United States Agriculture and the Developing World: Partners or Competitors?

by
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FINAL REPORT OF
UNITED STATES AGRICULTURE AND THIRD WORLD DEVELOPMENT: THE CRITICAL LINKAGE

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FOREWORD

"United States Agriculture and the Developing World: Partners or Competitors," is the concluding, or Final Report of the Curry Foundation's recent study, **United States Agriculture and Third World Development: The Critical Linkage.** The study was initiated to suggest to policy makers a range of policy options for increasing United States agricultural exports in harmony with Third World development. The author of the report, Dr. Robert L. Paarlberg of Wellesley College and Harvard University explores the reasons behind the recent decline in American farm exports, and examines how American farmers may benefit more from policy decisions which place problems in the agricultural sector in the context of the wider global economic environment, than from more narrowly focused prescriptions like the export enhancement and food assistance programs which carry the day on Capitol Hill.

The study was launched in the Fall of 1985, and is the third in a succession of Curry Foundation studies which have examined the key issues in American agriculture as they have evolved over the last few years: domestic farm policy, American-European agricultural trade, and now, agriculture and the developing world. It consists of two series of papers and the Final Report, which draws on the project papers and on comments expressed at the Curry Foundation's working conference held in Washington, D.C. in July of 1986. The conference provided an opportunity for key individuals in government, research, agribusiness, development and the farm and commodity community to comment on and criticize the project papers and to suggest the extent to which the prescribed policy recommendations could be successfully implemented within the current political and economic environment.

For the American farmer, the 1970s was a prosperous decade of ostensibly unlimited demand for U.S. farm exports. In 1973 alone, U.S. farm exports rose by $5.7 billion, and they continued to increase by $2.1 billion each year, reaching a peak of $43.8 billion in 1981. But in that year, the demand for U.S. agricultural exports began a precipitous decline. By 1985, foreign sales of U.S. farm products fell to $31.2 billion and are projected to fall to $26.5 billion in 1986.

Today, the world economy is experiencing its fourth year of consecutive-albeit sluggish and uninspiring - growth. But the agricultural sector continues to falter. In June of this year, the industry suffered its first monthly farm trade deficit in 27 years. Indeed, the 1980s has become an arduous decade for many American farmers, and for still others, the end of a family tradition.

In response to this crisis in American agriculture, and in reaction to what are seen as unfair trade practices by foreign competitors, protectionist sentiment in both Houses of Congress is on the rise. Imports are restricted and exports are being heavily subsidized, even in the restrictive budgetary environment of Gramm-Rudman. But with increasing competition from America's traditional trading partners, most notably the European Community, and with an ever-increasing number of countries joining the ranks of agricultural exporters each year, there is almost no hope that the United States will regain its export markets of the past.

Where then are the opportunities for increased U.S. farm exports? Paarlberg believes those opportunities lie in the Third World through a partnership between American and developing country farmers. The basis for this partnership rests on the relationship between agricultural development in poor countries and the resulting demand for imported agricultural products. Successful farm development in developing countries promotes broad-based economic growth which in turn leads to higher incomes which in most cases go directly to additional food consumption. And in nearly all developing countries larger food consumption demands will include tastes for higher value goods which are often unavailable domestically, or which the United States can provide most cheaply.

In his Final Report, Paarlberg makes it clear that the United States must work toward increasing the growth-promoting prospects of agricultural development and trade in the developing world if it expects to restore health to its own agricultural trade sector. Policies which ignore or stifle such tremendous possibilities in the Third World will, in the end, only be self-defeating.

A hardbound volume containing this Report and the other project papers will be published in early 1987.

Elizabeth Morrison

UNITED STATES AGRICULTURE AND THE DEVELOPING WORLD: PARTNERS OR COMPETITORS?

Robert L. Paarlberg

Agricultural development in the developing countries is sometimes described as a menace to American agriculture. Every additional bushel of farm production in the Third World is seen to represent one less bushel of farm sales potential for the United States. A recent surge of farm production in poor countries, some believe, has been a major cause of the recent slump in U.S. farm trade.

Here we shall challenge some of these common assumptions, by reviewing the evidence which shows that additional farm production in developing countries has not been an important contributor to the recent slump in U.S. farm trade. With the proper policies in place, in fact, additional farm production in developing countries can actually benefit U.S. farm trade. American and Third World farmers ought not to view one another as just competitors. Under properly managed circumstances they can often operate as partners.

The Possibility of Partnership

The possibility of a partnership between American and Third World farmers rests on the unique contribution which farm production can make in poor countries to broad-based income growth and hence to dietary improvements and enlarged food consumption demands.

Among wealthy developed countries, to be sure, additional farm production may not make this contribution. In regions where citizens are already wealthy and where diets are already rich — such as the European Community (EC) — additional farm production is not likely to add much to broad-based income growth, and to internal food consumption demands. Additional farm production in such regions will more likely replace trade, or enter export markets. U.S. farm operators therefore have every reason to feel threatened by production subsidies in other rich farming countries.

But an entirely different response to added farm production can be noted among today's developing countries, where large numbers of poor people with poor diets are directly dependent upon farming for income and employment. In such countries, where most of the income gained from farm growth will go directly into additional food consumption, the paradoxical result of successful farm development can be larger farm import demands.

The rapid creation of wealth cannot get underway in most poor countries without farm development. Successful farm development helps create a pool of savings, it stimulates effective consumption demands, and it releases a competent labor force needed to launch efficient urban industrial growth. Efficient industrial growth, in turn, pushes personal income still higher, and turns loose still larger food

consumption demands. These demands usually include a taste for diets which are rich in higher quality foodgrains and in animal products such as meat, milk, and eggs. Even for agriculturally successful developing countries, some of the agricultural inputs needed to satisfy these enriched dietary demands will be cheaper to purchase from abroad than to produce at home. Animal feedstuffs, in particular, will often be imported in ever larger volume, in response to income growth originally turned loose in developing countries by farm sector prosperity. U.S. agriculture, which is the world's most efficient producer and largest exporter of high quality foodgrains and animal feedstuffs, is obviously well positioned to prosper from such larger import demands.

Evidence of a Partnership

Can this sort of harmonious relationship between rapid farm development in the Third World and U.S. farm trade actually form in practice? The evidence that it can rests first on the well established fact that high income developing countries do import more farm products than low income developing countries. Note from Table 1 that the low income developing countries (GNP per capita below $400) took only 11.4 million tons, or just 15 percent, of all free world developing country grain imports in 1982, despite the fact that most of the developing world's malnourished citizens live in these low income countries. The upper-middle income developing countries, because of their much greater purchasing power, and despite their much smaller physical size, import almost three times as much.

Moreover, while low income country grain imports grew by only 40 percent (from a small base) over the decade shown in Table 1, upper-middle income countries increased their purchases by 102 percent, from a base again half as large. Imports of coarse grains specifically increased among these more prosperous developing countries by roughly 300 percent, indicating that a significant increase in animal feeding, driven by dietary diversification, was well underway. Among the low income countries, coarse grain imports were not only low but actually in decline.

U.S. farm exporters, and especially coarse grain exporters, therefore have an unmistakable interest in promoting income growth in the developing world. It is not the hunger of poor countries, or even their growing populations, that makes them better customers for U.S. farm producers. It is the purchasing power that comes from their growing wealth.

But what evidence is there that farm production, specifically, contributes to this broad-based income growth which stimulates farm imports in developing countries? What evidence is there that farm production in developing countries and farm imports can increase simultaneously? Several recently completed studies have now reached precisely this conclusion.

The first of these is a study done in 1979 for the International Food Policy Research Institute by Kenneth Bachman and Leonardo Paulino which examined the trade consequences of rapid food production growth in sixteen developing countries, and found that while the proportion of domestic food consumption satisfied by imports generally fell in these countries, net imports of staple foods nonetheless increased, to the presumed benefit of U.S. agriculture. Bachman and Paulino found that annual net staple food imports in these agriculturally successful

Table 1

GRAIN IMPORTS BY THE DEVELOPING COUNTRIES* (Million Tons)

Country Grouping**	Imports in 1972/73 (Jul/Jne)				Imports in 1982/83 (Jul/Jne)				Increase 1972/73-1982/83
	Wheat	Coarse Grains	Rice	Total	Wheat	Coarse Grains	Rice	Total	Total Grains
DEVELOPING COUNTRIES*									
Low-income	6.1	1.1	1.0	8.2	8.7	0.8	2.0	11.4	+40%
Lower-middle income	7.1	1.4	2.2	10.8	17.2	5.1	2.5	24.8	+130%
Upper-middle income	9.4	5.1	1.6	16.2	12.5	19.0	1.3	32.8	+102%
High income oil exporters	0.7	0.2	0.4	1.3	1.7	2.6	0.8	5.2	+289%
Centrally Planned LDCs	7.1	1.1	0.2	8.4	14.8	3.3	0.4	18.6	+121%
Total Developing Countries*	30.4	9.0	5.4	44.8	54.9	30.8	7.1	92.8	+107%
TOTAL WORLD TRADE	67.6	57.8	8.0	133.4	96.1	86.4	11.8	194.3	+46%
Developing Country Share* (%)	45	16	68	34	57	36	60	48	

* Including centrally-planned developing countries (China, Mongolia, Vietnam, North Korea, and Cuba)

** On the basis of 1982 income (GNP per capita) the Groupings are as follows: Low-income - below $400; Lower-middle income - $400 - $1,650; Upper-middle income- above $1,650. The high income oil exporters were above $6,000. Centrally-Planned developing countries have not been included in these groupings and are shown separately

SOURCE: International Wheat Council

developing countries actually rose in volume by 133 percent between 1961-65 and 1974-76.[1]

In a second and more recent study by John Lee and Mathew Shane at the U.S Department of Agriculture, similar results were found in two specific developing countries which are presumed by many U.S. agriculturalists to be among their most threatening competitors — Malaysia and Brazil. Lee and Shane found that both of these countries, despite rapid agricultural development between 1967 and 1983, increased farm imports along with farm exports. On a wheat equivalent basis, Malaysia's imports of food, feedgrains, and oilseeds (primarily U.S. soybeans) increased from 1 million tons to almost 2.4 million tons during this period. Brazil showed a similar pattern. In spite of Brazil's noteworthy success in boosting farm production and farm exports, it became at the same time a significant agricultural importer of grains in particular. Lee and Shane conclude that "contrary to what seems to follow from common sense reasoning, economic development in the developing countries along comparative advantage lines is not competitive with [U.S.] export interests, but generally complementary to it."[2]

A 1985 study by Earl Kellogg of the Consortium for International Development in Arizona reaches similar conclusions. This study examines per capita changes in agricultural imports in 18 significant developing countries (out of 92) which exhibited the most rapid growth in per capita food production, over the period 1970-1980, and it compares these changes to those in 13 countries which exhibited the least rapid food production growth. The data reveals that this first category of agriculturally successful developing countries increased its dollar value of per capita agricultural imports by 47 percent, compared to only a 37 percent increase among the second group of agriculturally unsuccessful countries. In other words, food imports went up faster when poor country farmers were doing well and making money, than when they were doing poorly and losing money.

This same study also looked at specific cases, by comparing the trade patterns of two agriculturally successful developing countries (Brazil and Korea) to those of a much less successful counterpart (Sierra Leone). It found that in the former case the volume of U.S. farm sales to Brazil and to Korea increased by an average of 8.7 percent and 6.7 percent per year respectively, between 1970 and 1983, while the volume of U.S. farm sales to Sierra Leone actually decreased at a 2.5 percent annual rate. Kellogg concludes that "in the intermediate term increases in agricultural production in developing countries do not have a negative impact on aggregate U.S. agricultural exports to these countries."[3]

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1 Kenneth L. Bachman and Leonardo A. Paulino, "Rapid Food Production Growth in Selected Developing Countries: A Comparative Analysis of Underlying Trends, 1961-76." International Food Policy Research Institute, Research Report 11, October 1979, p. 14.

2 John E. Lee, Jr. and Mathew Shane, "United States Agricultural Interests and Growth in the Developing Economies: The Critical Linkage." ERS, USDA, June 1985, p. 16.

3 Earl Kellogg, "University Involvement in International Agricultural Development Activities: Important Issues for Public Education," speech given at the 1985 Annual Meeting of the Association of U.S. University Directors of International Agricultural Programs, Athens, Georgia, May 31, 1985, p. 135.

Another 1985 study by Richard Kodl at the University of Illinois amplifies Kellogg's findings. Using a regression analysis with time series and cross sectional data on 77 developing countries, Kodl finds no significant negative correlation between per capita agricultural production in developing countries and their per capita imports of agricultural products. In six of thirteen equations, in fact, he finds a significant positive correlation. Kodl's examination of Kellogg's same specific country cases further confirm the aggregate tendency for farm growth in poor countries to stimulate food import growth.[4]

Further evidence to support this same conclusion is also found in a 1986 research note produced by James P. Houck at the University of Minnesota. Using a 44 nation sample and 1983 data, Houck found a relatively close association between agricutural productivity, per capita GDP, and per capita cereal imports. He concludes that "the burden of proof clearly rests with those who argue that agricultural assistance for low-income nations is usually a trade-stifling undertaking."[5]

These findings should not be taken to mean that in every individual case rapid farm growth in developing countries will produce an immediate gain for U.S. farm exports. We know that in some recent cases, for example India and China, record farm production gains have been accompanied by a decline rather than an increase in farm imports. We also know that in some other developing countries, for example Egypt, farm imports have grown rapidly in part because local farm production has not. And in some oil exporting developing countries — especially those which enjoyed windfall foreign exchange earnings during the decade of the 1970s — a sudden growth of farm imports was registered for reasons essentially unconnected to local farm production trends.

Moreover, even if these studies confirm that U.S. farmers and farmers in poor countries can prosper side by side, they do not specifically demonstrate that farm production gains in poor countries are the original cause of these joint gains. In some instances, successful industrial development may have come first, with agricultural production gains following rather than leading the all important step of income growth and dietary diversification.[6] If so, it will be the growth of income but not necessarily the prior growth of farm production that will bring gains to U.S. farm exporters.

In the complex world of development, many different paths can lead to the same outcome, and the same path, when pursued by different countries in different circumstances, can sometimes lead to divergent outcomes. Those policy makers

4. Richard Kodl, Masters Thesis, Department of Agricultural Economics, University of Illinois, 1985.

5. James P. Houck, "A Note on the Link Between Agricultural Development and Agricultural Imports," Staff Paper 86-26, Department of Agricultural and Applied Economics, University of Minnesota, July 1986.

6. The argument that agricultural development followed industrial development, rather than the other way around, has been made in the important case of Korea. See Sung Hwan Ban, Pal Yong Moon, and Dwight H. Perkins, RURAL DEVELOPMENT, STUDIES IN THE MODERNIZATION OF THE REPUBLIC OF KOREA: 1945-1975 (Cambridge: Harvard University Press, 1980), p. 12.

and development planners who want to find a path which consistently links developing country farm development to U.S. farm trade expansion must therefore be wary of generalizations. There is plenty of evidence to suggest that such linkages have already been widely formed. But it is essential to recognize the significant variety of cases in which mutual gains for U.S. farmers and Third World farmers have not been achieved, and the reasons joint gains were not achieved, as a prelude to adopting suitable policy correctives.

Where a Partnership Does Not Exist

In several of the individual country cases examined in the Curry Foundation study, a satisfying link had not yet been formed between local farm development and U.S. farm export expansion. These cases instruct us in the many things that can prevent joint gains between U.S. and Third World country farm operators from being fully realized.

We notice immediately, in the case of China, that farm imports from the U.S. have fallen during the most recent period of remarkable local production gains.[7] Since 1978 the value of farm production in China has risen by fifty percent, due in large measure to price and incentive reforms. The result has lately been fewer Chinese purchases of U.S wheat, and a total halt to Chinese purchases of U.S. corn. In fact, by 1985 China was exporting corn, displacing U.S. sales in a variety of third country markets, including Japan, South Korea, and the Soviet Union.

Farm production growth in China did lead, as expected, to rapid per capita income gains, but these gains did not result in the expected increase in demand for imported food and feedstuffs, in part because most of these income gains were registered in rural areas where local supplies were abundant, and in part because larger consumption demands were badly accommodated by the poorly integrated Chinese marketing system and by the slow moving Chinese bureaucracy. If Chinese development planners can improve these markets and relax these internal controls and constraints, a significant upgrading of the still poor Chinese diet -- to include more animal product consumption -- could yet lead to larger farm import demands.

A highly conservative attitude inside the Chinese government toward the expenditure of foreign exhange, an attitude that was only temporarily relaxed between 1978 and 1984, is also standing in the path of larger Chinese farm imports. It is in part to repair a sagging overall trade balance that the Chinese government has curtailed imports, including food imports, in recent years. China's internal farm production gains have not always been the decisive factor. For example, Chinese corn production fell by 13 percent in 1985, and by 1986 noticeable feedgrain shortages had emerged in the southern part of China, but corn exports were nonetheless continued, no doubt for reasons linked to overall trade strategy. Until China becomes capable of earning more foreign exchange with exports, and until China becomes more comfortable using imports to boost consumption, it may not be joining the smaller states of East Asia as a permanently rewarding market for U.S. feedgrain exports.

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7. See Charles Y. Liu, "Chinese Agricultural Development Strategies Since 1979," paper prepared for the Curry Foundation study.

India is often mentioned alongside China as a developing country that has recently stopped importing food because of internal farm production gains, and has instead begun exporting. In fact, India's recent emergence as a small net exporter of wheat is not so unusual. India was also a net exporter of wheat in 1978-1980, and even for a brief time in 1972.[8] India did import large quantities of U.S. wheat in the 1960s, but in the form of food aid, on concessional rather than commercial terms. India is exporting wheat today not because its internal food needs have all been met, but because low income within India restricts the purchasing power of the population. Because of this lack of effective internal demand, even small localized production gains can result in commercial surpluses and a need to export. If India's several hundred million deperately poor and chronically undernourished citizens should ever gain the income needed to express their unsatisfied food demands, India's current trade posture in international foodgrain markets could quickly be transformed.

U.S. farm exporters have also had reason to be disappointed with the development of marketing opportunities in the Philippines because of the failure of sustained farm sector growth and rapid income growth to develop in the first instance.[9] Rapid farm productivity gains elsewhere in Southeast Asia (a 35 percent increase in the last decade) have helped bring to those countries rapid income growth and an equally rapid growth in consumption of meat and dairy products, resulting in increased imports of both livestock and feed products, and increased business for U.S. farm exporters. But the Philippines "dropped out of the pack" of rapidly developing Association of Southeast Asian Nations (ASEAN) at least a decade ago, and so that country has not been able to offer U.S. agriculture comparable market opportunities. This disappointing growth performance is attributed largely to an inward-looking import substitution development strategy and to the rent-seeking policy stance (especially toward agriculture) embraced since 1949 by a succession of increasingly ineffective and sometimes corrupt political leaders.

Similar difficulties have been encountered in many of the Latin American States.[10] Official policies biased to protect relatively inefficient urban industries and to serve politically powerful organized urban consumer interests has retarded farm sector development in Latin America. Joint gains between U.S. and Latin farmers have also been blocked because agriculture in Latin America has been oriented more toward earning foreign exchange through exports and less toward producing domestic employment and income growth. From nations such as Argentina and Brazil, for example, U.S. farm operators often encounter stiff competition in international farm markets. The Latin farm sector is also less likely to generate broad-based income and hence larger farm imports because Latin peasants are

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8. Robert L. Paarlberg, FOOD TRADE AND FOREIGN POLICY (Ithaca: Cornell University Press, 1985), p. 48.

9. See Ramon Clarete and James Roumasset, "Anatomy of Stagnation: Economic Policy and Agricultural Development in the Philippines," paper prepared for the Curry Foundation study.

10. See Alberto Valdes, "Agricultural Development and Trade in Latin America: Prospects for Reform," paper prepared for the Curry Foundation study.

smaller in relative numbers than in Asia, they are less secure in their access to land, and in most instances they lack the political power to ensure that income from farming will be widely shared. Also, the greater availability of underutilized land resources in Latin America has encouraged a pattern of livestock production based more on the expansion of pasture area and less on the use of imported feedstuffs.

For all these reasons, rapid farm production gains in Latin America will less often stimulate an immediate demand for larger farm imports. In Mexico, for example, the extended period of rapid farm production gains (especially in wheat and corn) which began during the Second World War and lasted through the mid 1960s only lessened Mexico's need to import food. Mexico's grain purchases from the U.S. were later revived during the 1970s, but not so much in response to income or foreign exchange gains generated from farm production. By the 1970s Mexico was earning foreign exchange from oil, and its farm sector (especially its grain sector) was no longer experiencing rapid growth. In fact, the restoration of swift farm sector growth which briefly came thanks to good weather and heavy production subsidies after 1980 only reduced Mexico's purchase needs from the U.S. once more.[11]

Kenya and Tanzania are other countries cited in the Curry Foundation study, and they provide another example of an unsatisfying linkage between farm sector development in the Third World and farm export opportunities for developed countries.[12] Kenya and Tanzania have embraced radically different development policies, Kenya pursuing a less regulated and a more trade-dependent strategy which favors the production of cash crops for export, and Tanzania pursuing a highly regulated and highly insular strategy (which has done little, despite abundant land resources, to boost either domestic cash crop or food crop farm production). But neither of these two African countries has yet reached the level of income or has gained the international purchasing power necessary to emerge as a significant and dependable commercial farm market for the U.S. Kenya periodically imports maize, but primarily in response to cycles of drought rather than in response to any farm income-driven pattern of advanced dietary diversification. Some foresee that Kenya might emerge as a more regular cereal importer in the future, but less because of farm sector success than because of a likely inability to keep up with the basic food requirements of such a rapidly growing population. Tanzania's food imports, most of which are arranged on a concessional basis, already have this disappointing quality.

So even the briefest review of individual country cases reveals that not every developing country is on its way to farm sector prosperity, and not every agriculturally prosperous developing country automatically becomes a better customer for U.S. farm exports. Opportunities may exist for Third World country farmers and U.S farm exporters to prosper side by side, but in many instances and

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11. Merilee S. Grindle, STATE AND COUNTRYSIDE: DEVELOPMENT POLICY AND AGRARIAN POLITICS IN LATIN AMERICA (Baltimore: Johns Hopkins University Press, 1985), pp. 99-100.

12. See Cheryl Christensen, Michael Lofchie, and Larry Witucki, "Agricultural Development in Africa: A Comparison of Kenya and Tanzania," paper prepared for the Curry Foundation study.

for many reasons those opportunities are going to waste. What policy steps, then, might be taken by the U.S. to recover some of these wasted opportunities?

Policies to Promote Partnership

Our prescriptive efforts might begin with a critical review of some recent U.S. farm trade policies which have **not** been making a positive contribution toward the objective of harmonious farm relations between the United States and the Third World. Most of the trade interventions used by the U.S. either to push surplus farm production into developing country markets, or to keep developing country farm production out of the U.S. market, must fall into this category.

Farm export credits, export credit guarantees, and export subsidies (including the $1 billion worth of "payment in kind" export subsidies which are being offered now under the 1985 Export Enhancement Program) are not only an expensive proposition for U.S. taxpayers. They can also be harmful to long-term development prospects in targeted developing countries, where farm prices may fall and where urban-biased governments may be tempted to use their access to those subsidized food imports as an excuse to postpone the adoption of growth-producing and income-generating farm development policies. If the politically vocal urban minority can be fed through subsidized imports, then it remains politically affordable to continue ignoring the long run farm development interests of the rural majority. Not only is an economic injustice done, the broad-based income growth so important to long-term farm trade expansion is further postponed.

Fortunately, the restraint of lavish farm export subsidy policies need not work any great hardship on U.S. agriculture, since experience has shown that U.S. subsidies only tend to be nullified by the offsetting subsidies of other rich export competitors, like the European Community. These competitors can usually afford the budget cost of staying ahead in an export subsidy competition with the U.S. because they are coming into the competition with a smaller total volume of foreign sales to defend.[13] Export credits and export subsidies therefore do little more than cheapen the cost of farm trade for importers, and shift trade into less efficient patterns. They do give the farm state politicans who clamor for these subsidies an opportunity to claim that they are "doing something" in response to a farm trade crisis, but they are neither a proven nor a cost-effective means of expanding U.S. exports.[14] The unprecedented export gains of the mid 1970s, we should remember, were accomplished despite a momentary suspension of all U.S. farm export subsidies.

Food Aid Programs. Some U.S. food aid programs have also been poorly suited to building a partnership between U.S. agriculture and farm development in the Third World.[15] Food aid is not always harmful to Third World farm

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13. For an extended review of this problem, see Robert L. Paarlberg, "Responding to the CAP," *Food Policy*, May 1986.

14. See George E. Rossmiller and M. Ann Tutwiler, "Agricultural Trade and Development: Broadening the Policy Horizon," paper prepared for the Curry Foundation.

15. Further discussion of the relationship between food aid and trade is found in Ed Clay, "Food Assistance: Implications for Development and Trade," paper prepared for the Curry Foundation study.

development, as evidenced by the spectacular farm success of a number of former food aid recipients, such as South Korea and Taiwan. In theory, the public distribution of additional program food assistance could even provide the opportunity for developing country governments to offer higher farm prices to rural producers without raising prices for consumers, while directing added budget and foreign exchange savings toward rural farm sector development. But program food aid (especially when sold directly into local market channels) can also provide leeway for recipient governments to do just the opposite, to hold in place policies heavily biased against farm production, the very policies which probably made a request for food aid necessary in the first place. Recipient country governments that have decided to launch politically difficult internal farm policy reforms can use program food aid to advantage, but so can governments that are looking for ways to avoid or postpone reforms.

At the donor end, program food aid is usually given not because it is the surest way to promote farm development in the recipient country, but because it is a means to dispose of surplus production. It is for this reason that U.S. food aid tends to increase when it is least needed, when international farm markets, are saturated and tends to decrease when international farm markets grow tight. The individual country distribution of U.S. program food aid also makes clear its frequently non-developmental motivation. Egypt — neither the poorest nor the hungriest of all African countries, but an important U.S. diplomatic client — has recently received more than one third of all P.L. 480 Title I assistance. Farm development within Egypt is one stated purpose of this aid, but the Egyptian government prefers instead to use this free food to service the short-term needs of consumers, while taking a "worry later" attitude toward its own lagging farm sector.

U.S. food aid is more likely to serve the needs of poor people in poor countries either when given through carefully targeted feeding projects or when made available as short-term emergency famine relief. In war-torn and drought-stricken Africa today (as in India twenty years ago, when large quantities of U.S. food aid helped the Indian government survive two bad monsoons, and carry through with important domestic farm policy reforms), emergency food assistance programs which start and stop promptly can save lives without disrupting long-term development. This urgent function is by itself an adequate reason for the U.S. to maintain and to improve its capacity to provide project food assistance and short-term famine relief.

U.S. Farm Import Policies. One U.S. farm trade practice which places an unambiguous burden on farm development in the Third World is the exclusion of efficiently produced developing country farm products from the U.S. market. Developing country sugar production, for example, is now admitted into the U.S. market under an ever tightening schedule of quotas, and because of a new "no cost" provision (no cost to U.S. taxpayers) contained in the 1985 Farm Bill, this blatant device for protecting a relatively inefficient but politically powerful U.S. domestic sugar industry will now require that sugar imports from tropical countries be reduced, beginning in 1986-87, by perhaps an additional 600,000 short tons, or roughly by one third.[16] Such quantitative farm import restrictions impose high costs on both U.S. consumers and on efficient farm producers and farm exporters in the developing world.[17]

Developing Country Domestic Policies. It would be an error, however, to explain lagging farm development in developing countries exclusively or even primarily through reference to these various constraints created by farm trade policy in the U.S. On the one hand, U.S. farm trade policies have usually been much less protective, and therefore much less damaging toward developing country farm development, than those of other industrial countries like Japan or the European Community. And on the other hand, the farm policy shortcomings of all the industrial countries put together are probably doing less damage to developing country farm development today than some of the farm policies embraced by the developing countries themselves.

Particularly when dealing with developing country agriculture, there is a limit to what can be done -- either good or bad — from the outside. It is the food and farm policies which poor countries select for themselves which often make the greatest difference, and until now most of those policies have not favored agriculture. If rapid farm development is ever to take place and to play its desired role in the stimulation of broad-based income growth, then political leaders and development planners within those developing countries will have to embrace agricultural pricing policies, land tenure policies, tax policies, public investment policies, credit policies, and exchange rate policies which are not so heavily biased against the interests of the majority of poor people living in the countryside.

Until developing countries abandon the practice of overtaxing their own weak farm sectors in search of revenues to sustain inefficient and inequitable urban consumption and inefficient industrial development patterns, there will be a limit to what they can gain from any farm trade policy changes initiated by the U.S. These necessary internal policy adjustments will run against the grain of political convenience and ideological preference in most developing countries, so their embrace will be problematic from the start.

Even more problematic, however, will be the efforts which the U.S. might think it can undertake to induce these adjustments from the outside. Such efforts have been at times successful in the past, most conspicuously in countries like Taiwan and South Korea, after the Second World War and in the 1950s, when both countries embraced a sweeping land reform, invested in agriculture, eventually abandoned inward-looking import substitution development strategies, and devalued their currencies, all at least partly in response to advice and assistance from the United States. It is a tribute to this U.S. advice and assistance that Taiwan and South Korea today are not only among the wealthiest of the developing countries, but also among the most agriculturally successful, and are by far the best commercial customers in the developing world for U.S. farm exports.

But in other countries and under other conditions, U.S. officials may not be in a position to play such a decisive role. Inducement worked in South Korea and

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16. *Inside U.S. Trade*, Vol. 3, No. 51, December 20, 1985, p. 1.

17. In a somewhat disingenuous fashion, some U.S. officials have now talked about compensating the Caribbean Basin countries for this loss of sugar markets with additional free deliveries of surplus U.S. rice and corn. This sort of "compensation," obviously self-serving to U.S. agriculture, might only redouble the damage done to farm development in developing countries.

Taiwan because U.S. security interests were high enough to make unprecedented levels of per capita assistance seem affordable, and because South Korea and Taiwanese security fears were also high enough to inspire unusual deference toward the U.S. A variety of unique and unrelated internal political circumstances within both South Korea and Taiwan added still more to the likelihood of success. In most developing countries today these preconditions for successful outside inducement are not to be found. And where they are absent, efforts at outside inducement can backfire.[18]

Efforts by the United States today to induce food policy changes within developing countries, through the manipulation of today's much less generous development assistance programs, are by no means certain of producing the intended result. The efforts of the current administration to induce greater Third World reliance on the "private sector" are not only likely to be enfeebled by unprecedented aid budget cutbacks; these privatizing efforts, if they become single minded, may not always be appropriate in any case. Well designed public sector interventions, we should remember, played a key role in the original development success enjoyed by both South Korea and Taiwan.[19] And once again there is the sad tendency for all bilateral economic aid programs to be captured, sooner or later, by administrators who do not have developmental purposes uppermost in mind. In 1986, roughly half of the entire U.S. foreign assistance budget is going to just two not so poor countries — Israel and Egypt — and most of the rest is going to a handful of other favored diplomatic clients and allies, like Turkey, Pakistan, El Salvador, Greece, Spain, the Philippines, Portugal, and Honduras. The hypothetical contribution that well-funded and well-constructed U.S. bilateral assistance policies might be able to make toward the inducement of farm development in the Third World is therefore probably destined to remain largely hypothetical.

The politicization of development aid could largely be avoided if more assistance were channeled through neutral multilateral agencies, such as the International Development Association (IDA) of the World Bank. Unfortunately, Congressional and administration support for multilateral development lending has recently been weakening. Largely because of cutbacks initiated by the current U.S. administration, worldwide IDA contributions have fallen. And Congressional misgivings about multilateral farm development lending in particular have now led to a legislative proposal which would oblige the U.S. government to withhold its support from all loans to poor countries that might possibly bring increased competition for U.S. farm operators, without thought to the income generating potential of those loans.[20]

Beyond Farm Policy Change

Fortunately, farm policy changes narrowly defined are not the only means available to seek improved agricultural trade relations between the United States

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18. For some examples, see Sidney Weintraub, ed., ECONOMIC COERCION AND U.S. FOREIGN POLICY (Boulder, Colo.: Westview Press, 1982).

19. Jeffrey D. Sachs, "External Debt and Macroeconomic Performance in Latin America and East Asia," *Brookings Papers on Economic Activity 2*, William C. Brainard and George L. Perry, eds., Washington, D.C.: The Brookings Institution, 1985, p. 545.

20. S 1810, the 1986 Foreign Agricultural Investment Reform (FAIR) Act.

and the developing world. Agricultural trade does not only respond to changing levels of farm production, or to the changing levels of income that might be driven by farm production, or to the changing character of farm trade interventions by rich and poor country governments. Agricultural trade patterns are also responsive to powerful economic forces from beyond the farm sector. It is in this wider economic environment that a second category of policy remedies must be examined.

Observers have often failed to appreciate the decisive impact of non-farm policy forces on international farm trade. When developing countries suddenly began importing more food during the decade of the 1970s (the value of developing country farm imports nearly quadrupled between 1972 and 1980), most casual observers looked for a farm sector explanation. They assumed the developing countries were experiencing a decade long setback in their own farm production. A small decline in developing country per capita farm production was briefly registered in 1972, but the sudden surge in imports was more heavily influenced by rapid income growth in the Third World (6.2 percent real GNP growth among the developing countries in 1972, increasing to 7.4 precent in 1973), plus a variety of changes in the global lending environment brought on by abundant petrodollars and a loose U.S. monetary policy (resulting at times in negative real interest rates). As a result of these non-farm sector changes, many middle income developing countries were able to borrow heavily during the 1970s to purchase a record volume of imported consumer goods, including food.

Setbacks in developing country farm production were not a primary driving force behind this change. The United Nations Food and Agriculture Organization (FAO) volume index of agricultural production for all developing market economies increased at a respectable 3.0 percent annual rate during the decade of the 1970s. In fact, while developing countries were importing more farm products during this remarkable decade of increasing trade expansion, they were also producing and exporting more. Our own study shows that during the so-called "food crisis" decade of the 1970s the traditionally positive balance of developing country farm trade actually strengthened.[21]

When developing countries suddenly stopped increasing their purchases of imported farm products after 1981, some observers again tried to draw the erroneous conclusion that a farm sector turnaround must have brought the change. It became fashionable to talk about a sudden explosion in developing country farm output. But our study's comparison of developing country per capita farm production trends in the 1970s and in the 1980s indicates that there was no such turnaround. Judging from the FAO volume index of agricultural production for all the developing market economies, developing country farm production gains actually slowed a bit during the first half of the 1980s, increasing at only a 2.9 percent annual rate, compared to the 3.0 percent rate of the 1970s.

The Global Macroeconomic Environment. What was constraining developing country farm imports in the 1980s was not the sudden success of farming in the Third World, or anything else having to do with farm or farm trade policy. What had changed was the condition of the larger global economy and the macroeconomic environment in which farm trade must function. When the cost of

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21. See T. Kelly White, Gene A. Mathia, and C. Edward Overton, "Global Trends in Agricultural Production and Trade," Paper prepared for the Curry Foundation study.

OPEC oil redoubled in 1979, simultaneously dampening growth opportunities and driving up prices, the new leadership at the U.S Federal Reserve Board suddenly resolved to curb inflation with a more disciplined U.S. monetary policy. In part because U.S. fiscal policy remained essentially undisciplined, this monetary approach was able to bring inflation under control only at the price of a deep world recession.

It was high interest rates and the world recession of 1981-82 that put an end to U.S. farm export expansion in the developing world, not a surge in developing country farm production. In fact, these same depressing macroeconomic conditions also put an end to developing country farm export expansion. Developing country farm exports actually fell faster than imports in 1981 and 1982, producing a brief and an unusual net farm trade deficit for the Third World. Africa's total export earnings include a large agricultural component and during the decade of the 1970s they increased more than seven fold, but they suddenly fell by more than one third during the first half of the 1980s.

Food import demand in the developing countries eventually fell even more than their exports after the final collapse of GNP growth rates. Our study shows that annual GNP growth among the developing countries, which had averaged a strong 6 percent during the 1970s, fell to 1.4 percent in 1981, to 0.9 percent in 1982, and to a dismal 0.4 percent in 1983. GNP growth per capita was negative.

Even if GNP growth in the developing world had somehow been restored during this world recession, the sudden inability of the developing countries to earn foreign exchange (in part because of newly protectionist industrial country trade policies) would have reduced sharply their ability to import farm products. It has been established that export earnings are even more decisive than income growth in determining the level of developing country farm imports.[22]

Unable to earn additional foreign exchange through exports, unable to borrow additional foreign exchange from abroad because of high interest rates, and obliged to use most foreign exhange on hand to service past debts, the developing countries understandably reduced their food and farm imports after 1980. Because this newly adverse global economic environment also brought with it higher dollar exchange rates and hence relatively uncompetitive U.S. farm export prices, this developing country import reduction was felt most strongly by farm exporters in the U.S.

Even with all of these difficulties, however, the developing countries have continued to be good customers for U.S. farm exports in the 1980s. Compared to others, in fact, they have actually become better customers. The developing countries did reduce their purchase of U.S. farm products early in the 1980s, but less so than other foreign customers in the developed world and among the centrally planned economies, as Table 2 indicates.

22. Lee and Shane, p. 11.

Table 2

DEVELOPING COUNTRY FARM IMPORTS

As Percent of Total U.S. Farm Exports

	Food Grain	Coarse Grain	Oil-seed	Cotton
1980	55	29	15	42
1983	67	42	19	44

Source: White, Mathia and Overton.

What these figures indicate is that the U.S. farm export crisis of the 1980s would have been even worse if it were not for our relatively dependable customers in the developing world. Furthermore, the future prospect is that the developing world will continue to provide the only dependable source of farm market expansion for U.S. exporters. Long-term trends indicate an increasing developing country reliance on farm imports: they imported about 15 percent of their total wheat and coarse grain consumption in the early 1960s, roughly 20 percent in the mid 1970s, and about 25 percent by the 1980s.[23] Among industrial nations, such as those of the EC, long-term self-sufficiency trends have of course been in the opposite direction.

The argument we wish to make here is that U.S. producers and exporters ought not to give up on farm market expansion in the developing world. Developing country markets have fallen short of expectations lately, but not because of any inevitable or irreversible long-term transformation of the world's food or farm economy. The problem has been a sudden change in the global macroeconomic environment, traceable largely to non-farm policy decisions, including some that have been taken here in the U.S. What has recently been lost through a sudden change in the non-farm policy environment can at least partially be regained, if and when macroeconomic conditions rebound.

The Importance of Non-Farm Policy Change to Reviving Mutually Profitable U.S. Farm Trade With Developing Countries

Unfortunately it is not possible for the U.S. government by itself to reverse all of the macroeconomic circumstances and policy changes that originally helped throw world farm trade into its continuing recession. Oil prices have at least come down, which ought to give the Federal Reserve Board more flexibility to expand the money supply so as to bring down interest rates and dollar exchange rates without immediately reigniting inflation. Falling interest rates in particular are a tonic, both to the heavily indebted developing countries that purchase U.S. farm products, and even more directly to the heavily indebted farm operators in the U.S. who sell those products. And falling dollar exchange rates in time will help U.S. producers

23. USDA, Foreign Agriculture Circular, FG-1-86, January 1986, p. 1

recover part of their earlier competitive position against rival exporters, ensuring that when farm trade expands they will again enjoy a respectable share of the profit.

But the other factor that made tight U.S. money policies necessary after 1979 --the inflationary bias in U.S. fiscal policy - is still with us, in the form of federal budget deficits still projected into the $200 billion range. Until some fiscal policy discipline is restored, there will be a limit to how much U.S. monetary policy can prudently be relaxed.

Pending greater fiscal policy discipline in the U.S., there are still a number of important non-farm policy steps that might be taken to help revive mutually profitable farm trade relations with the developing world. The first of these is to encourage a more growth-oriented pattern of debt rescheduling in the developing world, and the second is to avoid a lapse into full scale industrial trade protection at home.

Until late in 1985, U.S. policies toward debt rescheduling in the developing world were focused too heavily upon the supposed need to balance static accounts. If developing countries balanced their budgets and their foreign trade accounts - even if this meant zero growth and a termination of imports -- they were deemed more worthy of new lending. The damage done by this attitude to growth prospects within poor countries, and also to growth prospects for U.S. exporters, was needlessly severe. Finally last fall, at the annual meeting of the World Bank and the International Monetary Fund (IMF), Treasury Secretary James Baker presented what he called a "Program for Sustained Growth", which placed greater emphasis upon dynamic growth initiatives in the developing world, as a basis for asking the commercial banks and the multilateral banks to provide more funds for rescheduling. A more recent plan put forward by Senator Bill Bradley would stress lower interest and principal payments on exisiting loans, but would also require added World Bank and development bank lending. Either plan will mean difficult requests to Congress for more funds to support lending and assistance to developing countries through multilateral channels.

A second needed initiative, just as far beyond the traditional realm of farm policy, will be a reversal of the trend in Congress toward highly protectionist industrial trade policies. In May 1986, by a vote of 295 to 115, the House of Representatives passed trade legislation which would require, as its central provision, an across-the-board reduction of imports from trading partners that maintain "excessive" trade surpluses with the U.S. The countries which would be most damaged by this trade provision happen to be among our best overseas customers for farm exports, including the EC, Japan, and Taiwan. Despite the problems the EC causes for U.S. farmers, it still takes more U.S. farm exports ($6.5 billion worth of purchases yearly) than anyone else. Japan is second ($5.4 billion), and Taiwan seventh ($1.2 billion). The punitive provisions of this bill could easily provoke these customers into a retaliation against U.S. farm exporters. This most recent manufacturered trade policy threat to U.S. agriculture was opposed before the House Ways and Means Committee by nearly a dozen organized agricultural interest groups.[24] Influential farm organizations and related agroindustries will now have to work hard to block similar action in the Senate.

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24. Included among these were the American Soybean Association, Farm and Industrial Equipment Institute, Grain Sorghum Producers Association, Millers' National Federation, National Association of Wheat Growers, National Grange, National Soybean Processors Association, National Turkey Federation, Rice Millers Association, and the United Fresh Fruit and Vegetable Association.

Conclusion

Our study has shown that there need not be a contradiction between the goal of promoting Third World farm development and the goal of promoting U.S. farm trade expansion. With the proper policies in place, these two goals can be successfully pursued side by side. These proper policies, which have been discussed at greater length above, are listed in summary fashion in Figure 1.

The four sequential steps which logically link together developing country farm production and U.S. farm exports are listed across the top of Figure 1. More developing country farm production makes easier the stimulation of broad-based income growth and dietary enrichment, which makes easier the expansion of developing country farm imports, which in turn makes easier the expansion of U.S farm exports. The function of public policy should be to support each of these four steps simultaneously, so they will be able to link together and support one another in the desired fashion.

We have argued here that four different categories of policy action may be necessary to perform this supporting function: both farm and non-farm policy action, taken by both U.S. and Third World policy officials. These four categories of policy action are listed vertically at the left hand side of Figure 1. Within Figure 1 are listed the various specific policies, category by category, which can help support each step in the desired four step sequence.

Note that the policies listed in column 1, in support of more farm production in developing countries, imply some measure of policy responsibility of officials everywhere. But the more difficult and the more essential actions listed in column 1, such as farm market deregulation and much larger public investments in the farm sector, can only be taken by policy officials in the developing world itself. And when we look to column 2, where the purpose is to promote broad-based income growth and dietary diversification in poor countries, the burden of necessary action shifts even more heavily onto the developing world. Without some of the social and institutional changes within developing countries that are listed here, there may be little in support of Step 2 that even the most positive U.S. policy initiative can accomplish from the outside.

But as we move to columns 3 and 4, where international trade responses are more at issue, the policy burden begins to shift more clearly onto the United States, and specifically onto those in the U.S. who make the macroeconomic policies and the other non-farm policies that do so much to condition the larger international farm trade environment. At these later steps in the sequence, if the essential U.S. non-farm policy initiatives are missing, there may be little that even the wisest developing country policies can do to produce the final desired outcome.

As a point of warning, Figure 1 has been designed to describe only the most desirable sequences of events — that which eventually links more farm production in developing countries to more U.S. farm exports. We have admitted here that several less desirable sequences can form. For example, Step 3 and Step 4 can sometimes be taken, and U.S. farm exports to the developing world can sometimes grow, even without the successful completion of Steps 1 and 2. In those poor countries where oil export revenues have led in the past to larger farm imports, for example, only the second half of the sequence described in Figure 1 has been in operation.

Also, note that if any of the intermediate steps in this sequence is missing, it is possible that the final outcome will be reversed. Note that without Step 2 —

FIGURE 1

Policy Matrix for Promoting Additional Farm Production and Income Growth in Developing Countries Together with Additional United States Farm Exports to Developing Countries

CATEGORIES OF POLICY ACTION	STEP 1 Farm Production in Developing Countries	STEP 2 Broad-based Income Growth and Dietary Enrichment	STEP 3 Larger Developing Country Farm Imports	STEP 4 Larger US Farm Exports to Developing Countries
Developing Country Actions: Farm Policy	More public investment in agriculture Fewer farm market restrictions biased against agriculture, giving producers access to market prices	Social and institutional change, to ensure more equitable access to land, water, cattle, credit, etc. Expansion of animal product production		
Developing Country Actions: Non-Farm Policy	Tax policies, credit policies, wage policies, education policies, and exchange rate policies less biased against agriculture	Policies which diversify rural employment Policies which stimulate industrial growth	Development strategies built around openness to trade	
United States Actions: Farm Policy	Increase bilateral and multi-lateral farm development assistnace Less reliance on program food aid for pursuit of purely farm export or foreign policy objectives		Relaxation of quota import restrictions on tropical farm products, accompanied by structural adjustment to downsize domestic production of such products	Market-oriented commodity policies, including target prices as well as loan rates Trade liberalizing agreements with other developed countries
United States Actions: Non-Farm Policy	Increase bilateral and multi-lateral non-farm development assistance	Foreign policies which tolerate rapid social and institutional reform in developing countries	Industrial trade policies, developing country debt policies, and domestic macroeconomic policies designed to produce world trade expansion, including expansion of developing country exports	International monetary policy coordination to stabilize and reduce dollar exchange rates

without the successful promotion of broad-based income growth and dietary enrichment the impact of Step 1 on Steps 3 and 4 can be reversed. More farm production in such cases can have the effect of reducing farm imports from the U.S., instead of increasing those imports. Alternatively, in an unhealthy macro-economic environment some developing countries might fail to take Step 3. They might feel themselves obliged to cut farm imports and boost farm exports to help service foreign debts, and they might feel themselves forced to pursue Step 2 more on their own resources, rather than through a dependence on expanded foreign trade. If so, Step 4 may never be reached.

The sequence described in Figure 1 is therefore not the only one that can form. But we have argued here that it is the most attractive sequence that can form, and the one which will promote the desired partnership between the developing world and the United States, therefore it is the sequence that our policy prescriptions should be designed to encourage. The purpose of this study has been to lay out these policy prescriptions in an orderly fashion, listing the various actions which public officials can take to promote a harmony of interests between U.S. and Third World agriculture This, of course, is the easy part. Persuading responsible officials in both the U.S. and in the developing world to act on this list of prescriptions will require much more.

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ABOUT THE FOUNDATION

The Curry Foundation is a non-partisan, not-for-profit (501 c 3), private operating foundation dedicated to the study of American policy issues and alternatives. The Foundation devises and coordinates studies which examine policy areas in which the trustees and staff believe the exchange of perspectives across social, ideological and disciplinary boundaries may lend important insights to the formulation of American policy.

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The catalyst and vehicle for this move was a study on American agriculture, completed in 1984, entitled "Agriculture, Stability and Growth: Toward a Cooperative Approach." A related project examining U.S.-European agricultural relations entitled "Confrontation or Negotiation: United States Policy and European Agriculture" was completed in the Fall of 1985. And in the Winter of 1985 the Foundation initiated its study on American agriculture and Third World development.

Underway in 1986-87, and guided by the Foundation's immediate orientation toward the exploration of even broader themes in U.S.-international relations, is a study examining U.S. economic assistance and trade policies toward the developing world.

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