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A Profit in Our Own Country

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Benefits to Australian Industry from International Agricultural Research

LINDSAY FALVEY

AGRICULTURAL CONSULTANT

Australia's exports of agricultural produce now favour Asia, while exports to traditional markets have dropped significantly; for example, 45% of our agricultural exports were to Europe in the 1960s whereas this figure is now probably less than 25%. It is also noteworthy that while developing countries imported some 5.3 million tonnes of food in the period 1961–65, current trends suggest that this will rise to something like 80 million tonnes by the year 2000. The National Farmers' Federation puts Asia's share of world income at some 25% at present whereas it was around 14% in the 1960s and is expected to rise to 30–40% by the year 2010. Australian industry is focused on producing a profit and this is increasingly derived from Asia. But is this in response to simple market forces or is there a deeper understanding of the mechanisms of market creation?

Australian industry is enjoying an ongoing relationship with Asia. The recent euphoria over business opportunities in Asia is merely an acknowledgment of a trend that has been developing over a period of some 20 years. Our large companies such as BHP and CRA and hundreds of smaller companies have entered the market in response to normal business indicators. Agricultural companies have been among the foremost of these, and the views of industry on the merits of business transactions with Asia may well be: *We have been there years before the current political promotion of Australia in Asia.*

Agricultural Development and Market Opportunities

Industry decisions are based on clear commercial principles. In the agricultural field, there is a growing recognition of the

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process of development and the principles leading to related commercial opportunities. Put simply, this means that expanding markets are a focus for private sector initiatives and that the opportunities they create are seen to be linked to economic progress. A smaller section of industry understands that the process involves development of agriculture itself as the first industry to provide an economic surplus as a basis for growth of other industries. They indeed see that *agriculture is the primary industry*.

One of the industries which succeeds primary agricultural production is food processing, which continues to be a semantic and investment anomaly when we talk of agricultural development. While in most developing countries agriculture accounts for between 40 and 80% of employment, much agricultural investment and employment in Australia is in the processing sector. Thus off-shore involvement of Australia is also likely to include the processing sector. Yet agricultural processing is often overlooked in discussions about international agricultural research and development.

We have not previously experienced the high and sustained economic growth that is occurring in Asia, and in recent times a growth that has occurred while some developed economies experience very low growth or even temporary economic contraction. The increases in demand associated with this growth are perhaps best understood by way of simple example: meat consumption in Taiwan increased some 500% between 1961 and 1981, causing an increase in demand for cereals for livestock consumption from 16 000 to 3.4 million tonnes (from 1% of cereals being used for livestock to 60%). Such rapid creation of markets for agricultural products is evident even to the least philosophical of exporters.

Crawford Fund publications and other authoritative sources note that *agriculture primes the pump* of economic development. This is obviously the case for some rapidly expanding economies. One with which I am particularly familiar is Thailand, where I worked for five years nearly 20 years ago and to where I have returned about every two months since for various business purposes. The Thailand of today is conspicuously different from that of 20 years ago—consolidation of small farms in some areas, foreign joint ventures in exotic crops and leadership in some horticultural fields are but part of a bountiful harvest of agricultural developments. At the same time a middle class has arisen with access to credit and an apparent consumption ethic which demands increasing quantities of, among other consumer goods, new food products appropriately packaged.

The Crawford Fund statement is obviously true in those countries with an agricultural resource; in Asia an interesting exception is Singapore with its service-based economy which is seen by Australian industry as a similar prospect for processed and fresh food exports. Perceiving Singapore as similar to other expanding Asian economies suggests that the sophistication of the viewpoint of industry may vary but that virtually all concerned players recognise the demand created by increasing affluence. It appears that only a small group recognises the linkages between agricultural development and market opportunities.

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Changes in Industry Attitudes

Are attitudes in industry changing? I believe they are. About 10 years ago, I recall speaking to a service club meeting in a major Australian regional city about a dairy plant financed by Australian aid and managed by our company in what was then Burma. The audience was predominantly dairy farmers and dairy processing management whose questions focused on, from their viewpoint, the illogicality of assisting potential competitors. I believe if we went back to the same forum today, a wider discussion concerning the development of new markets would have replaced the assumptions of static economics.

Informed individuals in industry are keenly aware of the benefits accruing to Australia from international research in fields which relate to their own industries in Australia. Examples include advance knowledge of diseases that may affect our livestock and agricultural industries, the production of vaccines that are of wide commercial benefit including in Australia, new genetic material such as the pastures used extensively in our northern cattle industry, and the introduction of whole new industries such as the Australian chickpea industry. Australian-funded agricultural research assistance also generates goodwill toward Australia, which can provide the edge when competing with other developed countries for trade and investment access in expanding economies.

Estimates of direct benefits from agricultural aid to Australian suppliers are around 80% through the 1980s and in excess of 100% in the early 1990s. Trade benefits are evident in the opening up of new markets (as appears to have occurred after Australian aid provided wheat to Ethiopia, which had not previously purchased Australian wheat but which has subsequently done so, and in the Philippines where export of live cattle has followed their initial purchase through Australian aid).

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Opportunities from Aid Linkages

Industry places importance on the linkages between aid and future commercial opportunities. To approach expanding markets without prior introduction to their specific requirements and the culture of the country concerned is possible but requires a longer time-frame than the alternative approach of being introduced to the market through prior aid projects. Australia is highly regarded for its agricultural expertise and AIDAB quotes figures of 15–30% of its program being allocated to agriculture. However, there are indications that the proportion which industry would consider to be agriculture is in decline, despite meeting the combined aid objectives of assistance to the poorer sections of communities (who commonly live in rural areas) while creating commercial opportunities. This is a matter of concern to all of us.

Most of the world's poor, some 740 million of an estimated one billion, are in Asia despite the rapid development of the region. Sixty per cent of these live in ecologically sensitive rural areas where development is likely to be especially difficult—agricultural research is a clear need in association with agricultural development activities. Industry seems generally supportive of aid to the poor and feels that, where possible without comprising the intent of aid, it should also benefit Australian industry.

We are all aware that agricultural industries in Asia are in various stages of transition and one of the key requirements in this phase is new knowledge. Our own interests are obviously served by providing the assistance that these countries need at this time. The need appears to be for both agricultural research and development. The two are inextricably linked in my view and so should be in a number of aid initiatives. Our national expertise is in agricultural research and development and informed sections of industry seem to have the view that Australian aid should provide that expertise and focus on relevant activities at which we excel rather than competing with other aid donors for sometimes inadequately identified and routinely designed projects.

Optimising the Benefit

A number of reviews of our aid, two of which relate to agriculture, have been conducted over the past five years. The first concerned the success rate of agricultural projects in general and concluded that they were difficult to implement and for that reason may be less successful than some other project types. A major reason for the difficulties was given as inadequate knowledge of local conditions—surely we must see

this as an instance of the need to integrate research with development projects. I certainly lean more towards this reasoning than one of reducing investment in agriculture, which could be an alternative response to such a conclusion. There is scope here for all of us as research, industry and development specialists to jointly advise the aid program with the intent of improving the image and efficiency of agricultural aid. The second review, and one for which I must accept responsibility, concerned livestock aid projects and included in its conclusions the need for applied research as a phase for many technical development projects.

I have recently had the interesting task of reviewing agricultural research systems in developed countries for the World Bank. Certain trends common across these countries—such as requirements for increased fiscal efficiency and research linkages across national boundaries—are likely to become evident sooner or later in developing countries. Industry funding of research, which is well developed in Australia's agricultural research environment, is another trend that should extend to developing countries as government administrative systems improve. Such change is expected to increase the linkages between primary producers and processors and markets and to accelerate development. The majority of Australian industry is not aware of such longer-term ramifications and will probably remain focused on the foremost indicator of opportunity, purchasing power and other popular trade issues such as GATT.

Closer relations are necessary between industry and international aid administrators and researchers. While industry overall has a rudimentary knowledge of the processes of market creation in the agricultural sector, development of a greater understanding should provide benefits of mutual advantage to international development and industry profits. A public relations exercise, perhaps managed by the Crawford Fund, would be an important first step in this exercise.

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