American Agriculture: *Look West, Not Just East*

by Martin E. Abel and Richard J. Goodman

U.S. agricultural trade policy has been dominated by concerns about the European Community's (EC's) Common Agricultural Policy (CAP) for nearly 30 years.

Agriculture has played a role in the last three rounds of GATT trade negotiations and has assumed pride-of-place in the current Uruguay Round. And the EC's agricultural policies have been a major focus of each GATT negotiation. GATT negotiations in the 1960s (Kennedy Round) and the 1970s (Tokyo Round) did not move EC agricultural policies or those in the United States toward freer trade regimes. The disappointing progress in agricultural issues thus far in the Uruguay Round indicates that only minuscule steps toward agricultural policy reforms are likely to come out of the current negotiations.

➢ With the unpromising mid-term GATT session behind us, the new administration has an excellent opportunity to start the process of rethinking and reorienting our agricultural trade strategies. That process should focus on where our long-term trade interests lie—Asia. President Bush and his trade team have a wonderful opportunity to break agricultural trade policy out of its old mold and move it in promising directions.

With this 30-year background, it is time for the United States to reassess its strategic interests in world agricultural trade. America's long-term agricultural trade interests are in Asia, not in the EC, and Asia is where U.S. trade experts and negotiators should devote most of their time and energy.

Giving up old ways and adopting new ones are not easy, especially for governments. It is important, therefore, to understand where we have been before we can develop the case for where we should go.

A Look Backward

Why the U.S. preoccupation with the EC? Clearly, the EC's agricultural policies are an egregious form of protectionism that has grown quantitatively worse as the EC expanded from 6 to 12 nations. Over the last three decades the EC sharply reduced imports of many agricultural commodities and emerged as a major exporter of grains, dairy products, beef, and some other items as well. These developments are not surprising. The EC's agricultural charter explicitly states that preference should be given to domestic production at the expense of trade with other nations. The problem has been compounded by its willingness to use large export subsidies to move large surpluses into world markets, with the level of export subsidies often greater than world prices. All this has been ample cause for U.S. trade negotiators and commodity groups to be deeply concerned about EC policies.

But there are other reasons for our European preoccupation. The close proximity of European capitals to Washington and historically close political, social, and economic ties have made Europe a convenient if not congenial place for American trade negotiators to spend much of their time.

But these things aside, it is time for U.S. agricultural interests to be realistic about European agriculture. The CAP remains the keystone that holds the EC together and Europeans will not negotiate it away. Furthermore, the EC is and will remain a formidable agricultural producer and exporter even if it reforms its policies more to the liking of the United States and other agricultural exporters. EC's variable costs of production are highly competitive with those of other efficient producers. Lowering support levels for producers—as the EC has in fact been doing—will not reduce agricultural output in the EC any more than it would in the United States. And gains in productivity will likely offset the small negative impact of price reductions on production.

Lower prices of agricultural commodities will also do little to stimulate EC consumption. Europeans have high incomes and are well fed. They will not eat much more if food is cheaper, and further growth in incomes, which will be modest at best, will not do much to boost consumption.

In summary, U.S. agricultural trade policy interests have been fighting a battle over a basically stagnant market in which significant agricultural policy reforms are not likely, and, even if they did occur, they wouldn't make much difference to world agricultural trade.

A Look Forward

In 1983, Michael Fribourg, Chairman of Continental Grain Company, said the following: "The EEC cannot and will not give up the Common Agricultural Policy or export subsidies that stem from it. That is a hard political reality that our U.S. negotiators must recognize. They have continually persisted in repeating futile efforts to attack the EEC subsidies, to demand their reduction or elimination, to insist on what never will be. That must change." His good advice was not heeded, but it is now time for trade negotiators to take it seriously and turn their attention to where American agriculture has a bright export future.

Other parts of the world, notably Asia, stand in stark contrast to the EC and all of Western Europe for that matter.

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Asia, home to more than half of the world's population, is growing rapidly. During the 1980s, real economic growth in Asia averaged 5.7 percent a year. By comparison, the developed countries excluding the United States grew at an annual rate of only 2.4 percent, and the EC's performance dominates this group of nations.

In addition, Asia is made up of low income countries (Japan aside) whose food consumption increases rapidly as incomes rise, particularly in the case of resource intensive foods such as meats, poultry, fruits and vegetables. Rapid growth in the consumption of meats and poultry, in turn, generates growth in the demand for feedstuffs—commodities that the United States can produce very efficiently.

These economic realities are already reflected in U.S. agricultural exports. Between fiscal years 1980 and 1988, the share of U.S. agricultural exports going to East and Southeast Asia increased from 30 to 37 percent, from 3.3 to 5.9 percent for West Asia, and from 2.0 to 2.6 percent for South Asia. Over this same period the share of U.S. agricultural exports going to Europe *declined*—from 30 to 23 percent for all of Western Europe and from 28 to 22 percent for the EC-12.

There is no reason to assume that trade trends in the 1990s will differ from those experienced in the 1980s.

These trends offer compelling reasons why American agricultural trade policy efforts should look westward to Asia. That is where the growth potential is located. The EC cannot be totally ignored because they are likely to continue to unsettle world agricultural trade through further policy actions—through attempts to limit imports of oilseeds and grain substitute feeds, further enlargement of EC membership, export subsidies, or a variety of other possible actions. These issues will have to be dealt with but such efforts should not represent an all-consuming U.S. policy approach.

Meanwhile, the United States should shift to a more aggressive agricultural trade strategy towards Asia in order to position American agriculture in the world's premier growth markets. The recent success in opening Japan's beef and citrus markets to freer trade and excellent prospects for growing imports of these products is a good example of what needs to be done in Asia. The potential for substantially larger beef imports by Japan is already evident from the major investments that Japanese firms are making the U.S. and Australian beef sectors.

An Asian Strategy

As part of an Asian strategy, the United States will have to rethink both agricultural and total trade policies. Asia's trade interests and trade regimes differ from those typically found in industrialized countries.

Since most of Asia consists of lower income countries, their ability to import is closely tied to what they can export. However, the United States has historically followed protectionist trade policies for the commodities and goods with promising export growth potential for these countries—textiles, shoes, and sugar, for example. If American agriculture wants to capitalize on Asia's growing market potential, it must be willing to support trade liberalization important to both Asia and U.S. national welfare.

Also, Asian governments intervene in daily trade decisions to a far greater extent than in industrialized countries. In the latter, once policies are set, the private sector is free to conduct trade as it sees fit. But in Asia, governments daily make or influence trading decisions. U.S. trade policy needs to reognize this and be prepared to deal with it in ways that facilitate the role of the private sector in both the United States and Asia.