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International Export Promotion for Washington Apples

Terry Elwell

Good morning. Today I have approximately 45 minutes to discuss the topic of "International Export Promotion for Washington Apples." I will endeavor to give a broad-spectrum view of how the Washington Apple Commission (a 4,500-grower apple promotion program) sees the past, present, and future. While we have dabbled in computer predictive modeling, a lot of what we do comes from the experience of our senior staff wherein each one averages about 15 years of private sector *direct export experience*.

We are *not* ivory-tower bungee jumpers who extrapolate cause/effect relationships from any event that moved in the same direction at the same time. We demand stringent tracking and direct return-on-investment results to our programs.

Before we get started, let's debunk a few Malthusian myths for those of you who may have a stranglehold on reality from having read *Silent Spring* at too young an age.

"Myth" of Global Food Shortage

- A. Agricultural production is still on a rapid upward trend.
- B. World price of food has been declining for 50 years.
- C. Since 1970, prices have dropped by one-half in *real terms*.
- D. Total food production is growing faster than the population. Per capita world food output grew by 5 percent during the 1980s.
- E. The gross production potential of the Earth set by available land, climate, and photosynthesis producing sunlight is sufficient to produce food for 1,000 billion people.
- F. Even *without* irrigation, a staggering 400 billion people could be sustained.

Elwell is International Director of the Washington Apple Commission.

The Real Challenge

The challenge is *not* that the Earth will run out of land, topsoil, or water, but that the nations will *fail* to pursue economic, trade, and research policies that allow nascent production of food to flourish.

The essence of the challenge for Washington apples will be on a *competitive* basis not as a result of some inordinately "skewed" supply/demand curve.

So, the question is *can* the Washington apple industry compete in the global environment of massive competitive activity?

First, let's look at worldwide competition (Figure 1). As you can discern for yourselves, the presence of Washington as a mega-producer isn't!

In fact, one might even ask how Washington remained competitive to date?

Washington Apple Exports 1986-93

Reasons for success:

1. Quality Control - Washington standards are more stringent than USDA's.
2. Continuity of Supply - 50 years of export relationships
3. Carefully executed promotional programs

Historically, the Washington apple industry had been successful in not only selling more fruit against larger host crops, but *more* importantly, in *keeping prices up*.

The economies of the Community are expected to integrate and achieve sustained wealth creation, rising standards of living, improved competitive efficiency and lower levels of unemployment.

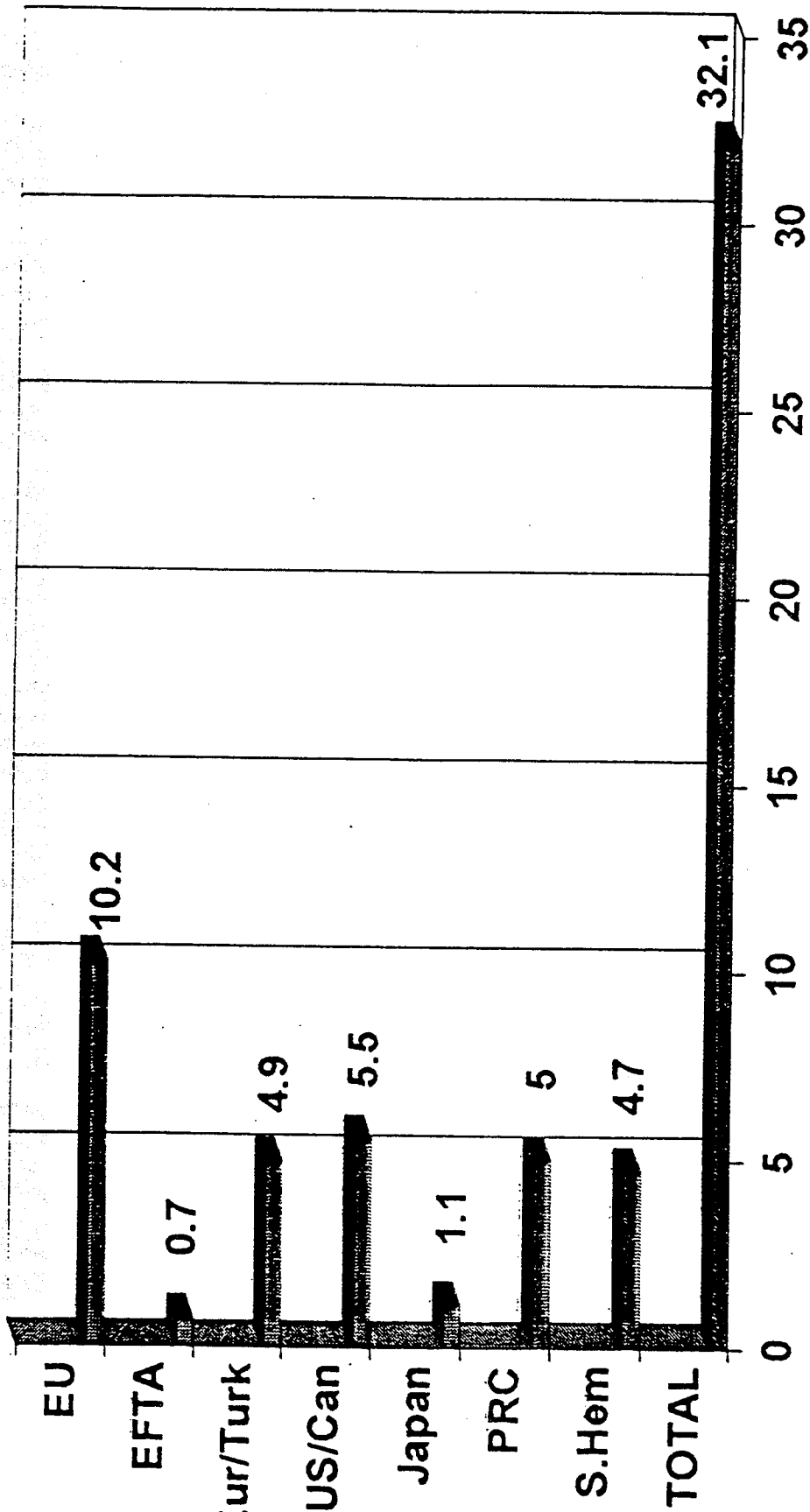
External Relationships

Currently 60 percent of all EU imports are from countries participating within the Community's complex network of preferential arrangements.

It is the Community's long-term objective to support the multinational trading system of the General

Figure 1. PROJECTION FOR CROP YEAR 96/97

Million Tons



EU = European Community
 EFTA = Norway, Sweden, Finland, Austria, Switzerland
 E.Eur/Turk = Russia, former E. Bloc, Turkey
 US/Can = United States, Canada
 Japan = Japan
 PRC = People's Republic of China
 S.Hem = Southern Hemisphere

Source: Committee for Agricultural Organizations in the EU

Agreement on Tariffs and Trade (GATT), henceforth known as the World Trade Organization. This will be achieved by harmonizing the existing bilateral agreements with the WTO.

The devolution of the Common Agricultural Policy (CAP) will allow access to more competitive players.

Setting the Stage for Global Competitive Factors

The British economist David Ricardo postulated that good would flow from an area of production that had an inherent advantage of producing these goods to an area that could not produce the goods with the same degree of efficiency, hence the old platitudes "coal to Newcastle" or "sand to Saudi."

Another economic theory called the Stolper-Samuelson theorem (written in 1941 by economists Paul Samuelson and Wolfgang Stolper) propounds that under *free trade* "wage levels will tend to converge among different countries."

In essence, what this brief digression into academia means, is that under free trade, those who grow competitively will be increasingly able to sell to those who don't and that real incomes will rise and allow for more frequent discretionary purchases of fruit such as Washington apples.

Adam Smith and the Wok

When we of the Washington apple industry are engaged in strategic analysis, certain key "macro-economic" variables dictate.

1. Self-sufficiency ratios

<u>Production</u>
Consumption
2. Per capita income
3. Population

These three analysis vectors point to that sector of the world that has manifested the fastest rise in income in *recorded history*. This is of course Asia. The International Monetary Fund predicts that Asia will account for over half the world's income by the year 2000.

By the end of the decade, there will be a billion Asians living in *middle-class households*, *virtually equal* to the population of North and South America and the European Community.

The aggregate population of Asia will account for 3.5 billion of the world's predicted 6.2 billion persons by the year 2000.

If China alone can maintain the same growth rate over the next two decades that it has for the last ten

years, *real* per capita income will be commensurate to that of Japan in the '70s.

If Asia can continue for the next 20 years, it will surpass the OECD (Organization of Economic Cooperative Countries), (including Japan in this group), in production.

The data on China is phenomenal, but *what* about the rest of Asia? Can places like Burma, Laos, and Thailand go from the "golden triangle" to (as China moves in) the "golden rectangle" (a nexus of legitimate economic prosperity)?

There is talk of a free-market stemming from the 3,000-mile long Indonesian archipelago in the south to Burma, Laos, and Cambodia, and Vietnam in the north.

This may sound like geo-political "alchemy," but a recent *Wall Street Journal* article reports that even Burma's GDP was at 10.9 percent last year, and cease-fire deals have been arranged with major insurgent groups. Laos has introduced a market economy as has Vietnam. Even Cambodia, formerly locked in a civil war, has emphasized the private sector in its 5-year plan and is encouraging foreign investment.

Recently, we have seen other milestones such as Laos developing a burgeoning textile industry and Vietnam emerging as the world's third biggest rice exporter (after Thailand and the United States) (Figures 2, 3).

According to the London *Economist*, the Asian food market could be worth over \$450 billion by the year 2000. Rising GDP will, as previously mentioned, allow many people access to the product (Figure 4).

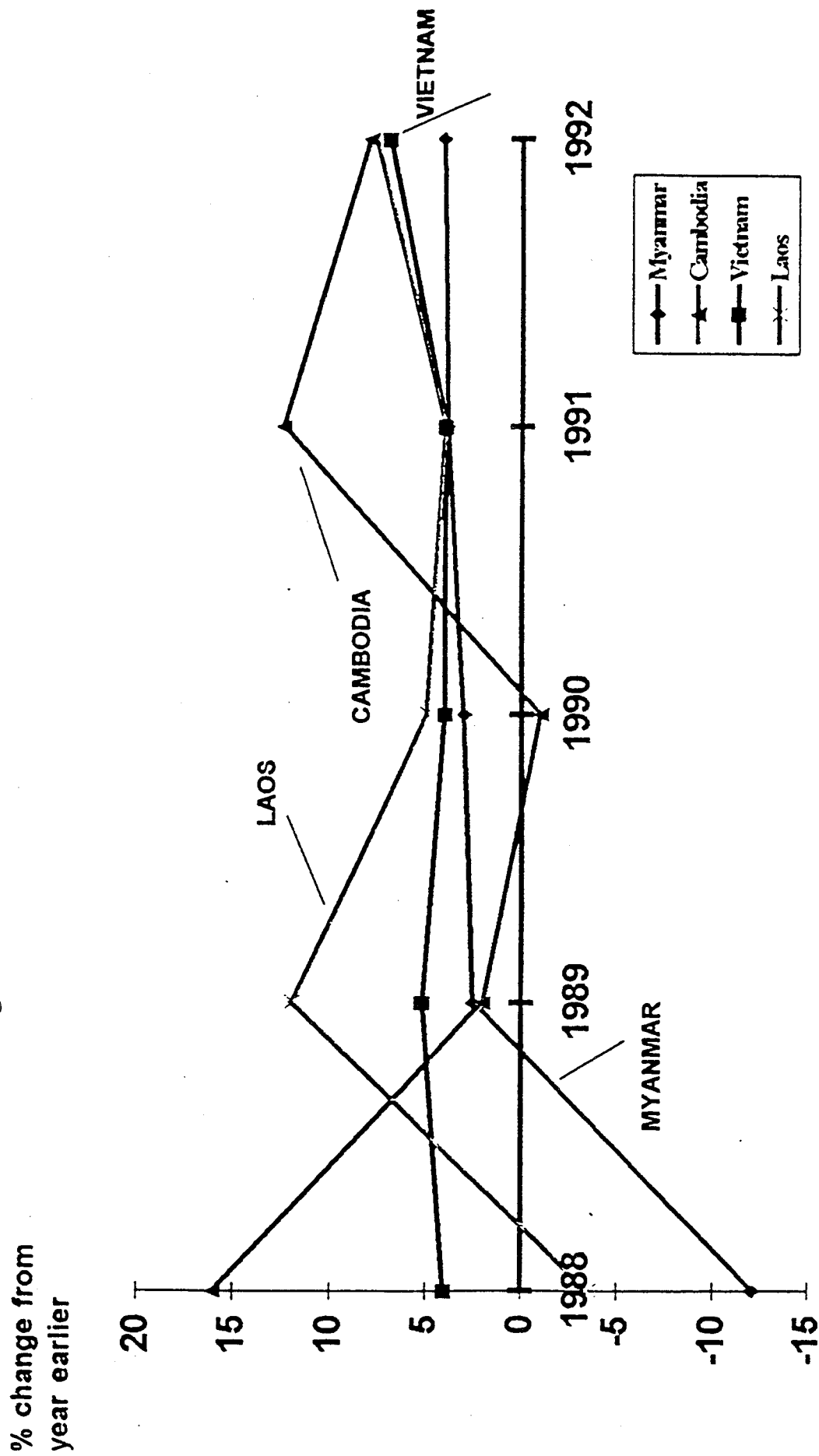
Dr. William Conerly, Senior Vice President and Economist for First Interstate Bank highlights our marketing position:

Difficult times are coming for American wheat farmers, grain terminals and others involved in the export trade. Apples will be another story. Higher incomes in much of the world will stimulate demand for "cheap luxuries." They may not be ready for Cadillacs, but they are ready for fruit in the winter. (*Pacific Northwest Economic Indicators*, June 1992)

In the global market of comparative advantage there will be winners and there will be losers. My own family, engaged in the California rice industry, may find that paying *real* prices for water will make growing rice cost prohibitive and hence, non-profitable. Uncle Ben *may* lose out to Uncle Ho.

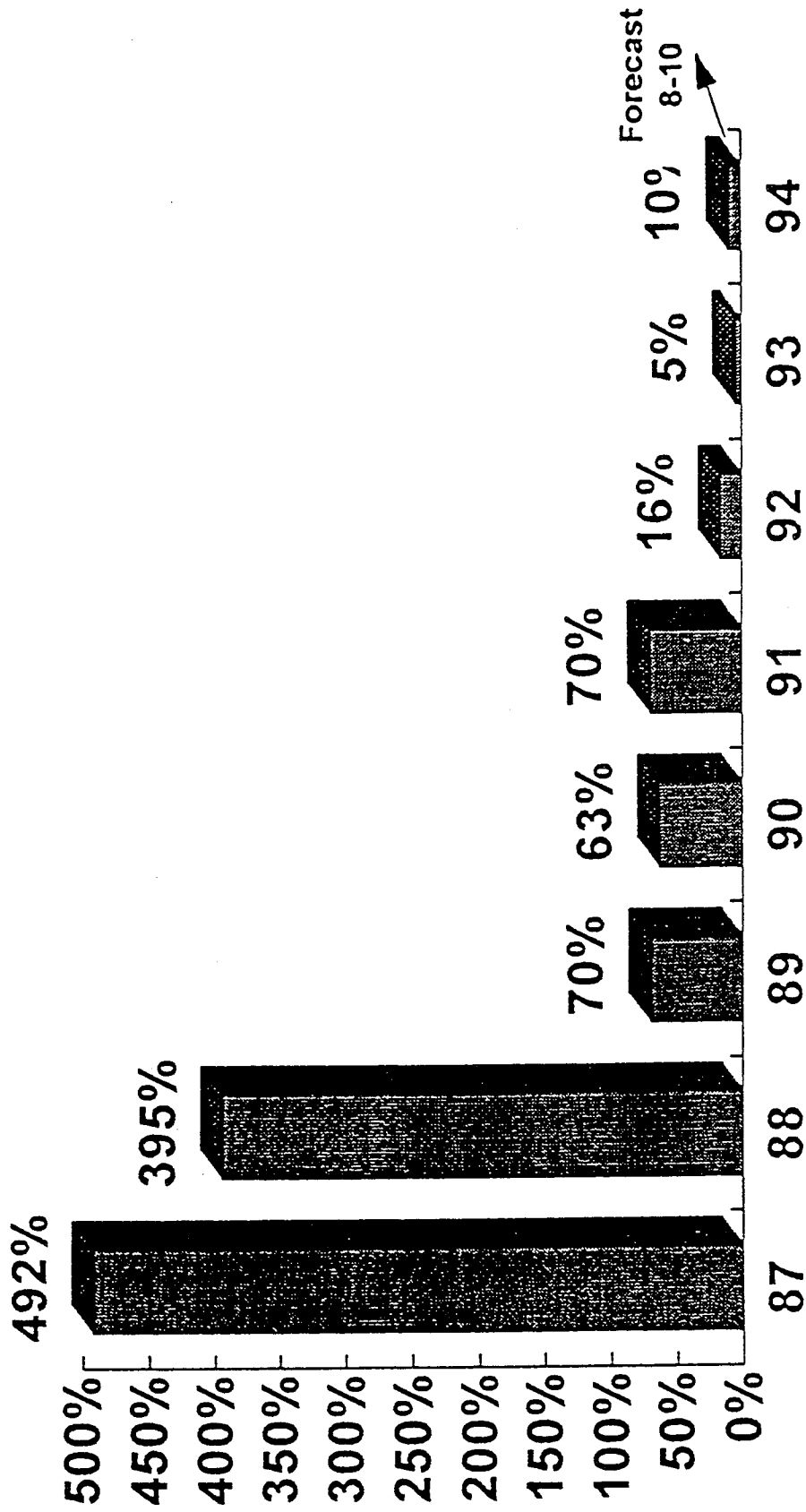
With the progression of NAFTA, Mexican avocados may inundate our domestic industry with a more competitive product.

Figure 2. CAPITALISM WORKS BETTER



Source: EIU; Asian Development Bank and World Bank estimates.

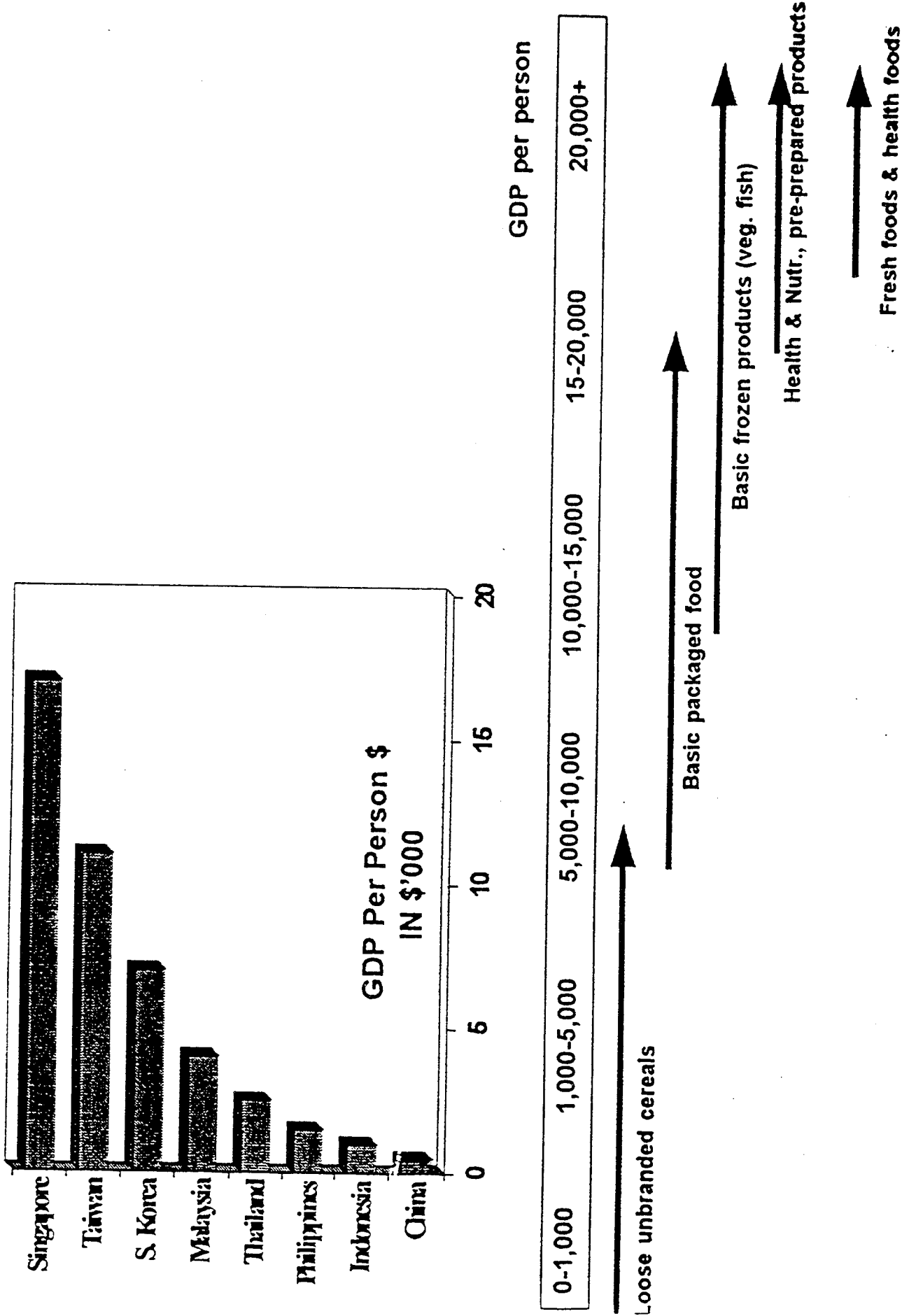
Figure 3. VIETNAM'S ANNUAL INFLATION RATE



Source: Institute for Research on Markets and Prices

1992

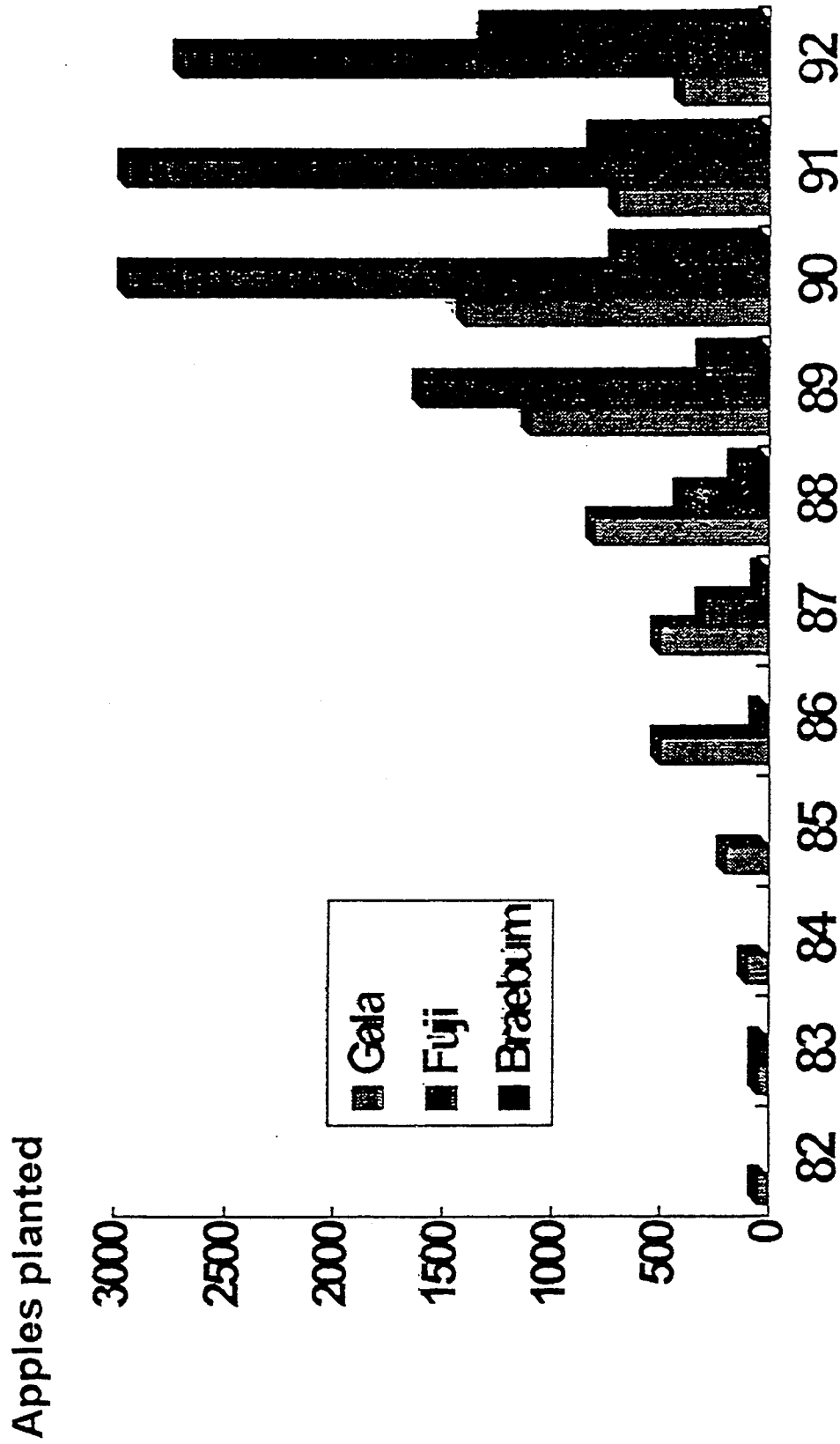
Figure 4. TRIGGER POINTS



Fortunately for the Washington apple industry, we stand to gain from both free markets and the enormous *under consumption* of apples in many countries due to their inability to grow them, and *until now* their inability to *pay* for them. New varieties will add to the consumer demand (Figure 5).

Washington State's geo-proximity to the future awesome growth of the Pacific Rim economies will ensure opportunity for our growers and their families well into the 21st century.

Figure 5. NEW APPLE VARIETY PLANTINGS IN WASHINGTON



Source: Washington Agricultural Statistics Service