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USAID highlights

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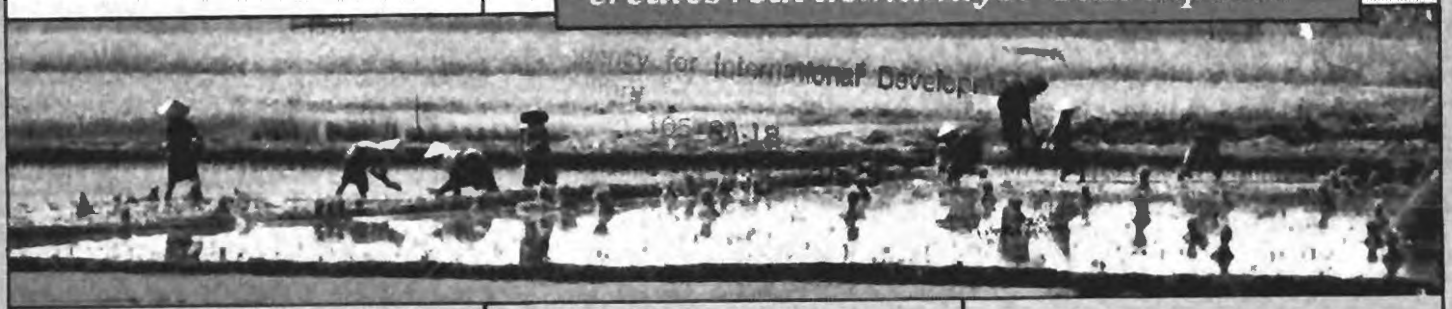
Third World Growth Helps U.S. Farmers

For years, the U.S. Agency for International Development (USAID) has helped Third World countries grow by stimulating their most basic industry: agriculture. Unfortunately, the current woes of the U.S. farm economy have many Americans wondering if USAID is only helping the competition.

The facts tell a different story: USAID's goal of building stronger economies in less developed countries (LDCs) is the best way to generate new markets for U.S. commodities. Strange as it might sound, it would be better for America's farmers if the United States invested *more* in agricultural development overseas, not less. The reasons are fairly simple:

- Third World countries already are reliable customers for U.S. farm products, and they represent the fastest—and perhaps only—growing market for American produce.
- Those LDCs that could use U.S. food *most* can afford it *least*. The record shows that as their economies are strengthened and their purchasing power is increased, LDCs have been ready customers for U.S. farm goods.
- There is no better or quicker way to jumpstart the Third World economy than by getting back to basics—developing *agriculture*.
- Even if a developing country becomes an exporter of commodities grown by American farmers, its new demand and ability to afford other U.S. exports are net gains for American producers. Nevertheless, USAID purposely does not support competition with U.S. agricultural commodities.
- Much of the agricultural research used to help overseas farmers has been applied with beneficial results here at home, as well.

"Improving Third World agriculture creates real demand for U.S. exports."



Doing Well by Doing Good

To help America's friends in the Third World meet short-term needs, USAID provides food to poor countries. In 1986, for instance, $1.8 billion worth of U.S. farm products were exported to LDCs through U.S. food aid programs. These exports, which USAID ensures do not disrupt commercial sales, are in themselves critical to the ailing U.S. farm economy. In fact, the record shows that food assistance can produce lucrative trade relationships as LDCs grow into paying customers.

Past recipients of U.S. food aid are now among the top purchasers of U.S. agricultural exports. In 1986, seven of the 10 leading importers of U.S. farm goods had been Food for Peace (Public Law 480) recipients. Of the 50 largest customers of American commodities, 30 are developing countries, 13 have received P.L. 480 assistance and 21 are former beneficiaries.

So, USAID's short-term food assistance program is an important outlet for U.S. farm products and has generated new commercial markets by helping strengthen the people and economies of developing countries.

The Agency has an effective long-term strategy at work in the Third World. To promote economic development, USAID makes the most of what it finds in a country. And, in most LDCs—where the people are hungry or barely getting by—a farmer's field is the best place to begin to provide for basic human needs and get an economy moving.

Some U.S. farmers might be concerned that helping a corn farmer in the Third World undermines their

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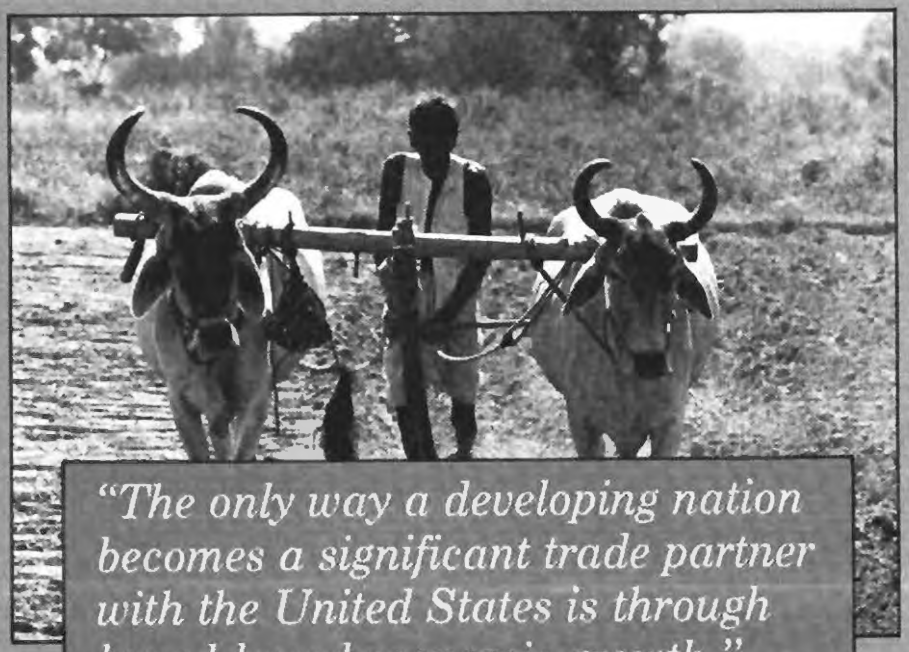


"The only way a developing nation becomes a significant trade partner with the United States is through broad-based economic growth."

export sales. The fact is the type of farmers who benefit from USAID projects could never dream of competing with U.S. producers. But they could use a bit more food in their bellies and extra income to provide for other basic needs.

Income: The Vital Link

Besides enabling a nation to feed itself, USAID wants to make agriculture the engine for growth. The idea is that the improved profits realized from a better rice yield, for instance, will be plowed back into the local economy, generating new jobs—on and off the farm—and even more income. Gradually, the country's economy starts to move, and, as it gathers steam, the demand for U.S. exports grows.

"The developing world has a need; you have a product," USAID Administrator Peter McPherson told a group of farm leaders at a recent White House meeting. "The vital link is income."

Not Just a Lot of Theory

It's been said that an economist is someone who sees something work in practice and wonders if it will work in theory. To be sure, the Agency's work isn't just a lot of theory. USAID has practical results to show for its strategy to vitalize Third World economies through agricultural development.

And, the benefits to U.S. farmers are just as apparent. As their economies have grown, LDCs have replaced developed countries as America's fastest growing markets. By 1985, developing countries accounted for over three-fourths of U.S. wheat exports, one-third of corn and barley and one-third of soybean oil and meal.

Many agricultural economists have weighed in behind the fact that what's good for developing economies is good for U.S. exports. A study by the U.S. Department of Agriculture (USDA) found that a 10% increase in per capita income in developing countries led to a 13.6% rise in American exports to those countries.

The faster the Third World economy grows, the better it is for U.S. farmers. One study revealed that agricultural imports by LDCs with more rapidly growing economies exceeded imports by their weaker sisters by 34%.

USAID programs build friendly, cooperative relations that pay off when a country sets out on its own. There are sterling examples of countries that have "graduated" from U.S. assistance programs and become reliable commercial customers of American feedgrains, wheat and soybeans.

Countries that have received substantial American aid have increased their imports from the United States at a 30% faster rate than their purchases from other nations. In 1981 alone, South Korea imported $2.1 billion worth of agricultural products; that's more than the value of all U.S. food aid provided to that country between 1955 and 1979.

"Raising productivity in agriculture in developing countries generally does not pose a competitive threat to U.S. producers," sums up Edward Schuh of the World Bank. "On the contrary, it creates the potential for future markets as incomes increase."

Will U.S. Farmers Miss Out?

The facts show that U.S. farmers have benefited substantially from Third World growth in the last decade. By the same token, the predicted slowdown in world development will be felt by American agriculture at a time when it is most vulnerable. And, if U.S. foreign aid is decreased, it will cripple this country's ability to tap the potential agricultural markets in the Third World.

"The LDCs have the demand, but many don't have the hard currency to purchase U.S. products," says Dan Piper, a USDA economist assigned to USAID's Office of Agriculture, explaining the importance of U.S.-assisted economic development in the Third World.

Another factor that should not be neglected is that between now and the year 2000, there will be an additional 1.2 billion people in the Third World. If developing countries can generate enough income to purchase food and feedgrains, they will be an enormous potential market for U.S. products.

"U.S. farm exporters have an unmistakable interest in promoting income growth in the developing world," observed Robert Paarlberg in a recent Curry Foundation report on U.S. agriculture and LDCs. "It is not the hunger of poor countries, or even the growing populations, that makes them better customers for U.S. farm products. It is the purchasing power that comes from their growing wealth."

"The bottom line is that—for the

purposes of increasing U.S. exports of agricultural commodities, chemicals and machinery and of achieving food security—developing countries must grow more rapidly," McPherson counsels.

"U.S. foreign assistance is necessary to help them develop their economies so they can increase their agricultural imports. If we do not, we will not only fail to gain their trade, we might lose them as allies," he cautions.

Competitors or Trade Partners?

Developing countries are more than markets to be tapped. For a nation to grow, the people must be allowed to make their own decisions about their economic future. Naturally, Third World farmers aren't about to fight the tide and try to grow a product not suited for their homeland. Many of the items they grow—tropical fruits, coffee, etc.—could never be grown profitably in the United States.

At the same time, when a farmer can grow corn, wheat or rice, he's bound to do so if it means food on the table. It also makes good economic sense for a country to do whatever it can to increase its agricultural exports to earn badly needed foreign exchange.

"The type of farmers helped by USAID could never dream of competing with U.S. producers."

Here's where some understandable concern among U.S. farm leaders has been stirred. They cite the decline in U.S. agricultural exports from $48 billion in 1981 to $26 billion in 1986. The idea of a U.S. agency giving any type of aid to a country that grows products that American farmers are trying to sell just doesn't sit well.

"USAID takes special care to avoid supporting increased production of agricultural commodities for export by developing countries that would significantly compete with our own," assures Duane Acker, director of USAID's Office for Food and Agriculture.

But there's much more to it: In the long run, LDC food production increases are not detrimental to the United States. Between 1961 and 1976, the 16 fastest-growing, *food-producing* LDCs expanded their net food imports by more than 7% annually, according to an analysis by the International Food Policy Research Institute. Let's look at specific cases.

Brazil has made considerable progress in economic development since the 1960s. Fueling this growth was a 70% increase in agricultural production from 1970 to 1981—impressive progress by any standard. The non-agricultural sector prospered as rural incomes increased. With these mighty forces at work, Brazil took in enough foreign exchange to put it in the market to buy more U.S. commodities.

While Brazil became a healthy competitor in the export market—especially in soybean meal and oil—its U.S. wheat, corn *and soybean* imports increased rapidly during this period. The value of these U.S. agricultural goods purchased by Brazil grew nearly 25% per year from 1970-81. And, almost all of these were private *cash* purchases.

Malaysia also developed to a point where it is now a net exporter of agricultural goods. But to call that country a competitor with American farmers would be reading only one side of the ledger. Malaysia's farm-led prosperity has made it able to afford increased U.S. imports. From 1967 to 1983, Malaysia doubled its import of food, feedgrains and oilseeds. And, even though that country produces palm oil, which competes with soybean oil for some uses, it has become a significant customer for U.S. soybeans since 1979 due to its growing livestock industry.

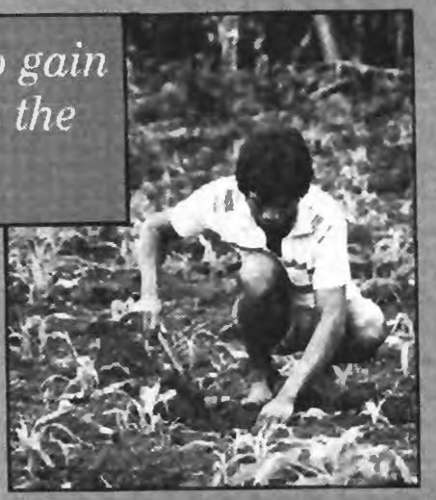
"The best thing for American producers is to spur Third World development to make these nations into willing and able customers for U.S. goods."

So, it's over-simplified to say that increased agricultural production in Third World countries takes markets away from U.S. farmers. In fact, these examples show that the best thing for American producers is to spur Third World development to make these nations into willing and able customers for U.S. goods.

As for the overall decline in U.S. exports, only 40% of the $11 billion loss can be attributed to lost sales to developing countries; most of the problem lies with reduced purchases by developed countries, according to Earl Kellogg of the Consortium for International Development.

Kellogg blames the drop in U.S. exports during the past few years on the over-valued dollar, the worldwide economic slump, foreign exchange being soaked up by foreign debt payments and the fact that the U.S. policy of supporting higher agricultural prices has encouraged other developed countries to increase production and exports. "None of these reasons has to do with increasing

"U.S. farmers stand to gain from income growth in the developing world."



agricultural production in developing countries," Kellogg stresses.

Research: More to Gain

The United States has even more to gain from the investment in Third World agriculture: The latest research and potentially useful new crop varieties are being perfected in international agricultural centers around the world.

If you sat down in a restaurant and ordered only food domesticated on U.S. soil, you would certainly leave the table hungry. Corn originated in Central America, soybeans in Asia and wheat in the Middle East. Since the days of Thomas Jefferson, American agriculture has imported plants and seeds from foreign shores, says Dana Dalrymple, a USDA agricultural economist assigned to USAID's Office of Agriculture.

"The United States is the largest user of agricultural technology," Nyle Brady, senior assistant administrator of USAID's Bureau for Science and Technology, points out. "We have as much to benefit from agricultural research as any country."

Semi-dwarf wheat varieties—with genes brought here from Asia—covered no less than 60% of U.S. wheat acreage in 1984. About one-fifth of the wheat and rice varieties planted in the United States can be traced to research centers in the Third World and Japan.

Looking at this resource from another angle, more effective resistance to diseases and pests can be perfected in countries where pesticides have not reduced biological control agents for diseases, weeds and insects. U.S. researchers can extract genetic materials from crops in their native settings and breed resistance into varieties used by American farmers.

Again, this is more than a lot of theory. The genetic sources of resistance to wheat rust come from Kenya. The resistance in the U.S. potato crop to the golden nematode originated in Peru. And, USAID-supported research in the Third World is credited with containing the peanut stripe virus that could have inflicted untold damage on the U.S. peanut crop.

"We must have research to stay competitive," Brady contends. "And, we could do a lot more to take advantage of overseas research." Citing the benefits of wheat and rice varieties, he says there is not enough study of other commodities that could benefit U.S. farmers. This will require more U.S. participation in the development of Third World agriculture, not less.

Help Others, Help Ourselves

"It's time for U.S. farmers and all Americans interested in agriculture to stop looking at Third World countries as competitors and see them for what they have become: a larger component of our market with potential for even more growth," Acker advises.

"To become good customers of U.S. farm products, countries first need money to buy. And, the only way a developing nation becomes a significant trade partner with the United States is through broad-based economic growth."

"U.S. foreign assistance helps, not harms, American agricultural exports," McPherson sums up. "Being the 'Good Samaritan' in the modern world means that we must search for the delicate balance that allows us to help ourselves through helping others."

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