/ US, EEC, U. K., USSR, Japan.