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AN ARGENTINE PERSPECTIVE ON RECENT AGRICULTURAL TRADE AND POLICY DEVELOPMENT

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Production

The Argentine postwar production pattern can be summarized in table 1. Argentine grain production was stagnated during the forties and fifties, grew by more than 3.2 percent a year in the sixties and seventies, and grew even faster at 5.8 percent during 1981-85.

Grain production increased faster in Argentina than the rest-of-the-world during 1960-85. Argentine growth rates for oilseeds almost doubled that of the world and it was 40 percent higher for the grains (table 2).

The postwar Argentine and world patterns of grain and oilseed trade can be summarized as follows:

- o Exports grew faster than production both in Argentina and the rest-of-the-world, implying the increasing importance of trade for these items.
- o Argentine exports increased faster than those of the rest-of-the-world. Argentina increased its market share for wheat, oils, and feed grains during 1960-85.

World exports of wheat, feed grains, and oilseeds have virtually stagnated at approximately 200 million tons since 1980. Production has continued to grow, increasing 100 million tons between 1980-85. An imbalance between production and consumption growth has lead to an

Table 1--Argentine grains and oilseed production
and growth rate

Year	Production	Average annual growth rate
	Million tons	Percent
1959-61	16.0	- -
1969-71	22.3	3.4
1979-81	30.5	3.2
1984-86	40.4	5.8

Source: USDA.

Table 2--Argentine agricultural exports and annual growth rate of
exports for selected 3-year periods

Year	Exports			Growth rates		
	Grains	Oils	Oilseed by products	Grains	Oils	Oilseed by products
	- - - Million Tons - - -			- - - Percent - - -		
1959-61	5.25	0.27	0.76	- -	- -	- -
1969-71	9.28	.29	.92	5.9	0.8	1.9
1979-81	16.83	.65	1.62	6.1	8.4	5.8
1984-86	20.18	1.38	4.06	3.7	16.2	20.1
1985-60	- -	- -	- -	5.5	6.7	6.9

- - = Not available.

Source: USDA.

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enormous accumulation of stocks and a sharp decrease in the international prices of grains. The accumulation of stocks in the United States and the European Community (EC) coincides with domestic policies that support prices received by farmers and that tend to isolate them from the rest-of-the-world market.

Growth of Grain Production and Trade

The rapid growth in world grain trade can be analyzed in terms of factors affecting supply and demand. Rapid technological change and the implementation of domestic policies that tend to protect farmers from world market forces are the most important elements explaining supply response. Both factors have become increasingly important since World War II, particularly in the EC and North America.

New technological developments allowed countries that had the political will and agricultural infrastructure to obtain self-sufficiency by using domestic policies that isolated their farmers from world market conditions. By introducing "artificial" input/output price ratios, they encouraged intensification of agricultural production. This phenomenon, concentrated in the developing countries at the beginning of the period, spread to many developing countries in the sixties and seventies with the "green revolution" and more recently to China.

Argentina also benefited from technological developments. More than 75 percent of its production increases in the past 25 years were due to productivity increases. Only 25 percent was due to expansion in planted area. Argentina, unlike other exporters, didn't use protectionist agricultural policies. Indeed, Argentine farmers have been faced with export taxes and an overvalued exchange rate for the past 25 years. Thus, increases in our grain production and market shares are based on the competitiveness and low cost of agricultural production in Argentina. This competitiveness has resulted from the quality of our natural and human resources and the technological improvements that farmers have adopted over this period.

The overall economic environment, political conditions, and agricultural policies have induced Argentine farmers to build a very efficient production system, which is able to cope with instability, changes in relative prices, and external competition. Improved seed use, crop management, and proper use of machinery have been preferred to intensive use of chemicals, determining a "less risk-less intensive" technological pattern. This has not lead to as high yields as those obtained in the EC and United States, but it is more appropriate for Argentine farmers, given their economic conditions.

On the demand side, sustained global economic growth generated dramatic increases in consumption in the sixties and seventies. The global economic problems encountered in the midseventies were compensated for by the emergence of some "new rich" countries (mainly oil exporters and southeast Asian countries) and the "easy money" period that followed the oil crisis. Things changed sharply in the eighties with the "debt crisis" that exploded in 1982, the increase in real and nominal interest rates, and the global recession that followed.

Present Situation and Perspectives for the World Grain Markets

The current situation is dramatically different from the one prevailing in the past two or three decades. The world market is affected by an excess of supply, concentrated in the developed countries, and a much more wide spread demand, concentrated in developing countries and in the centrally planned economies. Many of the recently emerging importing countries are countries with a state import agency where decisions to buy grain in the market are tied to political factors.

One of the main economic characteristics of the grain market is that supply and demand levels are much more dependent on domestic policies than on market conditions. Protectionist agricultural policies, mainly in the United States and EC, have isolated farmers' decisions to produce from market signals, thus leading to oversupply.

The decline in export prices is another consequence of the economic policies undertaken by the United States and EC, affecting not only countries responsible to this situation but others who adjust domestic prices to market conditions (Argentina and Australia). Because Argentina does not offer credit and subsidies, its net export prices of grains decreased more than those in the United States. Wheat f.o.b. prices dropped 29 percent from U.S. gulf ports during 1978-86, compared with 40 percent in Buenos Aires. Similar price changes (34 percent to 41 percent) occurred for corn.

Whether this situation will change depends to a large extent on the evolution of domestic agricultural policies in the EC and the United States, on demand growth, and on the outcome of the new round of the General Agreement on Tariffs and Trade (GATT) negotiations. The Common Agricultural Policy (CAP) has two unintended consequences that threaten its continuity. These are budgetary pressures and negative effects on foreign policy. They have caused the more influential members of the Agricultural Commission to search for new policy options to reduce excess supply, while maintaining farmers' incomes. They are currently considering expanding the quota system already imposed on milk production, gradual reduction of prices, taxation of inputs, development of alternative uses for grains (such as ethanol production), and creating a conservation reserve.

The reduction in agricultural prices last year was supposed to be a signal of this new direction. However, it doesn't seem adequate to counterbalance productivity increases that are still moving production upward.

It is difficult to forecast changes in the CAP in the short run. The "subsidies war" between the United States and EC is still worsening, driving prices down to levels never before seen (\$64 a ton for wheat).

In the United States, the new agricultural law passed in 1985 will frame agricultural policy over the next few years, even if the new democratic majority in Congress will make some changes. The 1985 Farm Act establishes mechanisms that allows the United States to transfer adjustment in production to foreign markets. By sharply reducing the loan rate that represented a floor price for international prices of wheat and corn and implementing direct subsidies to exports (payment-in-kind) in addition to the previous indirect subsidies (soft credits), the United States is inducing to large decrease in world market prices, while attempting to recover her market share and, at the same time, reducing her public stocks of grains. These agricultural policy measures are reinforced by a depreciation of the U.S. dollar and a decrease in interest rates that will also help to increase the competitiveness of U.S. exports.

There may be some positive effects of these changes in the short run even if the everchanging level of stocks do not lead to a quick recovery of prices. There is nothing in the law, however, to induce structural changes in the incentives system. Even if loan prices decline and adjust in the future, returns to farmers won't adjust because target prices are kept constant. The difference between target prices and loan rates are paid for by "deficiency payments" that clearly represent a direct subsidy to farmers. The only elements currently designed to reduce production are the conservation reserve and set-aside programs, which are established on a year-to-year basis and could be eliminated quickly.

Recent program changes made by Congress and the sharp increases in the cost of these programs could induce more changes. However, farmers' organizations political power is considerable. At present, propositions for adjustments vary from increasing liberalization by

decreasing target prices and compensating small farmers via an income subsidy to enhancing protectionism by reinforcing the export subsidies by expanding the "marketing loan" system.

Demand recovery appears in the short run to be the major factor leading to an improvement in grain market conditions. Changes that occurred in some macroeconomic variables could favor this process. The main global factors are decreases in the interest rate, depreciation of the U.S. dollar, renegotiation of debt repayment terms in some countries, decline in worldwide inflation, and the moderate recovery of some developed economies.

This set of conditions may strengthen economic development in some newly industrialized countries (NIC's) and induces it in other developing countries, especially in Latin America and Asia where there is a high-demand potential for food because "there is the need and not yet the income." Recent developments quickly increased demand for beef, dairy, and other foodstuffs in Brazil and lead to a 30- to 40-percent increase in meat prices in the world markets.²

Finally, the GATT negotiations that will take place over the next few years may influence world trade and commercial relations among countries. Nothing spectacular could emerge from these negotiations in the short run. The eventual effects would only appear in the long run. I strongly believe that in the longer run negotiations will help convince the EC and the United States to adjust their domestic policies. The simple fact of having to include agriculture in the negotiations, for the first time in GATT's history, suggests that there is a disposition to negotiate.

In this same area, there is no doubt that the creation of the "fair traders in agriculture" or "group of 14," lead by Argentina, Australia, and other agricultural countries that do not subsidize exports, gives much better bargaining power to countries interested in liberalizing agricultural trade.

Impacts of the Market Situation on the Argentine Economy

Many factors have had serious impact on the Argentine economy in the 1980's. Among these factors are the debt service problem which resulted from the change in world conditions, the deteriorating market for commodities, and the resulting implications of these changes for government and farmers' incomes.

Impacts on Total Exports and on External Debt Service

Export price levels of grains and byproducts have a substantial impact on the Argentine economy. This is because agricultural exports constitute the main source of foreign exchange for external debt repayment. Exports of grains and byproducts represented between 38 percent and 58 percent of Argentine total exports since 1980 (table 3).

During the eighties, Argentina experienced only a small increase in the value of agricultural exports in spite of the substantial volume increase. The value of these exports increased only 39 percent, while volume doubled.

The 1986 situation is even worse. The value of exports increased only 5 percent compared with 1980, while the volume increased by 67 percent. The reason for the fall was that 1986 prices were only 63 percent of their 1980 levels.

²There are indications that the green revolution in some Asian countries has reached a peak, and new technologies are not currently available that will permit them to sustain historical growth rates.

It is hard to estimate the implications of the subsidy policies followed by developed countries on the economy of Argentina. This is because the lower agricultural prices (that are consequences of those policies) affect many economic variables. For example, it has been estimated that if the total volume of grains, oils, and byproducts exported in 1985 had been the average price of 1978-80, total export value would have been \$7.2 billion instead of the \$4.3 billion that resulted from 1985 prices. This difference of \$2.9 billion represents more than 50 percent of the external debt service requirements or 66 percent of the value of total imports (table 4).

There is a contradiction in the attitude of the developed countries. On the one hand, their protectionist policies induce a reduction of agricultural prices. On the other hand, developed countries exercise continuous pressure on the developing countries, most of whose foreign income comes from agriculture, to keep current with their external debt payments.

Impact on Fiscal Resources

Grain and byproduct exports in Argentina have been taxed for the past 25 years. This has been an important source of government income (table 5).

The estimated 1986 and 1987 export tax collections are 40 percent and 73 percent less than in 1985, respectively. This was the result of the combined effects of lower prices and reductions in tax rates.

Impact on Farm Income

Considering that the main market for Argentine grain and byproducts is the international market and that domestic policies during recent years have tended to maintain a close association between domestic and international prices, farm income has been a function of:

1. F.o.b. quotations,
2. The effective exchange rate for each product, and
3. Domestic marketing costs.

The decline in external grain prices has induced a decrease in domestic prices, but this decrease has been partially compensated by improvements in the exchange rate for each product (table 6). The domestic price for wheat in 1986 was 23 percent less than the 1980 price, while the f.o.b. quotation was 55 percent lower. The domestic price for corn during the same period was down 20 percent, while the f.o.b. price was down 50 percent. The domestic price for soybeans in 1966 was 10 percent higher than in 1980, while the f.o.b. price was 25 percent lower.

The conclusion is that the impact of the decline in agricultural prices has been much larger for the country's net income than at the farm level. For 1985-86, farmer's net income reached the lowest level in recent history. In other words, the adjustments of domestic marketing policies and of the exchange rate for each product have not been sufficient to maintain farmers' net incomes. This situation was aggravated further in 1985/86 when grain yields were low because of weather conditions.

Conclusions

The present situation in world agricultural markets could well be characterized as economically irrational, politically selfish, and ethically unacceptable.

Table 3--Argentine total exports, exports of grains and byproducts, and the grain/export ratio

Year	Total Exports	Grain and byproducts	
	Million U.S. dollars		Percent
1980	8,021	3,084	38.4
1981	9,143	4,117	45.0
1982	7,624	3,049	40.0
1983	7,836	4,377	55.9
1984	8,107	4,723	58.3
1985	8,397	4,300	51.2
1986 ^{1/}	7,000	4,240	46.3

^{1/} Projection.

Table 4--Argentine exports, imports, and debt-service payments

Item	1983	1984	1985
	Billion U.S. dollars		
Exports	7.84	8.11	8.40
Imports	4.51	4.58	3.90
Debt-service payments	5.40	5.71	5.30

Source: Central Bank of Argentina.

Table 5--Argentine grains and oilseed exports, taxes on exports, and implicit import tax

Year	Export value	Export tax receipts	Average implicit export tax
	- - Billion U.S. dollars - - - - -		Percent
1982	3.05	0.34	11.1
1983	4.38	.93	21.1
1984	4.72	.96	20.3
1985	4.30	1.02	23.7
1986 ^{1/}	4.24	.61	18.8
1987 ^{1/}	3.10	.27	8.6

^{1/} Projections.

Table 6--Argentine f.o.b. and farm price indices of wheat, corn and soybean^{1/}

Year	Wheat		Corn		Soybean	
	F.O.b.	Farm	F.O.b.	Farm	F.O.b.	Farm
	1980 = 100					
1980	100	100	100	100	100	100
1981	96	93	80	82	103	116
1982	77	108	65	96	92	149
1983	63	101	73	110	89	146
1984	54	88	78	112	104	136
1985	47	73	62	97	77	113
1986	45	77	50	80	75	110

^{1/} F.O.b. means free on board.

Source: Argentine National Grain Board (JNG).

Countries without comparative advantages but with sufficient economic power produce what could be done more efficiently in many LDC's that depend heavily on agriculture for their economic development. By using protectionist policies, developing countries reduce the possibilities of developing countries paying their external debts and importing goods from the developed world.

From a political point of view, this attitude of the western developed countries shows that "narrow minded short-term nationalistic" objectives largely prevail over the long-run aim of increasing economic and political interdependence between "allies" who need economic development to strengthen democracy. As President Alfonsín says, "there's no democratic stability without economic growth," and Latin American history shows us a lot of examples of this.

Finally, it is absolutely unacceptable from an ethical point of view for large stores of foodstuffs to be kept as stocks in the most developed nations of the world, while millions of people die of hunger every year. Thus, while milk powder is denatured for feeding uses in some countries, people are starving in other countries because they have no food. This clearly shows that the realization of the Malthusian prophecies that were so popular only 15-20 years ago depend more on principles related to human ethics than on man's ability to produce food.

Argentina, like many other countries that do not subsidize their agriculture, is being strongly affected by protectionism and its influence on world markets. Argentina's fair trade policy provides a strong link between domestic and international markets. Thus, local producers must adjust to world price changes. Therefore, Argentina is harmed not only by the direct effects of price reductions on the value of fiscal receipts and returns to farmers, but also by the indirect effects that are discouraging farmers and inducing them to produce less. The adjustment actually taking place in countries like Argentina is not only damaging in the short run, but it is also affecting the possibility of intensifying production and reaching, in the medium run, higher levels of production that potentially exist.

Argentina introduced changes concerning domestic policies that could counterbalance the unfavorable market situation. There are two areas where measures could be taken to improve returns to farmers: taxation policy and the reform of the grain marketing system. The first area would be to substitute a land tax for export taxes. The Argentine Government has already sent a proposal to congress that could be approved next year. The second one would require large investments in infrastructure (railway, ports, and others) and a redefinition of the public sector's responsibilities in this area. The Argentine Government has initiated the studies that are necessary to modify the regulations actually in place, as well as negotiations with international financial institutions that could contribute to these projects.

In the short run, both measures require substantial tradeoffs with global, fiscal, and monetary policies. In June 1985, the Government implemented a very stringent stabilization plan, now known as "The Austral Plan." Two other objectives of this plan were to reduce the huge fiscal deficit and to control inflation by tightening monetary policy. Results have been excellent. Inflation has fallen from 30 to 4 percent a month and the fiscal deficit from 14 to 4 percent of GDP. The cost of such a program is that there is little room to use other economic measures that could affect the basis of the plan.

Domestic agricultural policy is very much linked to global economic policy. The restrictions derived from the latter affect the outcome in agriculture. Global economic restrictions result, to a large extent, from the huge external debt.

In the long run, Argentina will surely continue to be an important exporter of grain and take advantage of agriculture as a source of economic development. Recent studies confirm the fact that Argentina's cost of production for the principal crops are much lower than those in

the United States and that agriculture is the most efficient means to generate foreign exchange earnings, a fact frequently overlooked in domestic policy discussions.

Technical and structural changes in the domestic marketing system and in tax policy are the means to guarantee the competitiveness of Argentine agricultural exports in the long run.