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MARKET DEVELOPMENT AND ECONOMIC DEVELOPMENT:  
CONTRASTS AND COMPARISONS

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During my career, I have held assignments in economic development with A.I.D. and at present in market development with U.S. Wheat Associates. This contrasting set of assignments was punctuated by a stint on the staff of the U.S. Senate. Thus, I can perhaps offer a unique perspective with regard to the topic of this symposium which is to look at U.S. policy on international development for the 1990s.

In contrasting the two worlds of market development and economic development, it would first appear that they are largely separate and quite different in terms of their approach. During my years with the Agency for International Development, the assumption of the organization

seemed to be that they were pursuing "development" and that this was somehow a holy cause and purpose. The word development was associated with being selfless as opposed to being selfish. The focus of concern was the total economy of a particular country, although the particular sectors of concern in a country's economy were usually agriculture or some other related areas. There was little emphasis on education or literacy programs.

One of the main unspoken aspects of A.I.D.'s economic development picture was the idea that programs should not be attuned to short-term political objectives. The State Department might want to reward or punish a country for some particular behavior, but A.I.D. projects were not well suited nor should they be used toward this end. A.I.D. also interpreted development to mean taking the long rather than the short-term view on its activities. Unfortunately, the word "economic" was often dropped, and the discussion focused just on "development".

In the case of economic development, the focus has often been on either self-sufficiency or self-reliance, with developing countries attempting to produce as much as their food needs as possible in order to reduce the cost of food imports. This often results in a country trying to produce commodities for which it has no economic advantage. It also creates a conflict vis-a-vis the market development groups that would prefer to have other countries purchase their food commodities from the U.S. The crux of

this issue lies in one's view of economics and how best a country can pursue an economic development program.

In the area of market development, the objective is to sell or export your product in a particular country. The focus is usually on a commodity or sectoral approach such as, in our case, the wheat food industry. In this example, our organization focuses on the wheat food sector, beginning with buying through the milling and baking areas and sometimes including product promotion. In the case of the Feed Grains Council, they often conduct feeding demonstrations to show that better animals can be produced more efficiently with improved feeds. Other cooperators also try to increase their commodity export sales through similar programs.

A market development program is tailored to meet a country's needs, whatever its level of development, and for most countries, the task of market development is rarely completed. U.S. Wheat Associates began its efforts in Japan after World War II, and today, Japan certainly has a developed milling and baking industry. However, with the competition from other exporters, a continuing program is needed to maintain our market share. In fact, we some times send Asian technical teams to Japan rather than bring them to the United States.

Some in market development feel that the development groups often pursue programs that are not sensible in terms of the economics of a particular developing country. Korea and Taiwan are often cited as great success

stories, but their success was not in agriculture. Their success has been in industry, and it is doubtful that they would have had such success if they pursued the same policies in industry as they pursue in agriculture.

The assumption behind the market development work of the cooperator groups such as USW, is that we can work with a sector to bring about the improvements that will help it to grow and develop. This effort involving the millers, bakers and buyers can involve the government, the private sector or a combination. The approach is based on the idea that we can increase the demand for U.S. exports by helping to improve the quality of a country's wheat food products and the profitability of the local industry. Through new and improved products and increased profitability, an expanding market can lead to increased employment and a useful form of development that is often ignored by the development community. This effort requires a continuing commitment to stay in touch with the key decision makers in the industry.

Our belief also is that if the U.S. producers are competitive, we will derive a significant share of a country's expanding demand for wheat imports. A recent study by the Agricultural Policy Group pointed out that the United States enjoys a competitive advantage in agricultural production and is still competitive with agricultural producers anywhere in the world. One additional advantage cited in that study was our major unused production and marketing capacity that can be called upon as future food demands rise.

We have, as producer representatives, a major concern over encouraging competing crops, especially where it would appear to make poor economic sense. Our farmers feel that they have taken steps to be more competitive and have taken the land out production in order to bring supplies in line with world demand. Thus, it would appear that it makes little sense to encourage production where the economic return is low and the country does not have a comparative advantage. Thus, we were very unhappy last year when it appeared that A.I.D. wanted to encourage Egypt to increase its wheat production to reduce its dependence on imports. It was clear that its producers could obtain better returns from other crops, and they were thus not eager to grow additional wheat. In addition, if anyone were to look at the nature of Egyptian agriculture with its intensive small, irrigated holdings, the idea of growing wheat would not appear to make economic sense.

There is also an important quality factor which enters into the economics of wheat production, but this is often ignored by the development community. The United States has five classes of wheat that have been developed over the years to meet particular product needs. Other wheat exporting countries have developed their wheats to meet similar needs. A developing country cannot simply try to grow wheat without being aware of the state of development in the industry. Otherwise, its milling industry, will have to work around and blend off its poor quality wheat. In spite of some simplistic notions, all wheat is not alike. Increasing one's wheat production if the product is of poor quality and more

expensive than what's available on the world market is not a good use of resources. Even in the developing world, there is a growing sophistication regarding the classes of wheat and their uses.

A recent example of misguided economics is Saudi Arabia's attempt to be self-sufficient in wheat. It should be pointed out that Saudi Arabia began this exercise in spite of admonitions from some experts but with the notion of building food security. In the beginning, they paid producers over \$1,500 a ton to produce wheat, and that support was later scaled back to about \$500 per ton. It is not clear that even these levels represent the total outlays by the Saudi government. Because of these very high support levels, wheat production increased sharply, and Saudi Arabia has recently been selling its excess wheat on the world market, for about \$95 per ton. Some have argued that, as its water tables drop, the program will become too expensive even for Saudi Arabia. This hardly is an example of sound economics, but I understand that F.A.O. recently awarded some kind of recognition to Saudi Arabia for becoming self sufficient in wheat.

I would not begin to suggest that the market development community has been without its failures, but it would be a far easier task, if one were asked, to create a list of white elephants which had been the responsibility of A.I.D. The point, however, is not to criticize but to compare the two approaches. The purpose of this seminar is to look at new ideas which can guide policies into the next decade. I feel that it is

worth looking at the market development approach of the cooperator groups because they have developed a process that has been successful. I think they can offer some guidance in terms of helping developing countries to grow and prosper and develop new wealth. I am afraid the development community does not always understand that process or why they are often criticized.

One of the most likely developments, in looking ahead and recalling past experience, would be to have another reorganization or study of A.I.D. A new name or another study is not what really is needed. What is needed is a new approach with the emphasis oriented toward discovering what countries can do to help their economies to grow. This also does not necessarily mean implementing the programs desired by the developing country.

An existing program, P.L.480 or Food for Peace needs to be made more flexible and streamlined if it is to realize its potential as a tool for export promotion. The P.L.480 program, which is really run by a committee, is one of the worst examples of how to run a program. This program has been sold on humanitarian and market development grounds, but because of the way the program operates, too much of the commodity is delivered in the last quarter of the fiscal year. This ignores the need for flour mills to have a constant stream of commodity throughout the year. People eat twelve months a year, not just in the final quarter of the U.S. fiscal year.

A new program utilizing local currencies under Section 108 of P.L.480 could be useful for export promotion, but the details have not yet been worked out. Thus, it is unclear how this activity will be operated.

While a fresh look is needed in terms of all economic development programs, it appears unlikely that increased funds will be available. In fact, one reason for a new approach is to attempt to develop programs that are effective with reduced funding. With a new administration in the offing and reduced dollar and food resources expected, it becomes very important to attempt to obtain the greatest possible return from whatever resources are available.

We also might well be at a new plateau in terms of going from a surplus food situation to tighter supplies again. The World Food Conference of 1974 ushered in all sorts of fears about scarcity while during much of the 1980s we faced a situation of surplus supplies and concerns about depressed prices for raw materials. While it may be too early to predict scarcity, it should be noted that commodity prices have begun to increase, stocks have declined, and some raw commodity prices such as copper have increased recently.

The task will not be easy, but we will need to help the developing countries become a more integral part of the world economy by helping them begin to open their economics and to make sound economic decisions.

There are some in the development field who are of the opinion that they have a political problem and that they need to do something to win support from the private sector. If the right "something" is done, according to this view, they can then get a new lease on life and get back to business as usual. This is not likely to happen. Future economic development programs will need to be more relevant and more oriented toward the economic interests of the developing countries and the United States. Such an approach will require leadership that is realistic and has a pragmatic understanding of economics.

In order to get the support that it seeks, the development community will need to convince the public that it is helping the developing countries become part of the world economy and that they will become customers and active players in the future. This will not avoid all controversy, but if the effort succeeds, the developing countries will be the new markets for the future. Seen from this standpoint, economic development and market development will not be inconsistent or two separate worlds but working toward the same goal from different directions.

I hope that these remarks are helpful in terms of providing some insights on our policies as we look forward to the decade ahead.

Thank you very much.