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THE DEVELOPING COUNTRIES AND UNITED STATES AGRICULTURE

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I. Introduction

We are concerned in this paper with the interactions of agricultural developments in the developing countries and in the United States. It is difficult to deal with such a broad topic in the space of one relatively short paper. I have chosen, therefore, to focus my remarks on developments in the production, consumption and trade of a set of commodities which the developing countries and the United States both produce and in which the developing countries have a significant export interest. Emphasis will be on the role of U.S. agricultural trade policies as they affect the world market potential for these products.

We are not concerned with a group of noncompetitive commodities -- those which are produced and exported by the developing countries and imported but not produced by the United States. These are mainly tropical products such as coffee, cocoa, tea, bananas, spices, etc. While the

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**Professor, Department of Agricultural and Applied Economics, University of Minnesota. I would like to thank a number of persons for helpful comments and suggestions during the writing of this paper; namely, Willard W. Cochrane, Vernon W. Ruttan, James P. Houck, W. B. Sundquist, Lauren Soth and P. G. H. Barter.

value of noncompetitive agricultural imports by the United States is fairly large -- amounting to $2.1 billion in fiscal year 1971 or 37 percent of total U.S. agricultural imports -- there are few trade issues involved. Unlike many other developed countries, the United States does not subject imports of noncompetitive commodities to significant levels of tariff and non-tariff protection, or to domestic excise taxes.[1/]

The major competitive commodities which have been or are likely to be in the trade picture for both the United States and the developing countries are grains, oilseeds and products, cotton, fruits and vegetables, sugar, tobacco and meats. Our concern is not just with the raw forms of these products, but also with semi-processed and processed products based on them. For many agricultural products, the degree of trade protection employed by the United States is higher for processed than for raw products. This means that present trading practices by the United States discourage processing of agricultural products in the developing countries; this is an important trade issue of our time.

There is one large topic in the trade area -- generalized trade preferences for the developing countries granted by the developed countries -- which is not covered in this paper. This has been an important item of discussion for some time and was a major item at the UNCTAD II conference in New Delhi in 1968. It was generally agreed that the question should receive serious study and efforts should be made to move toward a general system of trade preferences by the developed countries for

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[1/] There is one exception to this statement. Some of the tariffs applied to processed forms of noncompetitive agricultural products do discriminate against the processing of these products being done by the less developed exporters.

products from the less developed countries. The argument for this kind of reverse discrimination for a very broad range of commodities can be viewed more as a foreign aid issue than one of trade. The main concern is with the transfer of resources from rich to poor nations, which can be done in many ways. Generalized trade preferences is one such way. Since we consider this topic to fall more appropriately in the foreign aid rather than in the trade field we will not discuss the topic in this paper.

However, foreign aid prospects are relevant to our discussion in one important sense; the less foreign aid available to the developing countries, the more pressure there is for them to increase export earnings. The developing countries are keenly interested in increasing their access to foreign exchange in order to pay for needed capital imports and service past debts. Basically there are four ways by which this can be done: (1) increase the volume of economic aid and private capital transfers from the rich to the poor nations; (2) relieve the developing countries of part of their debt burden; (3) increase commercial exports from the developing to the developed countries; and (4) for the developing countries to follow policies of import substitution which make them less dependent on imports.

The prospects for significant increases in flows of foreign aid and private capital to the developing countries in the 1970's are not bright. The Pearson Commission Report[2/] refers to a sense of "weariness" in the richer countries toward foreign aid. "The signs are not propitious. In

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[2/] Partners in Development: Report of the Commission on International Development (New York: Praeger Publishers, 1969).

the last years of [the 1960's], the volume of foreign official aid has been stagnant. At no time during this period has it kept pace with the growth of national product in the wealthy nations. In fact, the commitments by the United States, which has been much the largest provider of aid funds, are declining. There, and in some other developed countries, we have encountered a spirit of disenchantment."

With no increase in the annual flow of foreign aid in sight, and a decline being possible, the annual flow of net aid from the developed to the developing countries will decline. This is so because the levels of interest and principal repayments on old debts are scheduled to grow rapidly. Let us illustrate how critical this problem is likely to become with the following data from the Pearson Commission Report:

Debt Service as Percentage of Gross Lending, 1965-67 and 1977

	Africa	Europe	East Asia	South Asia Middle East	Latin America
1965-67	73	92	52	40	87
1977 with gross flow of new lending unchanged	121	109	134	97	130

These debt figures refer to the flow of supplier's credits, private and governmental loans, and loans of international agencies, but exclude grants or direct private investment. Clearly, the debt burden is rising and is projected to equal or exceed gross foreign aid lending in all developing regions of the world by the end of the 1970's. Thus, the 1970's, rather than being the "N-th Development Decade," could very well be the "Decade of Debt Crisis!"

There are two ways out of this problem, assuming the level of gross aid cannot be increased. One is to provide debt relief to the developing countries either through cancellation or rescheduling of old debts. This has the effect of increasing the flow of net aid. This has been done in the past and it is inevitable that more of it will be done in the future. But if the donor nations are already in an "owly" mood with respect to foreign aid, the prospects of the developing countries not being able to meet their debt obligations will make them even more parsimonious.

The other alternative is to facilitate a larger and growing volume of exports from the developing to the developed countries. While there is a great deal which would have to be done by both groups of countries to bring this about -- much more than is possible to discuss in this paper -- we will focus on what the United States could do to increase the flow of exports from the developing countries, particularly the flow of agricultural products based primarily on agricultural raw materials.

Further import substitution, particularly for nonagricultural products, does not represent a viable alternative. Many developing countries have already pushed such policies to the point where long-term economic growth and development have been adversely affected.[3/]

However, there are ample opportunities for developing countries to increase agricultural production in an efficient manner and reduce, somewhat, their dependence on agricultural imports. Increased production can be accomplished by a shift in agricultural growth based on traditional

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[3/] For an excellent discussion of this topic see, Ian Little, Tibor Scitovsky, and Maurice Scott, Industry and Trade in Some Developing Countries: A Comparative Study (London: Oxford University Press, 1970).

resource use to one that is science (technology) based. This, of course, requires the development of agricultural research institutions capable of producing a steady stream of technologies which are economically viable in the developing countries.

II. Production and Trade in the Developing Countries

The purpose of this section is to indicate the importance of grains, oilseeds and products, cotton, sugar, fruits and vegetables, meats, and tobacco in world trade, the importance of these commodities in the total value of exports from the developing countries, the extent to which world trade in them is likely to expand, and the position which the United States occupies in world markets as either an exporter or importer of these commodities. From such a perspective we can get a rough idea of the importance of U.S. trade and trade policies to the export interests of the developing countries.

Grains

We are concerned with wheat, rice, and coarse grains. In 1965, four developing countries -- Burma, Cambodia, Thailand, and Argentina -- depended on grain exports for 20 percent or more of their total export earnings. In Burma and Cambodia rice accounted for over 50 percent of export earnings.[4/] Thus, the number of developing countries which depend heavily on grain exports is small. On the other hand, there are a large number which have become or could become grain exporters.

[4/] Arthur B. Mackie, A. Nicholas Filippello, John E. Hutchison, and James F. Kiefer, World Agricultural Trade in Selected Agricultural Commodities, 1951-65: Vol. II -- Food and Feed Grains, FAER No. 45, ERS, USDA, June 1968.

Since about 1965 there has been a marked increase in grain production in a number of developing countries, particularly in wheat and rice. The basis for this expansion has been the development and adoption of new, higher yielding varieties of grain and favorable grain prices. At the same time, excess production capacity continues to exist in the developed, grain exporting countries, while some major, developed, grain importing countries like the EC continue to increase their output. As a result there has been a downward pressure on world grain prices in recent years.

But one should view these price developments in a longer term context. World grain prices at the end of the decade of the 1960's were at about the same level as at the beginning of that decade. Yet wide swings in prices occurred during this period. Let's look at rice, which, of all the grains, exhibited the widest price swings in the 1960's. In 1961 the f.o.b. Bangkok export price of Thai white rice 100% was about $135 per metric ton. World rice prices rose sharply in the 1966-68 period; the price for the same grade of rice reached a peak of $250 per ton in October 1967. But by April 1971 the price had fallen to $120 per ton.[5/] There was a similar, though less pronounced swing in wheat prices. The Canadian export price for wheat averaged $64 per metric ton during 1959-61. Export prices reached a high of $71 per ton in 1966 and were back down to $64 per ton in 1969.[6/]

[5/] Delane Welsch and Sopin Tongpan, Rice in Thailand, Staff Paper P71-32, Department of Agricultural and Applied Economics, University of Minnesota, December 1971, and unpublished data on Thai rice prices provided by Delane Welsch.

[6/] Production Yearbook, 1970, Food and Agricultural Organization of the United Nations, Vol. 24, 1971.

There were two important factors in the world grain picture -- one transitory and one permanent -- which gave rise to the roller coaster behavior of grain prices, and both operated in the developing countries. The transitory element in the picture consisted of two parts: (a) the unprecedented droughts in South Asia during the 1965-66 and 1966-67 crop years, which required record levels of food aid; and (b) the sharp increases in rice imports by South Vietnam in 1966 and 1967, which put considerable pressure on world rice prices.

The more permanent aspect of the grain situation in the developing countries can also be looked at in two parts. During the 1950's and the first half of the 1960's, grain production per capita in the developing countries was increasing at a modest rate, but not fast enough to keep pace with the rate of growth in demand.[7/] Consequently, grain imports by the less developed countries increased steadily. Starting in about 1965, the new high yielding varieties of wheat and rice began to be used in many developing countries. And, by the end of the decade several countries had experienced sharp increases in production of these crops, reducing the need for imports and, in some cases, contributing to export supplies. In a number of countries significant increases in the production of maize, sorghum, and millets were also experienced. At the same time, the major developed grain exporting countries continue to have more grain production capacity than can be utilized at current domestic and world prices. For example, in the late 1960's and early 1970's wheat production

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[7/] Willard W. Cochrane, The World Food Problem: A Guardedly Optimistic View (New York: Thomas Y. Crowell Co., Inc., 1969).

in the United States, Canada, and Australia was sharply curtailed in response to sagging exports and growing stocks. It is generally agreed that rapid technological change in grain production in many developing countries and surplus production potential in the developed, grain exporting countries will continue in the 1970's.

World trade in coarse grains grew at a fairly rapid rate in the 1950's and 1960's because of the rapid rates of economic growth and growth in the demand for livestock products in the developed countries. These forces for growth in the trade of coarse grains can also be expected to continue in the future.

What are the trade prospects in grain for the coming decade? A recent study by the Economic Research Service of the U.S. Department of Agriculture projects world grain production, consumption and trade to 1980.[8/] Trade data for the 1964-66 period and projections to 1980 are summarized in Table 1. The study concludes that --

For wheat:

> Import demand will be sluggish in the developed area but potentially strong in the LDC's if concessional terms of trade are available. Increased feed use of wheat would reduce downward pressures on prices. Some increase in the share of the world market would be possible for LDC exporters, largely Argentina. Accelerated wheat production in the LDC's could lead to an improved export earnings position if major developed exporters moderated the price effect by withdrawing exportable supplies from the world market. Subsidy costs and quality factors could offset potential export earnings in South Asia.

For rice:

> The Green Revolution would result in lower world import demand, a demand centered in the LDC's. Import demand in the

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[8/] Anthony S. Rojko, Francis S. Urban, and James J. Naive, World Demand Prospects for Grains in 1980 with Emphasis on Trade by the Less Developed Countries, FAER No. 75, ERS, USDA, December 1971.

Table 1. World Trade in Wheat, Rice, and Coarse Grains, 1964-66 Average and Projections to 1980.

Region	Wheat			Coarse Grains			Rice		
	1964-66	1980A[1/]	1980B[2/]	1964-66	1980A[1/]	1980B[2/]	1964-66	1980A[1/]	1980[2/]
	. . . . . million metric tons						. . 1,000 metric tons . .		
United States	21.2	19.3	14.8	21.8	30.0	21.0	1,527	2,063	147
Canada	13.8	11.9	8.7	.7	1.1	.4	-45	-64	-66
Central Am. & Mexico	-1.0	-2.3	-2.1	.7	-2.2	-.7	-367	-503	-394
E. South America	-3.0	-4.9	-5.0	.2	1.0	3.0	382	158	379
W. South America	-1.2	-3.4	-3.5	-.1	-1.2	-1.2	-71	-22	100
Argentina	5.1	5.2	6.2	5.2	7.0	8.4	29	43	81
N. Africa	-3.6	-8.9	-9.6	.1	-1.0	-.4	341	538	662
E. Africa	-.3	-.7	-.7	-.1	1.2	3.3	-177	-454	-437
W. Africa	-.6	-1.5	-1.6	.1	-2.8	-2.2	-428	-791	-637
So. Africa, Rep. of	-.4	-.5	-.5	.5	3.9	3.4	-73	-132	-137
W. Asia	-1.9	-5.0	-4.3	-.5	-2.8	-2.6	-354	-575	-464
S. Asia	-9.3	-2.4	7.1	-1.3	-2.8	-2.4	-1,137	-770	-117
S.E. Asia	-.2	-.4	-.4	1.3	1.6	2.9	2,419	2,480	2,791
E. Asia & Pacific Is.	-2.1	-4.2	-4.4	-.3	-3.7	-1.3	-1,728	-1,627	-1,046
Australia & New Zealand	6.3	7.8	6.8	.7	2.8	2.7	71	158	140
Eastern Europe	-5.7	-1.8	-1.8	-.4	1.1	1.0	-290	-354	-367
USSR	-2.4	4.6	4.6	.3	.7	.6	-247	-266	-287
Communist Asia	-5.7	-6.1	-6.1	.1	-.3	-.4	903	768	574
Japan	-3.6	-6.5	-6.5	-6.0	-16.7	-17.2	-750	-170	-365
E.C.	1.3	3.9	2.4	-11.9	-10.0	-9.3	-199	-302	-336
United Kingdom	-4.3	-4.5	-4.6	-3.5	-1.7	-2.9	-109	-134	-140
Other Western Europe	-1.3	.5	.6	-5.6	-5.1	-6.2	-29	-40	-82

Source: Rojko, Urban, and Naive, op. cit.

1/ Assumes a continuation of present food and fiber policies, allowing for moderate gains in productivity in the less developed countries.

2/ Assumes that agricultural productivity and economic growth in the less developed countries would be higher than projected under 1980A.

developed area is expected to rise moderately but the increase is small relative to potential supplies for export -- from both developed and less developed exporters. Consequently, continued downward pressure on prices is expected. Since most of the market for the LDC exporters is within the LDC's, prospects for export earnings from rice are poor, particularly under accelerated growth in rice production in the importing LDC's.

For coarse grains:

Import demand in developed areas, particularly Japan, is expected to be strong. Given concessional terms of trade, import demand of the LDC's could increase sharply as a result of a rapidly expanding livestock industry in these countries. Lower internal grain prices in developed importing areas, particularly the EC, could give trade an additional boost. Some LDC exporters might not fully share in the expansion because their port facilities are limited in handling large cargo vessels. On the other hand, maintenance of very high internal prices through limited access could lead to self sufficiency in total grains in the EC, thereby lowering export prospects.

Thus, the prospects for growth of grain exports from the developing countries are mixed. For wheat and rice especially, much hinges on the policies followed by the developed grain exporting countries. We will return to this subject in a later section of the paper with specific reference to the U. S.

Oilseeds and Products[9/]

Oilseeds and products are important export crops for many developing countries. In 1965 exports of oilseeds, oil nuts and animal and vegetable oils accounted for more than 20 percent of export earnings in 15 countries. In seven of these countries these products accounted for more than 50 percent of total export earnings.

[9/] This section draws heavily upon data contained in Arthur B. Mackie, Tom E. Full, and Jon E. Falck, World Trade in Selected Agricultural Commodities, 1951-65: Vol. V -- Oilseeds, Oil Nuts, and Animal and Vegetable Oils, FAER No. 47, ERS, USDA, August 1968.

World prices of various oilseeds and vegetable oils have followed generally similar patterns since World War II. Prices were relatively high in the early 1950's, declined from about 1951-52 until the early 1960's, and exhibited some upward movement in the mid and late 1960's.

On the other hand, there has been rather continuous growth in the value of world trade in oilseeds and vegetable oils. Between 1951 and 1965 world trade in oilseeds and oil nuts increased from 5.0 to 12.2 million tons. Trade in vegetable oils went from 1.8 to 3.9 million tons during the same period. Most of this growth has been in oilseeds and vegetable oils produced in the temperate zone, developed countries; the exports from tropical, less developed countries have not fared that well. Within the category of oilseeds and oil nuts, soybeans, cottonseed, rape and mustard seed, and sesame seed had the most rapid rate of increase in trade. On the other hand, ground nuts, palm and palm kernel, and copra -- commodities important to the developing countries -- had either no growth or suffered some decline in world trade. A similar pattern existed for vegetable oils, although the picture was a little less pessimistic for the developing countries as there was a modest increase in exports of ground nut and coconut oil while exports of palm oil and palm kernel oil declined or remained about constant.

Looking to the future (1980),[10/] production of major oilseeds is expected to increase steadily. In terms of oil equivalent, world production is expected to grow by 3.5 percent a year through 1980. A

[10/] Anthony S. Rojko and Arthur B. Mackie, World Demand Prospects for Agricultural Exports of Less Developed Countries in 1980, FAER No. 60, ERS, USDA, June 1970.

slightly faster rate of growth is expected in the developed than in the developing countries. For vegetable oils, prices are expected to decline by as much as 20 percent. Of equal importance to many developing countries, growth in their domestic consumption will hold down exportable supplies. On the other hand, import demands for oil cake, particularly in the developed countries, are expected to increase at a substantial rate. Since production of oil cake in the developing countries will increase faster than domestic demands, exportable supplies of oil cake should increase.

Cotton[11/]

Cotton is another agricultural commodity which is a major earner of foreign exchange for a number of developing countries, and a potential earner of foreign exchange in a number of other less developed countries. In 1966, 15 developing countries earned more than 10 percent of their total export earnings from lint cotton. Of these, cotton accounted for more than 20 percent of total exports in eight countries, and for more than 50 percent of total exports in three countries (Table 2).

A number of other countries depend heavily on cotton textiles for foreign exchange earnings. In 1968, cotton textiles accounted for 15 percent or more of total exports in four countries -- Hong Kong, UAR, Portugal, and Pakistan (Table 3). The combined exports of lint cotton and cotton textiles accounted for about 75 percent of total exports from the UAR. The prospects for future world trade in lint cotton and cotton

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[11/] This section draws heavily on Richard S. Magleby and Edmond Missiaen, World Demand for Cotton in 1980 with Emphasis on Trade by Less Developed Countries, FAER No. 000, ERS, USDA, January 1971.

Table 2.--Cotton lint exports as a percentage of total merchandise exports, selected countries, 1966

Country	Percent
Chad	77.2
United Arab Republic	55.0
Syria	51.6
Sudan	49.9
Nicaragua	41.5
Turkey	25.8
Uganda	22.9
Tanzania	20.9
Guatemala	19.2
Afghanistan	17.0
Mozambique	15.4
Central African Republic	14.6
Mexico	13.5
El Salvador	12.6
Peru	11.1
Cameroon	7.3
Pakistan	6.9
Greece	6.7
Brazil	6.4
USSR	4.2
Honduras	4.0
Paraguay	3.8
Togo	3.1
Iran	2.9
Angola	1.7
Kenya	1.4
United States	1.4
Costa Rica	1.4
Nigeria	1.2

Source: Richard S. Magleby and Edmond Missiaen, World Demand for Cotton in 1980 with Emphasis on Trade by Less Developed Countries, FAER No. 000, ERS, USDA, January 1971.

Table 3.--Cotton textile exports as a percentage of total merchandise exports, selected countries, 1968

Country	Percent
Hong Kong	20.5
United Arab Republic	19.3
Portugal	15.4
Pakistan	15.3
Taiwan	8.1
India	7.2
South Korea	4.6
Israel	3.3
Japan	3.1
Greece	2.6
Poland	1.5
EC (total)	1.2
Turkey	1.0
United Kingdom	0.8
Mexico	0.7
United States	0.7

Source: Magleby and Missiaen, op. cit.

textiles are of significant interest to a large number of developing countries.

While cotton use has increased from 7.7 million metric tons in 1952 to 11.4 million metric tons in 1968, its share in total fibers used for textiles declined from 73 to 57 percent during the same period. This was the result of proportionately greater growth in the use of manmade fibers.

World prices of cotton declined sharply in the 1950's and continued to decline at a moderate rate in the 1960's. In 1952 the price of strict middling 1-1/16 in. cotton at Liverpool was about 38 cents a pound. By 1960 it was down to 30-1/2 cents a pound, and declined further to about 28 cents a pound for the 1970-71 crop year.

World cotton trade has grown steadily over the years in both volume and value, despite the decline in world cotton prices. The volume of total cotton exports (lint and textiles) went from 3.4 million tons in 1952 to 5.4 million tons in 1967 (Table 4). Textile exports had a faster rate of growth, from 0.8 to 1.6 million tons, than lint cotton, which went from 2.6 to 3.8 million tons. In 1967, world exports of lint cotton and cotton textiles were valued at $6.1 billion.

The developing countries are very interested in exporting cotton textiles rather than lint cotton because of the increased possibilities for earning foreign exchange, and expanding domestic income and employment. The value of cotton textiles over the value of lint cotton ranges from over 1.5 times for yarn to 3 to 6 times for clothing exports.

The long-term outlook for world cotton trade is reasonably favorable. While prices are expected to decline slightly in the 1970's, world cotton production, consumption and trade are expected to grow at a moderately

Table 4.--World cotton trade and textile-lint mix, 1952-67

Calendar year	Exports			Share of total		
	Textiles	Lint 1/	Total	Textiles	Lint	Total
	- - Thousand metric tons - -			Percent -		
Volume						
1952	798	2,617	3,415	23	77	100
1953	795	2,681	3,476	23	77	100
1954	883	2,949	3,832	23	77	100
1955	843	2,838	3,681	23	77	100
1956	893	3,084	3,977	22	78	100
1957	960	3,395	4,355	22	78	100
1958	871	2,930	3,801	23	77	100
1959	1,045	3,325	4,370	24	76	100
1960	1,219	3,943	5,162	24	76	100
1961	1,133	3,729	4,862	23	77	100
1962	1,133	3,508	4,641	24	76	100
1963	1,168	3,705	4,873	24	76	100
1964	2/1,480	3,890	5,370	24	76	100
1965	2/1,462	3,778	5,240	28	72	100
1966	2/1,579	3,917	5,496	29	71	100
1967	2/1,556	3,813	5,369	29	71	100
	- - - Million dollars - - -			- - - - Percent - - - -		
Value						
1952-58	- - Not available - -			- - Not available - -		
1959	n.a.	1,891	n.a.	n.a.	n.a.	n.a.
1960	3,100	2,569	5,669	55	45	100
1961	3,020	2,362	5,382	56	44	100
1962	3,030	2,054	5,084	60	40	100
1963	3,190	2,257	5,447	59	41	100
1964	3,470	2,372	5,842	59	41	100
1965	3,600	2,295	5,895	61	39	100
1966	3,790	2,307	6,097	62	38	100
1967	3,815	2,238	6,053	63	37	100

1/ Volume data 1952-65 are USDA/FAS. Other figures and all lint value data are FAO. 2/ These data are more inclusive of clothing than previously.

Source: Magleby and Missiaen, op. cit.

rapid rate. Rojko and Mackie[12/] conclude that:

> The LDC's would increase their share of world cotton lint and textile exports by 1980, and the developed countries would increase their net imports. . . . The greatest changes for the LDC's are projected for cotton textile trade. . . . net cotton textile imports of the developed [areas] should increase from a little over 100,000 tons in 1965-67 to almost 600,000 tons in 1980.

Sugar

The volume of world trade in sugar has grown steadily from a level of 10.5 million tons in 1951 to 18.5 million tons in 1965. On the other hand, world prices of sugar varied considerably during this same period (Table 5), giving rise to significant variation in the value of world trade.

In 1965, some 14 countries[13/] depended upon sugar for over 20 percent of their total export earnings. In eight of these countries[14/] sugar accounted for over 50 percent of total export earnings.

Sugar exports were valued at $2.6 billion or about 7.0 percent of world agricultural trade in 1965.

Regionally, Latin America, Australia, New Zealand, South Africa, Eastern Europe and other East Asian countries accounted for 73 percent of world sugar exports in 1964. Latin America alone accounted for 45 percent of world sugar exports. The major importers are the United States, Japan, Western Europe and the USSR. They accounted for 65 percent

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[12/] Rojko and Mackie, op. cit.

[13/] Fiji, Mauritius, Reunion, Antigua, Barbados, Cuba, Dominican Republic, Guadeloupe, Guyana, British Honduras, Jamaica, Martinique, Philippines, and Taiwan.

[14/] The first eight countries listed in footnote 13.

Table 5. World Trade in Sugar, 1951-65

Year	Volume	Price per Metric ton
	1000 metric tons	U.S. dollars
1951	10,542	116.1
1952	10,960	110.0
1953	12,728	97.4
1954	13,042	99.0
1955	14,177	95.1
1956	13,549	95.4
1957	14,791	116.4
1958	14,902	99.8
1959	14,174	94.5
1960	17,039	89.5
1961	19,902	92.7
1962	18,763	93.9
1963	17,255	135.7
1964	16,771	135.0
1965	18,476	102.4

Source: Arthur B. Mackie and J. Lawrence Blum, World Trade in Selected Agricultural Commodities, 1951-65; Vol. IV -- Sugar, Fruits, and Vegetables, FAER No. 44, ERS, USDA, June 1968.

of world imports of sugar. The U.S. is the second largest importer in this group, accounting for 20 percent of world sugar imports.

Most of the major, developed importers have followed high domestic price policies aimed at ensuring a high degree of self-sufficiency in sugar. While the world demand for sugar can be expected to grow at a modest rate, the future trade prospects depend heavily on future sugar policies in the developed countries. We will return to a more detailed discussion of this matter for the United States in a later section of the paper.

Fruits and Vegetables

As discussed earlier, we will concentrate on those fruits and vegetables which are produced in both developed and developing countries. This eliminates from our discussion such important tropical fruits as bananas and pineapple.

In 1965 there were 20 developing countries in which exports of fruits and vegetables accounted for 20 percent or more of their total exports.[15/] World trade in fruits and nuts increased from 6.1 million tons in 1951 to 15.2 million tons in 1965. During the same period trade in vegetables went from 3.1 to 10.9 million metric tons. These commodities have experienced rapid growth in world trade and future trade prospects are also bright.

The major importers of fruits and vegetables are the United States, Western Europe, and Eastern Europe. These three areas accounted for 74 percent of world imports of fresh fruits and 71 percent of vegetable

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[15/] Arthur B. Mackie and J. Lawrence Blum, World Trade in Selected Agricultural Commodities, 1951-65; Vol. IV -- Sugar, Fruits, and Vegetables, FAER No. 44, ERS, USDA, June 1968.

imports in 1964. Western Europe is by far the biggest importing region, accounting for 57 percent of total world imports of fruits and vegetables.

Meats

World trade in meats has increased rapidly. We will focus on trade in beef, since this is the meat that is generally of most interest to the developing countries. Between 1954 and 1969 total world exports of beef went up from 530,000 to 1,857,902 tons, or by 350 percent (Table 6).

Among the developing regions of the world, beef exports expanded most rapidly in Central and South America. Exports from Central America increased 18 fold; from Argentina nearly 4 fold; from Uruguay by over 2 fold and from other South American countries by 120 fold. Africa is the only other developing region of the world where beef exports increased significantly, from 20,000 tons in 1954 to 45,596 tons in 1969. In value terms, beef exports in 1969 from Central America, South America and Africa were $97, $333, and $30 million, respectively.

Europe and the United States are the major beef importers. Imports into Europe increased from 380,000 tons in 1954 to 1,203,952 tons in 1969, or by nearly 320 percent. U.S. imports, during the same period went from 7,800 to 470,160 tons, an increase of 600 percent. Imports in Asia also increased rapidly, from 11,000 to 74,342 tons, or by 675 percent.

The United States has been and is likely to continue to be a major importer of beef. In 1969 the value of beef imports into the United States was $483 million. Policies affecting U.S. meat imports have an important bearing on the export earning potential of a large number of developing countries exporting beef.

Table 6. World Trade in Beef for Selected Regions and Years

Region	Exports 1954	Exports 1969	Imports 1954	Imports 1969
	. . . . . metric tons			
Europe	167,000	695,823	380,000	1,203,952
Canada	8,400	21,522	1,500	49,252
U. S.	5,900	7,609	7,800	470,160
Central America	5,700	100,925	7,700	18,773
South America	-	-	15,000	26,362[1/]
Argentina	105,200	404,570		
Uruguay	45,100	106,461		
Other So. Am.	700	84,175		
Asia	-	1,844	11,000	74,342
Africa	20,000	45,596	18,000	43,439
Oceania	175,000	389,377	2,000	3,544[1/]
World	530,000	1,857,902	500,000	1,887,120

Source: FAO Yearbook of Trade, various issues.

[1/] Numbers are for 1968.

The above data are for fresh, chilled and frozen beef only. They do not include U.S. imports of beef in processed form. Unfortunately, the available data do not permit us to look at the world trade picture for processed beef separately from all processed meats. However, we should keep in mind that processed beef is also a significant import item for the U.S.

Tobacco

World trade in tobacco has grown steadily during the past two decades. World exports increased from 620,000 metric tons in 1951 to one million metric tons in 1969, or by 5.5 percent a year. Between 1959 and 1969 quantities exported increased by 3.3 percent a year while the value of exports increased by 3.7 percent, indicating a modest rise in world tobacco prices. The United States accounted for 26 percent of world exports in 1969.

Europe is by far the largest importing region, accounting for 68 percent of world imports in 1969. The United States accounted for 10 percent.

The principal tobacco exporting, less developed countries are Cuba, Dominican Republic, India, Indonesia, Philippines, Turkey, Rhodisia, Malawi and Zambia. (Mainland China also exports significant quantities.) Based on historical trends, one would expect world trade in tobacco to continue to grow at a moderate rate.

III. Impact of U.S. Agricultural Policies on the Developing Countries

The developing countries probably have at least one overriding common interest -- to increase foreign exchange earnings from trade, especially from primary products. But while the bulk of trade in these products is from the developing to the developed countries, we have to be mindful of the fact that all poor countries are not exporters of the commodities being considered; some are net importers. Thus it is difficult for a country like the United States to be all things to all developing countries with respect to its present or future agricultural trade policies. Changes in trade policies which increase U.S. imports and raise world prices would be beneficial to the less developed exporters, but work against the interest of the less developed importers.

In addition, many less developed countries are striving to reduce their dependence on agricultural imports. In the process they have supported domestic prices of some commodities at well above world levels. Thus, the developing countries are contributing to distortions in world prices of certain agricultural commodities.

In a world in which trade is distorted by policies of both the developed and developing countries, it is difficult to define quantitative norms of good economic behavior. Of course we can invoke the principles of comparative advantage and free trade. However, it is difficult to estimate what a world operating on these principles would look like and unrealistic to think that such a world would come to pass very quickly. What we can do is to estimate, however roughly, the impact of changes in U.S. agricultural trade policies on the volume and value of world trade, and on the value of agricultural exports from the developing countries.

To examine the impact of U.S. agricultural policies on the agricultural trade of developing countries we have to do three things: (1) assess the comparative advantage of the United States in the production of each of the commodities or commodity groups with which we are concerned, (2) determine the extent to which U.S. agricultural trade policies restrict exports from developing countries, and (3) evaluate the benefit to developing countries from less restrictive policies for the United States. We will concern ourselves with policies which encourage U.S. exports as well as those which restrict imports.

We can get a fairly good, though not precise, idea of the extent to which agricultural production in the United States is insulated from world markets by looking at both the nominal and effective degrees of protection for different commodities. The nominal rate of protection tells us the extent to which tariff and nontariff barriers, payments to producers, etc. keep domestic product prices above world prices. The effective rate of protection given to a particular product depends not only on the levels of tariff and nontariff protection of the final product, but also on the value added in production and the tariff and nontariff protection given to production inputs.

In a recent study Wipf[16/] has calculated the levels of nominal and effective rates of protection for a number of agricultural products at the farm level in 1968. These data are presented in Table 7. Four commodities stand out as having very high rates of effective protection -- sugar (662.2 percent), cotton (100.8 percent), food grains (143.5 percent)

[16/] Larry J. Wipf, "Tariffs, Nontariff Distortions, and Effective Protection in U.S. Agriculture," American Journal of Agricultural Economics, Vol. 53, No. 3, August 1971.

Table 7. Nominal and Effective Rates of Protection in the U.S. Farm Production Sector, 1968

Farm-level sector	Total nominal	Total effective	Effective tariff	Effective nontariff
	percent			
Meat animals	7.5	13.8	13.2	0.6
Poultry and eggs	0.8	-19.6	-16.6	-3.0
Farm dairy products	16.8	48.2	-3.4	51.6
Other livestock products	2.5	3.3	3.5	-0.2
Food grains	8.4	143.5	2.7	146.2
Feed crops	0.4	8.1	0.0	8.1
Cotton	0.3	100.8	-1.3	102.1
Tobacco	17.0	28.2	24.5	3.7
Oil-bearing crops	11.3	16.4	-0.8	17.2
Vegetables	12.4	17.9	20.8	-2.9
Fruits	8.4	9.1	11.8	-2.7
Tree nuts	20.1	25.5	35.2	-9.7
Sugar and syrup crops	195.8	662.2	72.2	590.0

Source: Larry J. Wipf, "Tariffs, Nontariff Distortions, and Effective Protection in U.S. Agriculture," American Journal of Agricultural Economics, Vol. 53, No. 3, August 1971.

and dairy products (48.2 percent). Of these, we are interested in all but dairy products. The other products that we are concerned with in this paper -- oilseeds, fruits and vegetables, meats and tobacco -- do not appear to have excessively high rates of protection. If we accept these measures as a rough guide to the competitive position of the U.S. in world agricultural trade, we can focus our analysis on wheat, rice, sugar and cotton. While it would appear that the U.S. has a comparative advantage in oilseeds (primarily soybeans), we could add peanuts to our list because they are a highly protected commodity. In 1968 the nominal and effective rates of protection on peanuts were 69.3 and 204.0 percent, respectively.[17/]

Wheat

With the exception of Argentina, and possibly Mexico, the developing countries have not historically had a significant interest in wheat exports. They have, in the main, been importers (Table 8). In the 1960's, most of U.S. wheat exports were to the developing countries under government programs, mainly P.L. 480. About 70 percent of wheat exports were under government programs in the first half of the decade, and between 50 and 60 percent during the last half. Thus, the developing countries, being mainly importers of wheat, benefited greatly from the soft terms under which they received wheat from the United States.

In recent years a large number of developing countries have increased their wheat production through the use of the new, high yielding varieties, related production inputs, and price support programs.

[17/] Wipf, op. cit.

Table 8. World Trade in Wheat and Wheat Flours, 1967

Region	Imports	Exports
	- 1000 metric tons -	
Europe	18,077	12,112
USSR	418	6,802
Canada	-	7,333
U.S.	38	13,774
Mexico	1	253
Other Central America and Caribbean	1,990	-
Argentina	-	2,462
Uruguay	-	68
Other So. America	4,566	-
N. Asia	1,709	62
S. Asia	3,734	2
S.E. Asia[1/]	2,403	111
E. Asia[2/]	10,308	82
Africa	3,914	71
Oceania	931	5,343
Total	48,039	48,697

Source: Trade Yearbook, 1970, FAO, Rome 1971.

[1/] Includes Republic of North Vietnam.

[2/] Includes Mainland China, Mongolia and Republic of North Vietnam.

These developments have greatly reduced the need for imports in several of these countries and even created some small exportable surpluses. In the main, however, it does not look like the traditional developing country importers of wheat will contribute significantly to world wheat exports. Growing domestic demands resulting from increases in population and per capita incomes will keep pace with increased production. Those few countries which have produced or will produce exportable surpluses will find difficulty selling in world markets because (a) they lack adequate marketing and grading facilities and (b) their domestic prices are well above world levels, requiring costly export subsidies.[18/] Nonetheless, increased self-sufficiency in wheat for a number of the historically large wheat importing countries in the developing world will sharply reduce the size of world wheat trade and U.S. exports.

Needed adjustments in wheat production and consumption in the United States as well as in the other developed exporting countries and Western Europe would call for, among other things, pricing of wheat basically as a feed grain. If this were done, the effective supply of feed grains would be expanded and world prices would probably move downward. It is difficult to judge the extent of this downward pressure because we do not know by how much wheat production would decline with the decline in prices. In any event, bringing about more competitive pricing of wheat in many of the developed countries would affect the world market prices for feed grains and the market prospects for the developing countries

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[18/] James P. Houck, "The Green Revolution: Its Impact on Trade and Agricultural Policy in Developed Nations," Staff Paper P71-20, Department of Agricultural and Applied Economics, University of Minnesota, November 1971.

which are feed grain exporters. This would tend to work against the interests of those developing countries which are now or have the potential of becoming major exporters of coarse grains such as Mexico, Argentina, Brazil, Kenya, Thailand, and Indonesia.

Sugar

Of all the agricultural commodities which the United States imports from the developing countries, sugar undoubtedly is the most protected.

Detailed descriptions of the U.S. sugar program can be found in Johnson[19/] and Horton[20/] and will not be repeated here. We are interested in looking at the cost of sugar programs and what alternative programs would mean to both the United States and to the developing countries.

Over the last 40 years the United States has relied increasingly on domestic sugar production. During the period 1925-29 about 37 percent of U.S. sugar consumption was produced on the mainland, Puerto Rico, Hawaii, and the Virgin Islands. By the late 1960's, about 60 percent of U.S. consumption came from these same sources. Johnson points out that "the net effect of the sugar acts has been to reserve all -- or more than all -- of the growth in domestic use for domestic producers."[21/]

The United States is a very high cost producer of sugar. Various estimates have been made of U.S. production, consumption and imports under alternative price and program assumptions. They all point to

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[19/] D. Gale Johnson, "Sugar Program: Costs and Benefits," Foreign Trade and Agricultural Policy, Technical Papers -- Vol. VI, National Advisory Commission on Food and Fiber, August 1967.

[20/] Donald C. Horton, "Policy Directions for the United States Sugar Program," American Journal of Agricultural Economics, Vol. 52, No. 2, May 1970.

[21/] D. Gale Johnson, op. cit.

substantial gains to both the United States and the developing countries from a more liberal U.S. sugar policy.

Johnson has estimated that in 1970 the U.S. sugar program cost U.S. consumers and taxpayers $1 billion, compared with total cash receipts from sugar cane and sugar beets in domestic areas of $700 million.[22/] Thus, U.S. consumers and taxpayers could afford to completely subsidize domestic producers for not producing at all and still be left with a substantial net benefit.

It has been estimated that if the United States were to follow a completely free trade policy for sugar, the domestically produced share of consumption would decline from 60 percent to 20 percent. Free trade in sugar would increase the gross earnings of less developed countries by about $400 million,[23/] not an insignificant sum.

Harry Johnson,[24/] refining some earlier work by Snape,[25/] has estimated that in 1959 if the United States allowed free imports of sugar

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[22/] D. Gale Johnson, Comparative Advantage and U.S. Exports and Imports, of Farm Products, Paper No. 72:1, Office of Agricultural Economics Research, University of Chicago, February 15, 1971. The program cost estimates are based on higher world prices that would result from increased imports by the United States.

[23/] Thomas H. Bates, "The Long-Run Efficiency of United States Sugar Policy," American Journal of Agricultural Economics, Vol. 50, No. 2, Ausust 1968, and Donald C. Horton, "Policy Directions for the United States Sugar Program," American Journal of Agricultural Economics, Vol. 52, No. 2, May 1970. See also R. H. Snape, "Sugar: Costs of Protection and Taxation," Economica, Vol. XXXVI, No. 141, February 1969.

[24/] Harry G. Johnson, "Sugar Protectionism and the Export Earnings of Less Developed Countries: Variations on a Theme by Snape," Economica, Vol. XXXIII, No. 129, February 1966.

[25/] R. H. Snape, "Some Effects of Protection in the World Sugar Industry," Economica, Vol. XXX, No. 117, February 1963.

but made a deficiency payment to domestic producers, the increased consumption and imports of sugar would be worth about $250 million to the developing country exporters. The assumptions about deficiency payments are less extreme from the point of view of domestic producers than a totally free trade situation. Yet they illustrate once again the large gains to U.S. consumers and sugar exporters from more liberal import policies without imposing undue burdens on domestic producers.

Cotton

Cotton is also one of the highly protected agricultural commodities in the United States. It is estimated that in 1968 the effective rate of protection for U.S. cotton production was just over 100 percent.

U.S. production and exports have declined in recent years (Table 9) to the point where production has been around ten million bales a year and exports about three million bales. This has worked to the benefit of developing country exporters.

Under a situation of no government programs for cotton in the U.S. and a domestic farm price of 19.5 cents a pound, production is estimated at 9.4 million bales, lower than the level prevailing in recent years.[26/] Under such conditions exports would be at a modest level, probably not over 1.5 million bales. Such further reduction in U.S. cotton exports would add to the foreign exchange earnings of a large number of developing countries with exportable supplies of cotton.

[26/] P. L. Strickland, W. H. Brown, W. C. McArthur, and W. W. Pawson, Cotton Production and Farm Income Estimates Under Selected Alternative Farm Programs, AER No. 212, ERS, USDA, September 1971.

Table 9. Production and Export of Cotton, United States, 1955-1970

Year	Production[1/]	Exports[1/]
	. . . . million bales	. . . . .
1955	14.7	2.3
1956	13.3	7.9
1957	11.0	6.0
1958	11.5	2.9
1959	14.6	7.4
1960	14.3	6.9
1961	14.3	5.1
1962	14.9	3.4
1963	15.3	5.8
1964	15.2	4.2
1965	15.0	3.0
1966	9.6	4.8
1967	7.5	4.4
1968	11.0	2.4
1969	10.0	2.9
1970	10.3	3.7

Source: Agricultural Statistics, 1971, USDA, Washington, D. C., 1971.

[1/] 500 pound bales.

Rice

The United States has been the largest exporter of rice in recent years, accounting for nearly 30 percent of world exports in 1968 and 1969. Italy, Australia and very recently Japan are the only other developed countries which export any significant amount of rice, and their exports are small. Both the nominal and effective rates of protection for U.S. rice producers have been very high -- 36.4 and 120.4 percent respectively in 1963.[27/]

The level of rice production in the United States is controlled through acreage restrictions and domestic prices are well above world market levels. Thus, sizeable export subsidies are required for commercial exports. Even more important, exports under the P.L. 480 program have accounted for between 38 to 57 percent of total rice exports between 1961 and 1970. The United States is the largest competitor the developing, rice-exporting countries face. And, they are not competing with U.S. rice producers, but with the U.S. Treasury.

On a milled basis, farm prices of long grain rice have averaged about $220 per metric ton. The export subsidy has been running at $44 per metric ton, or about 20 percent of the domestic price.[28/] Continued protection of domestic rice production and aggressive use of export subsidies provide stiff competition for the less developed exporters. Because of its dominant

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[27/] Wipf, op. cit. The calculated rates of protection were much lower in 1968 because of unusually high world market prices. With present, much lower, world prices, we would expect current rates of protection to be as high if not higher than in 1963.

[28/] Rice Situation, Economic Research Service, U.S. Department of Agriculture, March 1972.

position in world rice trade, the United States can exert considerable influence on the level of world prices and export earnings of rice.

Estimates of rice production in the United States under free market conditions are difficult to come by.[29/] It is the author's best guess that, given the outlook for relatively low world prices in the 1970's, production in the United States would decline somewhat under a free market situation, U.S. exports would decline, and the position of less developed rice exporting countries would improve.

Effective Rates of Protection on Processed Agricultural Products

Access to the markets for raw agricultural products in developed countries, such as the United States, by the developing countries is only one part of a larger set of agricultural trade issues. Another is the ability of the developing countries to penetrate the market in the U.S. for semimanufactured and manufactured products based on agricultural raw materials. The developing nations would like to do as much processing as possible of the raw product. This generates much needed employment and incomes domestically and increases the value of and, therefore, the foreign exchange earnings from agricultural exports.

It is typical for developed countries to have higher degrees of protection for manufactured products than for raw materials, and the

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[29/] A recent study by Warren R. Grant and D. S. Moore, Alternative Government Rice Programs: An Economic Evaluation, AER No. 187, ERS, USDA, June 1970, concludes that rice production in the United States in a free market situation would be 138.7 million cwt. at an equilibrium price of $3.40 per cwt. for rough rice. This is a much larger amount than the peak production of 104 million cwt. produced in 1968 and way above the 1970 level of production of 83 million cwt. This increase is predicted in spite of a sharp drop in net returns from rice production in the short run (actually negative returns) and a significant reduction in land values required in the long run. The author finds these results hard to accept for such a protected commodity.

United States is no exception. Tariff structure of this type bias imports in favor of raw materials and provides added protection to domestic manufacture in the developed countries. In other words, the effective rate of protection for manufactured products can be much larger (or smaller) than the value of the nominal tariff. This is illustrated in Table 10 for a few commodities; the effective tariff rate is about two to three times the nominal tariff for some of the commodities listed and ten times higher for one product, coconut oil. The effective rate of protection is further enhanced when nontariff trade barriers such as quotas are employed in addition to tariffs.

To further illustrate the point Belassa[30/] calculated the effective rates of protection for 22 primary products for the United States, the United Kingdom, the European Community, Sweden and Japan. The commodities covered in the study are: meat, fish, fruits, vegetables, cocoa, leather, groundnuts, copra, palm-kernel, palm oil, rubber, wood, pulpwood, wool, cotton, jute, sisal and henequen, iron, copper, aluminum, lead and zinc. Four stages of processing were considered. The results for the United States are presented in Table 11.

Clearly the degree of protection, both nominal and effective, increases rapidly as we move to higher stages of processing. Furthermore, the distribution of imports by stage of processing follows from the nature of protection. Of the total value of the 22 commodities imported by the United States from the developing countries in all

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[30/] Bela Belassa, "Tariff Protection in Industrial Nations and Its Effects on the Exports of Processed Goods from Developing Countries," Canadian Journal of Economics, August 1968.

Table 10. Nominal and Effective Tariff Rates for Selected Commodities, U.S., 1962

Item	Nominal Tariff	Effective Tariff
	. . . percent	
Thread and yarn	11.7	31.8
Textile fabrics	24.1	50.6
Hosiery	25.6	48.7
Clothing	25.1	35.9
Other textile articles	19.0	22.7
Shoes	16.6	25.3
Coconut oil (refined)	5.7	57.5
Jute fabrics	3.1	5.3
Cigarettes	47.2	89.0
Hard fiber mfg.	15.1	38.0

Source: Bela Belassa, "Tariff Protection in Industrial Countries: An Evaluation," The Journal of Political Economy, Vol. LXXIII, No. 6, December 1965; and Harry G. Johnson, Economic Policies Toward Less Developed Countries (Washington: The Brookings Institution, 1967.

Table 11. Weighted Averages of Nominal and Effective Tariffs and Imports from Less Developed Countries, United States, 1964

Stage of Processing	Nominal Tariff	Effective Tariff	Value of Imports	Distribution of Imports
	. . . percent	. . . . .	$mil. . .	. percent . .
I	4.0		1,311.1	56.6
II	6.0	19.5	768.9	33.2
III	16.6	30.7	114.9	4.9
IV	24.0	42.7	123.7 1/	5.3 1/
Total			2,318.6	100.0

Source: Bela Belassa, "Tariff Protection in Industrial Nations and Its Effects on the Export of Processed Goods from Developing Countries," Canadian Journal of Economics, Aguust 1968.

1/ A fifth stage of processing was listed for value of imports. The amount of trade in this category was small ($7.1 million) and it was added to stage IV.

stages of processing, over one-half -- 56.6 percent -- was imported in the primary stage. An additional 33.2 percent was imported with the first stage of processing. Only 10.2 percent was imported in the third and fourth stages of processing. Clearly, the United States (and other industrialized countries as well) is discriminating against the import of processed products from the developing countries.

All this is not insignificant for the developing countries who are hungry for foreign exchange and are not getting as much as they need or want in the form of economic aid. In 1964 the value of U.S. imports from developing countries of the 22 commodities which Belassa studied amounted to $2.3 billion. The amount is even larger today. Removal of discrimination against imports of processed primary products by developed countries should be given serious attention in future trade negotiations.

IV. The Developing Countries as a Market for U.S. Exports

The interest of the United States in promoting economic development in the less developed countries should go beyond moral and political considerations; economic benefits should not be overlooked. Certainly, changes in U.S. trade policies which would stimulate imports of agricultural raw materials and processed agricultural commodities from the developing countries would contribute to their earning of foreign exchange and their ability to finance imports and future development.

There has been a positive association between the rate of economic growth in developing countries and growth of U.S. agricultural exports to them, to say nothing of non-agricultural products. Mackie[31/] has

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[31/] Arthur B. Mackie, Foreign Economic Growth and Market Potentials for U.S. Agricultural Products, FAER No. 24, Economic Research Service, U.S. Department of Agriculture, April 1965.

shown that between 1955/56 and 1961/62 there was a positive relationship between the rate of growth of national income in the developing countries and the rate of growth of commercial imports of agricultural products from the United States. For all developing countries, national income grew at 4.0 percent a year, total agricultural imports from the United States by 11.0 percent, and commercial agricultural imports by 8.4 percent. One group of developing countries with a rapid rate of growth of national income of 8.1 percent per year[32/] had a rate of growth for total agricultural imports of 7.6 percent a year while commercial imports grew at 14.0 percent a year. On the other hand, the remaining low income countries had annual average growth rates of 2.4 percent for national income, 13.0 percent for total agricultural imports from the United States, and 2.8 percent for commercial agricultural imports. Furthermore, an analysis of agricultural imports from the United States by a group of 24 countries in the 1959-61 period showed that the proportion of commercial imports was positively associated with the levels of per capita incomes in these nations.

During the 1960's, U.S. agricultural exports to the developing countries continued to grow at a rapid rate. In general, exports under government programs (mainly P.L. 480) declined while commercial exports rose rapidly (Table 12). From 1962 to 1971 agricultural exports under government programs declined from $1,512.8 million to $1,057.1 million. On the other hand, total commercial exports increased from $3,518.6 million to $6,637.8 million, or by 7.3 percent a year. Asia was the

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[32/] Japan, Venezuela, Israel, Chile, Cyprus, Ghana, Iraq, Thailand, and Mexico.

Table 12. U.S. Agricultural Exports, by Region and Terms of Sale, 1962 and 1971

Region	Government Programs		Commercial	
	1962	1971	1962	1971
	. . . . . million dollars			
Latin America and Caribbean	148.9	110.3	288.8	535.3
Asia (excluding Japan)	663.1	761.9	251.0	792.1
Africa	310.9	115.7	63.6	177.9
Total	1,512.8	1,057.1	3,518.6	6,637.8

Source: Foreign Agricultural Trade of the United States, ERS, USDA.

only region of the world to which exports under government programs increased. In general, commercial exports to the developing countries increased at a faster rate than commercial exports to the developed countries: by 7.1 percent a year for exports to Latin America and the Caribbean, by 13.6 percent a year to Asia (excluding Japan) and by 12.1 percent a year to Africa. In fact, the less developed regions of the world accounted for 43 percent of the growth in U.S. commercial agricultural exports during the 1962-1971 period.

The United States should not overlook the rapid growth of its agricultural exports to the developing countries. There is evidence of a strong association between rapid economic development in the poor countries and rapid growth in their agricultural imports, particularly commercial imports. To the extent that the United States pursues trade and aid policies which contribute to economic growth in the less developed countries, it is helping to build markets for U.S. farm and nonfarm products.

V. Alternative Agricultural Policies for the United States

We confine our discussion of changes in agricultural policies to wheat, rice, cotton and sugar -- commodities which are of great importance in the export trade of developing countries and which are highly protected in the United States. More general discussions of U.S. agricultural policies and their impact on world agricultural trade can be found elsewhere.[33/]

[33/] D. Gale Johnson, Where U.S. Agricultural Comparative Advantage Lies, and John Schnittker, U.S. Agricultural Policy, papers prepared for the Atlantic Council of the United States study, "U.S. Agriculture in a World Context."

Guiding Principles

Before turning to a discussion of specific commodities, we should spell out certain guiding principles which will be employed in the discussion of agricultural trade policies. First, the welfare of consumers should be a major concern of trade policy. The improvement of consumer welfare is one of the major underpinnings of the arguments in favor of freer trade. We can further argue that trade policies which place a relatively heavy burden on the poor compared with the rich represent one of the worst forms of protectionism. The "ability to pay" argument which is applied (sometimes) to domestic policy considerations should also be applied to foreign trade and aid policies. As one author has commented about the highly protectionistic U.S. sugar program, "to the extent that sugar quotas can be justified as a form of foreign aid they appear to be a case of 'poor people in rich countries giving money to rich people in poor countries.'"[34/] Another writer[35/] has pointed out that it is one of the ironies of protectionism that the burden of such policies falls on the very poor and the very rich. "The man who eats Kobe beef and the one who eats at McDonald's have something in common, just as the one with the $25 English cotton shirt and the one with the $1.95 discount house shirt from Hong Kong. Both are consumers for whom the mass market is not large enough to activate the U.S. production

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[34/] H. S. Houthakker, "Domestic Farm Policy and International Trade," American Journal of Agricultural Economics, Vol. 53, No. 5, December 1971, p. 764.

[35/] Dale E. Hathaway, Trade Restrictions and U.S. Consumers, paper presented at the U.S. Trade Policy and Agricultural Exports Conference, Ames, Iowa, June 2, 1971.

process, and in the absence of imports they would be forced into less satisfactory consumption patterns." The rich can afford it, but the poor cannot.

Second, trade policies should promote efficient use of resources from the point of view of national output and productivity. This, after all, is what the free trade argument is all about. In moving from a protectionistic set of policies to ones which are more free-trade oriented, one has to keep in mind the kind of resource adjustments which could be expected to occur and their impact on total output and productivity. In particular, special attention has to be given to moving resources out of inefficient production processes into efficient ones.

Third, the benefits to producers from past agricultural programs have been capitalized into the value of land or allotments. Policies which would reduce prices received (without compensating income payments) would, in the short run, lead to lower incomes based on current land values and, in the longer run, to lower land prices. This would represent a depreciation of an important capital asset. If there is a real saving to consumers and taxpayers from more liberal agricultural trade policy, considerations of fairness and political feasibility might dictate compensation to producers for part or all of the capital losses associated with a liberalization of trade policies and resulting adjustments of resource use in agriculture. But unlike present income transfers which perpetuate inefficient resource use, this would be a compensation which would bring about desired resource adjustments.

Fourth, there are those who would argue, with considerable

justification, that there are surplus resources employed in U.S. agriculture, and shifting resources out of the production of one set of agricultural commodities into the production of others is merely shuffling around redundant resources. In the short run this is probably true. But in the long run something of value would be accomplished -- resources would be moved into the production of those agricultural commodities in which the United States has a comparative advantage and for which world markets are growing at reasonably rapid rates: e.g., feed grains and soybeans. And, with competitive prices, the United States would assure itself of a "fair" share of this growth. There would undoubtedly still be a need for controlling output of U.S. agriculture after all these resource adjustments took place. But with more efficient resource use, the cost to society of withholding a given amount of resources from production in agriculture and meeting a given income objective for farmers would be less than it presently is.

Fifth, changes in U.S. trade policies which are clearly to the benefit of the United States should not be made conditional upon actions by other countries. We have been conditioned to think in terms of balanced, multilateral trade negotiations, primarily concerning tariffs. But if it is clearly in the national interest to change some agricultural policies, one cannot justify asking other countries to do something of "equal value" in return. Furthermore, tenacious adherence to a reciprocity approach provides opponents to trade liberalization with a justification for continuing protectionistic policies.

Sixth, changes in agricultural policies are always difficult; they are especially so when the removal of a significant degree of protection

is involved. It is doubtful that much can be achieved by relying solely on voluntary surrender of such protection. But decisions should be made. And, they should take into account the interests of consumers, taxpayers, and national economic growth as well as those of the agricultural producers concerned. This means that responsibility for agricultural policy changes which lead to trade liberalization should rest at sufficiently high levels of government to permit the views of all the aforementioned groups to be fairly represented.

Policy alternatives

With these principles in mind, let's now look at some policy alternatives for the four commodities in which we are principally interested -- wheat, rice, cotton, and sugar.

From the point of view of the developing countries, movements toward less protectionistic wheat policies in the United States present some vexing problems. We will highlight these problems by assuming that the United States moves toward a set of policies for wheat which lower domestic and world market prices and make wheat competitive with feed grains for feed uses, as some have suggested.

First, with the exception of Argentina and possibly Mexico, the developing countries do not have a major export interest in wheat. Thus, actions on the part of the United States which would lower world wheat prices would adversely affect only a few developing countries.

Second, since most developing countries are net wheat importers, lower world prices would work to their benefit by reducing their import bill. However, the extent of this benefit must be tempered by the fact that many developing countries have availed themselves of the new wheat

technology, have succeeded in expanding their production, and have substantially reduced their reliance on wheat imports. These developments are likely to continue in the future and this is one of the reasons why export prospects for wheat are not bright. Thus, one would have to think of the benefits of lower world wheat prices to the developing countries in terms of a lower import level than prevailed in, say, the 1960's.

Third, to the extent that lower wheat prices lowered the price of feed grains in world markets, this would work against the interests of developing countries which have a stake in feed grain exports. To them, the United States would become an even more awesome competitor in the world feed grain market.

Thus, it is difficult, if not impossible, to come to any conclusion about the net benefit to the developing countries of less protectionistic U.S. wheat policies which lowered world wheat and feed grain prices. How does one weigh the benefits of lower world grain prices to less developed net grain importers against the losses to less developed grain exporters?

But what about the benefit to domestic consumers and taxpayers from lower wheat prices? Certainly consumers would gain. But the gain to taxpayers is not obvious, or at least not overwhelmingly so. There is excess production capacity in both wheat and feed grains at current prices. And, this would continue to exist, at modestly lower prices. There would continue to be a need to control grain output. In this situation, expanded production of wheat would call for less production of feed grains. There is no obviously large saving in government program costs from pricing wheat competitively with feed grains at current or even modestly lower support rates for feed grains.

Some have argued that the current level of support for wheat is above that which is required to withhold current acreage from production; i.e., there is a net income transfer to producers. This net income transfer might be eliminated, but it wouldn't affect output levels, only incomes of wheat producers. But this is a domestic policy consideration which has little bearing on trade.

We are left then with one policy consideration for wheat which may have some significance for agricultural trade. The one agricultural commodity in which the United States does not have surplus production capacity is beef. To the extent that land currently could be shifted into forage and beef production, U.S. consumers would be better off and in the long run, so would taxpayers.

The value of land presently in wheat production reflects past, high prices of wheat. A combination of somewhat lower wheat prices (including payments), lower acreage allotments for wheat, and payments to producers for all or part of the cost of shifting land out of wheat into forage production should be considered. The amount of resource adjustment that can be achieved and its cost is a matter for careful study.

The situation for rice is more clear-cut than for wheat. Its production in the United States is highly protected, the U.S. is a major exporter competing directly with less developed rice exporters, and reduced production in the United States would greatly expand the export market for low-cost producers in the developing countries.

Adjustment of acreage out of rice production would, to a large extent, free resources for the production of commodities for which there are no surpluses and additional output would be welcomed at home and for export, e.g., beef and soybeans.

The United States should move toward a policy for rice under which production would take place at competitive, world market prices. During a transition period, rice producers should be compensated for losses in land values as a result of shifting land out of rice production and the lower rice prices. In the long run, there would be some benefit to domestic consumers, appreciable benefit to taxpayers, and substantial benefit to the rice exporting, less developed countries.

The case of cotton appears to be quite different from that of either wheat or rice. The United States has ceased to be a major factor in the world cotton market. At the same time, the United States has become a major importer of cotton textiles. As we have seen, world market prices for cotton in the United States would reduce production in and exports from the United States. This would be a benefit to the less developed countries. Reliance on world market prices to guide production of cotton is recommended with resource adjustment payments similar to those for wheat and rice. But the United States should go beyond questions of lint cotton production and trade. The U.S. has high rates of effective protection against imports of cotton manufactures through the use of tariffs and quotas. It is in the area of manufactures rather than lint cotton that the developing countries have the greatest export interest in the U. S. market.

Clearly, the efforts of United States textile manufacturers to limit cotton textile imports indicate that the U.S. industry is not fully competitive with foreign suppliers. The present voluntary import quotas on textiles attests to this fact. Every effort should be made to liberalize textile imports into the United States. Mindful of the dislocation

that such liberalization would cause to the domestic industry, consideration should be given to financial assistance to relocate textile workers in other industries and for manufacturers to shift investments, where feasible, to other lines of production.

The case of sugar is in a category all by itself when it comes to the degree of protection afforded domestic producers. In addition, there is the procedure by which the United States allocates sugar quotas to foreign suppliers. The United States should dispense with all quota allocations, making the U.S. market for sugar available to all suppliers on an equal basis.[36/] Furthermore, the United States should move to a free market price for both domestic consumers and producers. As we have seen, the savings would be great enough to buy U.S. producers out and still have a net benefit to the economy to show for the effort. If it were not politically possible to move to a free market, even in the long run, it would still be beneficial to U.S. consumers and taxpayers, and to developing country exporters for the United States to move to a deficiency payment system which would support a limited amount of domestic production, but allow domestic market prices to decline to world levels.

In the short run, resources freed from the production of wheat, rice, cotton, and sugar as a result of less protectionistic policies would go into the production of other commodities and put downward pressure on their prices. The extent to which this occurs is a matter for detailed analysis. In the longer run, however, we would be producing

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[36/] If for political reasons the United States deems it undesirable to trade with a country, then trade should be restricted for all commodities, not just one commodity like sugar.

agricultural commodities that have high and more rapidly growing domestic demands -- feed grains, soybeans, beef, etc. This would aid in adjusting resources and help the United States meet domestic needs as well as stimulate exports.

One final comment. The United States has had quotas on meat imports for several years. They have recently been suspended because of the high domestic meat prices. While it can be argued that these quotas have not been overly restrictive, they nonetheless should be suspended permanently to the benefit of U.S. consumers and meat exporters.

The previous discussion on proposed policy changes for wheat, rice, cotton and sugar is primarily, though not entirely, in the context of an idealized economic world -- one which does not give full weight to the politics of American agriculture (and agriculture in other developed countries as well). When one considers some of the political realities, there does not appear to be much hope for moving away from high levels of protection afforded domestic producers.

Clearly, the producers of the commodities in question had sufficient political power to get and retain the present set of policies. There is no evidence to indicate that they have lost, in any measurable degree, the political power to protect present programs. In fact, the growing mood of protectionism in many quarters of the United States -- both in and out of agriculture -- is working to strengthen rather than reduce protective agricultural policies.

The main beneficiaries of more liberal agricultural trade policies in the context of this paper, are domestic consumers and taxpayers, and the developing countries. Yet none of these groups has the political

strength or willingness to focus on specific policy questions of the type we have discussed and bring about policy changes.

All this argues in favor of basically more of the same; economic rationality does not carry a high premium. This is not to say that efforts should not be made to put forth arguments in favor of the benefits to be derived from more efficient resource use and trade policies. But we should recognize that much more than the logical merits of alternative agricultural policies will be needed to bring them into being.

Food and Fiber Assistance Programs -- P.L. 480

Exports of agricultural commodities under P.L. 480 have been an important factor in U.S. trade and of considerable importance to the developing countries. The developing countries benefited from food and fiber imports which required very little foreign exchange, and the P.L. 480 program helped to export some of the United States surplus agricultural production (capacity).

In the early 1960's, exports of agricultural commodities under P.L. 480 were valued at about $1.4 billion, rose to $1.6 billion in 1966 and have been around $1.0 billion in recent years. The major commodities involved have been wheat and wheat products, rice, cotton, and dairy products.[37/]

The decline in exports under the P.L. 480 program reflects two basic developments in the developing countries. One is that several developing countries have achieved rapid rates of economic development,

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[37/] Willard W. Cochrane, "Agricultural Aspects of U.S. Economic Relations with Developing Countries," United States International Economic Policy in an Interdependent World, papers submitted to the Commission on International and Investment Policy, Vol. II, Washington, D. C., July 1971, p. 264.

have ceased to be eligible for the soft credit terms of the P.L. 480 program, and have become commercial importers. The other is that a number of formerly large recipients of P.L. 480 have benefited from the Green Revolution and now require less in the way of imports. This has been particularly true for a country like India and for a commodity like wheat.

With continued progress in agricultural development in the developing countries there will be a smaller market for P.L. 480 commodities in the 1970's than there was in the 1960's. Nevertheless, there will be a need for commodity assistance to the developing countries. Droughts, typhoons, floods and wars will still occur in the developing nations, causing dislocation in their agricultural production. There will be need for temporary food assistance. Further, not all developing countries are going to become "rich" and self-sufficient in agricultural production in either the near or distant future. There will be countries who could benefit from food and fiber assistance on a long-term basis.

It is recommended that the United States continue to supply such assistance whether under bilateral programs such as P.L. 480 or through multilateral international programs. But because of the limited and uncertain size of this market, food and fiber assistance should be provided out of a commodity reserve for that purpose; it should not be viewed as a surplus disposal program, as it has been through most of the life of the P.L. 480 program.

Since the P.L. 480 market has been so important for wheat, rice, and cotton, and since the commercial as well as P.L. 480 export prospects for them are not bright, there is all the more reason for policies which will adjust resources out of the production of these commodities.

Commodity Price Stabilization

One cannot discuss the interests of developing countries in exporting agricultural commodities without at least referring to the problem of commodity price instability in world markets. This has been a subject of a great deal of discussion and study. The main thrust has been to establish international commodity agreements that would stabilize prices and foreign exchange earnings of exporters.[38/]

The exports of primary commodities account for a very large proportion of total exports from the developing countries. And, most of these exports are to the developed countries. The following is a good summary of the problem.

> With limited but important exceptions, [world commodity markets] have shown two major unfavorable characteristics. First, their absorptive capacity has grown only slowly, so that increased sales have often been possible only at falling prices. Second, these markets have been subject to particularly wide price fluctuations which themselves sometimes contribute to adverse longer-term trends.
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> Demand for most primary products is growing relatively slowly as a result of both technological developments and changes in consumer spending patterns. Moreover, world trade in primary products, and particularly in agricultural products, has been held back by the protection given by industrial countries to their own primary producers. As a result, world commodity markets have in some cases taken on the characteristics of unstable residual markets bearing a disproportionate share of attempted adjustments between production and consumption in domestic as well as international markets.
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> The necessary remedial action has to extend over a broad front. Commodity arrangements have a part to play. To be effective, these will need to be associated with action by the

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38/ International Commodity Arrangements and Policies, FAO Commodity Policy Studies No. 16, Special Studies Program No. 1, FAO, Rome, 1964. The Problem of Stabilization of Prices of Primary Products, Joint Staff Study of the International Monetary Fund and the International Bank for Reconstruction and Development, Washington, D. C., 1969.

> less developed countries in the field of development policy and of domestic and external financial policies. Industrial countries could make a major contribution by providing access to their markets and opening their domestic primary production to international competition, as well as by the extension of financial assistance of a high and stable level of aggregate demand. 39/

We have argued in this paper for less protectionistic policies by the United States for some agricultural commodities. This would either provide the developed countries with greater access to the U.S. market or spare them from undue competition from subsidized U.S. exports. While these policy changes would significantly increase the size of the market for a number of exports from the developing countries, they would not necessarily lead to greater stability in world prices and export earnings.

First, there is considerable evidence to indicate that instability in world markets for primary products results primarily from fluctuations in supply rather than demand.[40/] This being the case, some form of effective control over output or management of the quantities marketed would be required to stabilize prices. That the developing countries have been unable to do this, except in a few cases, is one of the reasons why there have been so few successful international commodity agreements. This is particularly true when price stabilization efforts have also involved attempts to raise world prices. The near-term prospects for improvements in this situation are not bright.

39/ The Problem of Stabilization of Prices of Primary Products, op. cit.

40/ R. C. Porter, "Who Destabilizes Primary Product Prices?," The Indian Economic Journal, Vol. XVI, No. 4, April-June 1969.

Second, stabilization of world market prices does not necessarily lead to stabilization or increases in foreign exchange earnings.[41/] Much depends on the price elasticities of demands for the products in question.

Third, while it has been generally assumed that fluctuating world prices of primary products have been detrimental to the development interests of the poor countries, a recent study concludes that "the statistical evidence . . . appears to contradict the consensus that export fluctuations inflict significant damage on the stability and growth of the average underdeveloped country."[42/] The same author does not, however, jump to the conclusion that this is no place for price stabilization schemes. Rather, he suggests a careful analysis of each proposal.[43/]

While international commodity arrangements for stabilizing world prices (and earnings) do not appear to be all that has been claimed for them, and the history of negotiating successful agreements has not been good, there are reasons why the United States should take a sympathetic posture with respect to the developing countries' interests in such arrangements. There are a number of agricultural commodities which face intense competition from synthetics, i.e., cotton and jute. With wide swings in their prices, synthetics are substituted for the primary product during periods of high prices, but the reverse does not occur

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[41/] Herbert G. Grubel, "Foreign Exchange Earnings and Price Stabilization Schemes," The American Economic Review, Vol. LIV, No. 4, June 1964.

[42/] Alasdair I. McBean, Export Instability and Economic Development (Cambridge: Harvard University Press, 1966), p. 32.

[43/] Ibid., p. 341.

when primary product prices fall. Thus, there tends to be a cumulative loss of markets. Stabilization of primary product prices at modest levels would tend to lessen the inroads made by synthetic prices.

For other products, the developing countries do not have the financial resources to store commodities and follow orderly marketing practices. To the extent that market conditions are such as to stabilize (and possibly increase) earnings from stabilizing marketings, the United States ought to support efforts to achieve this goal.

Finally, in some cases the developing countries have too many resources locked into the production of a few primary commodities. Sensible efforts to diversify their output mix should be encouraged as this may add stability to total export earnings. The present International Coffee Agreement provides for restructuring of the agricultural sector. The United States should encourage and provide financial support to such efforts.

The above recommended changes in domestic U.S. agricultural policies and suggested U.S. posture with respect to food aid and international commodity agreements are in general, though not complete, accord with the recent recommendations of several high-level groups within government.[44/] For the commodities concerned, however, the recommendations in this paper go beyond those contained in the recent recommendations to the U.S. government in both the extent of resource adjustment suggested and explicit

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[44/] See for example, Future United States Foreign Trade Policy, Report to the President submitted by the Special Representative for Trade Negotiations, Washington, D. C., January 14, 1969, and United States International Economic Policy in an Interdependent World, Report to the President submitted by the Commission on International Trade and Investment Policy, Washington, D. C., July 1971.

means for bringing these adjustments about. Furthermore, the interests of U.S. consumers and taxpayers have been treated in a more explicit manner.

Also, trade can be treated as either an alternative or, hopefully, as a complement to foreign aid. Certain U.S. agricultural policies loom large in this arena; the developing countries have much to gain from alternative policies which provide a more liberal trade environment.

Thus, there is ample opportunity for the United States, through significant changes in its policies for a few agricultural products and for a few manufactured products based primarily on raw agricultural products, to (a) improve the lot of domestic consumers and taxpayers, (b) contribute to more efficient domestic resource use and stimulate total domestic economic growth, (c) contribute to the economic development of numerous poor countries and, (d) indirectly expand the market for U.S. farm and nonfarm products in the poor regions of the world.

VI. Meaning of Agricultural Trade Negotiations With Less Developed Countries

Our discussion of agricultural trade policies of the United States as they affect trade with the developing countries involves changes in domestic agricultural policies in order to bring about changes in trade policies. Historically, international trade negotiations have primarily dealt with tariff barriers. An institutional mechanism (GATT) has provided clearly defined procedures for carrying out these negotiations. But no such institution exists for negotiating nontariff barriers, particularly those that are an integral part of domestic agricultural policies. Schnittker has said:

> I am pessimistic to the core about "negotiating major elements of domestic agricultural policies." Here again, we move from a conventional stance associated with tariff negotiations to a situation where such an approach is scarcely applicable. About 10 years ago, it came to be generally understood that domestic agricultural policies may and do interfere with an efficient and fair world trade pattern, just as excessive and uneven tariffs do. So, people said, let's negotiate. Such a stance neglects entirely the sensitive political nature of agricultural policies in most countries, even where farmers represent a very small percentage of the population. 45/

The above quotation refers mainly to the developed countries where, with respect to domestic and foreign agricultural policies, none is without sin -- some are just more sinful than others. In such a situation, domestic political considerations aside, there is or should be a mutual interest among countries to move toward less trade-restrictive agricultural policies. One can visualize a "give and take" approach for all the countries, although the actual trade results might be hard to predict with any reasonable degree of precision.

But when we look at agricultural trade relations between a major developed country like the United States and the developing nations we have quite a different situation. In the first place, most developing countries are not that far away from the period of colonial rule that they don't feel strongly about past exploitation of their economies by the developed, ex-colonial powers. Second, the economic development of the less developed countries is dependent upon export earnings of primary products and the "irrational" and trade restrictive policies of

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45/ John Schnittker, "A Look Ahead -- Trade Policy Recommendations," United States International Economic Policy in an Interdependent World, Papers submitted to the Commission on International Trade and Investment Policy, Vol. I, Washington, D. C., July 1971, p. 905.

most of the developed countries are a matter of serious, immediate concern.[46/] Third, because the developing countries are poor and disadvantaged, they would argue that the developed countries have moral, political, and economic obligations to assist them in their development through economic aid and expanded trade opportunities. This the developed countries should do as a matter of course, without extracting concessions from the developing countries. A poor trade policy is just that, and policies should be improved as quickly as possible. The fact that most developing countries also follow restrictive trade policies, they would argue, is a matter of necessity in order to husband scarce foreign exchange. Less restrictive trade policies by the developed countries would expand exports from the less developed countries, increase their foreign exchange earnings, and lead to a liberalization of their import policies.

In the situation described above it is difficult to imagine the United States changing certain of its agricultural policies in favor of the developing countries on the basis of concessions granted to the U.S. by the poor nations. This does not mean that in a process of discussions between the U.S. and the less developed countries that certain understandings could not be reached concerning improvements in the domestic economic and trade policies of the developing countries which might result from expanded exports. But these should be understandings, and

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[46/] There is some convincing evidence that exporting agricultural products is one way a developing country can extract an economic surplus from the agricultural sector with which to finance general economic development. See, George L. Hicks and Geoffrey McNicoll, Trade and Growth in the Philippines: An Open Dual Economy (Ithaca: Cornell University Press, 1971).

not commitments. At present the UNCTAD and FAO provide well suited institutional frameworks within which such discussions could take place.

It would seem then that the benefits to the United States from less protectionistic agricultural policies are the main justification for changing U.S. agricultural policies. This being the case, unilateral action by the United States is called for, i.e., action that is not only independent of steps taken by the developing countries, but may also be independent of any actions or lack of actions by other developed countries. The negotiation of trade policies between the developed countries as a group and the less developed countries as another block generates numerous reasons for inaction. This was evident in UNCTAD I and especially in UNCTAD II, where there was a high degree of polarization between rich and poor countries. This approach should be avoided, except for those trade questions where there is a clear advantage to a multilateral approach.

Unilateral action by the United States would have one very important implication for future multilateral negotiations; it would demonstrate that a leading industrial country has both the will and ability to rationalize its agricultural policies, and it would support those legitimate claims of the developing countries with respect to their disadvantages in world trade. This could well strengthen the present case for other developed countries to liberalize their agricultural trade policies which would be of general benefit to world agricultural trade.

VII. Summary and Conclusions

We have looked at world trade in a number of agricultural commodities in which the United States and the developing countries have competitive interests. Of these, four stand out as being highly protected in the United States -- wheat, rice, cotton, and sugar. With respect to rice and sugar, the developing countries stand to gain much from less protective U.S. policies. The benefits to be gained by the developing countries from less protective U.S. wheat and cotton policies is less clear.

While a case can be made to alter domestic agricultural policies for these four commodities in ways which will liberalize trade, benefit the developing countries, and benefit domestic consumers and taxpayers, it is not at all clear that the freer trade forces have sufficient political power to overcome the interests of specific producer groups and other forces for protection of U.S. markets from foreign competition. Nonetheless, continued efforts should be made to put forth the case for more efficient resource use in U.S. agriculture and the benefits of less protectionistic agricultural trade policies. The odds for success in these fields is not high, but the battle is worth fighting.

We have also seen that the United States (as well as other developed countries) discriminates more against imports of processed primary products than against imports of raw materials. This tends to deprive developing countries of an important source of export growth.

We also looked at two other issues of concern to the developing countries -- food aid and commodity price stabilization. The future levels of food aid are not likely to be as high as they were during the past decade. The developing countries are making progress toward meeting

more of their domestic food needs or are gaining the economic capacity to import food and fiber on commercial terms. There will continue to be a need for food and fiber assistance. But such aid should be geared to the needs of the recipient countries and not be used as a method of surplus disposal by the United States.

There has long been a desire on the part of developing countries to stabilize world prices of agricultural products through the use of international commodity agreements. There have been a few successful agreements and many ill-fated ones. The United States should support efforts to develop realistic international commodity agreements which bring stability to world prices or to export earnings of developing countries. Care must be taken to stabilize prices at realistic levels so that some agricultural products are not replaced by synthetic substitutes and surplus production is avoided.

There is ample opportunity for the United States, through significant changes in its policies for a few agricultural products and for a few manufactured products based primarily on raw agricultural products, to (a) improve the lot of domestic consumers and taxpayers, (b) contribute to more efficient domestic resource use and stimulate total domestic economic growth, (c) contribute to the economic development of numerous poor countries and, (d) indirectly expand the market for U.S. farm and nonfarm products in the poor regions of the world.

There does not now exist an international forum adequately suited for the discussion and "negotiation" of national agricultural production and trade policies. This is true among the developed countries as well as between developed and developing countries. Such an institution is

badly needed. But until one comes into existence, the United States should make efforts to unilaterally alter those of its agricultural policies which clearly are harmful to the trade and development interests of the developing countries, as well as to domestic consumers, taxpayers, economic growth, and efficiency of resource use.