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# OUTLOOK '85

PROCEEDINGS



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THE SPECTACULAR GROWTH IN U.S. AGRICULTURAL EXPORTS DURING THE 1970'S WAS GENERATED BY EXPANSION OF SALES TO THE DEVELOPING AND CENTRALLY-PLANNED COUNTRIES (CPEs). DURING THAT DECADE, THE SHARE OF TOTAL U.S. AGRICULTURAL EXPORTS FLOWING TO THE DEVELOPED COUNTRIES DECLINED FROM 67 TO 50 PERCENT. AT THE SAME TIME THE CPEs' SHARE OF TOTAL U.S. AGRICULTURAL EXPORTS ROSE FROM 3 TO 15 PERCENT. THIS SHARP INCREASE WAS ATTRIBUTED TO SEVERAL FACTORS. FIRST, POOR SOVIET HARVESTS AND THAT GOVERNMENTS'S COMMITMENT TO IMPROVE DIETS TRIGGERED SUBSTANTIAL IMPORTS OF GRAINS, WHILE IMPROVED POLITICAL RELATIONS PERMITTED U.S. EXPORTS TO DOMINATE THE SOVIET MARKET. THE U.S. WAS SUPPLYING MORE THAN 70 PERCENT OF SOVIET GRAIN IMPORT NEEDS BEFORE IMPOSITION OF THE 1980 EMBARGO.

SECOND, THE DETENTE BETWEEN THE U.S. AND SOVIET UNION LED TO IMPROVED RELATIONS AND COMMERCIAL OPPORTUNITIES WITH OTHER EAST BLOC COUNTRIES AT A TIME WHEN THESE GOVERNMENTS SOUGHT TO IMPROVE LIVING STANDARDS. IN THE EASY MONEY PERIOD OF THE 1970'S BANKS WERE WILLING TO LEND READILY INTO EASTERN EUROPE, IN SPITE OF GROWING DEBT BURDENS. ECONOMIC GROWTH RATES EXPANDED, PROPELLED BY EXTERNAL FINANCING. THE U.S. GOVERNMENT PROVIDED ITS SHARE OF ASSISTANCE LARGELY THROUGH COMMODITY CREDIT CORPORATION (CCC) CREDITS AND GUARANTEES AND EXPORT-IMPORT (EX-IM) BANK FINANCING. POLAND, ROMANIA AND HUNGARY WERE ALL ELIGIBLE RECIPIENTS OF THESE OFFICIAL CREDITS/GUARANTEES. YUGOSLAVIA, A COMMUNIST COUNTRY OUTSIDE OF THE EASTERN BLOC, ALSO BENEFITTED.

THIRD, INADEQUATE CROPS AND CHANGES IN GOVERNMENTAL POLICY IN THE PEOPLE'S REPUBLIC OF CHINA (PRC) RAISED DEMAND FOR AGRICULTURAL IMPORTS IN THAT COUNTRY. AT THE SAME TIME, U.S. GOVERNMENTAL RESTRICTIONS ON TRADE WITH THE PRC WERE REMOVED, PERMITTING THE U.S. TO PARTICIPATE IN EXPORTING TO THIS POTENTIALLY LARGE MARKETPLACE. THE U.S. HAD EMBARGOED EXPORTS TO THE PRC BEGINNING IN 1950 AND THIS BAN WAS NOT

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LIFTED UNTIL JUNE 1971 WHEN A LIST OF COMMODITIES ELIGIBLE FOR EXPORT TO THE PRC UNDER GENERAL LICENSE WAS PUBLISHED. THIS WAS LIBERALIZED IN FEBRUARY 1972 AND MADE IDENTICAL TO THOSE APPLICABLE TO THE USSR.

THE BRIGHT STORY OF THE 1970'S HAS DARKENED CONSIDERABLY IN THE CURRENT DECADE. ON JANUARY 4, 1980, PRESIDENT CARTER EMBARGOED SHIPMENTS OF U.S. GRAIN TO THE SOVIET UNION AS A SANCTION IN RESPONSE TO THE SOVIET INVASION OF AFGHANISTAN. POLAND, THE LARGEST RECIPIENT OF U.S. EXPORT CREDITS, ENTERED A FINANCIAL CRISIS IN THE WAKE OF SERIOUS INTERNAL POLITICAL AND ECONOMIC TURMOIL WHICH BEGAN IN THE SUMMER OF 1980 WITH THE RISE OF THE SOLIDARITY MOVEMENT. POLAND CARRIED THE LARGEST FOREIGN DEBT IN THE EAST BLOC. WHEN THE SOVIET UNION (USSR) DID NOT PROVIDE AN UMBRELLA TO COVER POLAND'S INTERNATIONAL COMMITMENT, BANKERS BECAME RELUCTANT TO PUT MONEY INTO OTHER EAST EUROPEAN COFFERS AS WELL. BY LATE 1981, WHEN THE POLISH AUTHORITIES DECLARED MARTIAL LAW, NEARLY \$700 MILLION OF CCC CREDITS HAD GONE INTO POLAND FOR THAT YEAR ALONE -- COVERING AN ESTIMATED 96 PERCENT OF THAT COUNTRY'S AGRICULTURAL IMPORTS FROM THE U.S. SINCE THAT TIME, POLAND HAS BEEN INELIGIBLE AS A CCC CREDIT RECIPIENT.

MAJOR GLOBAL RECESSION BEGINNING IN 1981 TRIGGERED A DEBT CRISIS THROUGHOUT THE DEVELOPING WORLD, WHICH ADDED TO THE FINANCING PROBLEMS OF EAST BLOC COUNTRIES. DECLINING GROWTH RATES AND SHARP CUTS IN IMPORTS OVER THE PAST FEW YEARS HAVE MARGINALLY REDUCED FOREIGN DEBT BURDENS AND EXPOSURE, BUT ALSO CUT AGRICULTURAL IMPORTS. THE IMPROVEMENT IN U.S. CONTRACT SANCTITY GUARANTEES TO THE SOVIETS, COUPLED WITH THE USSR'S PERSISTENT FAILURE TO ACHIEVE HIGHER GRAIN OUTPUT, HAS LED TO EXPANDED U.S. EXPORTS SINCE THE EMBARGO WAS LIFTED IN 1981. HOWEVER, THE U.S. SHARE OF SOVIET IMPORTS REMAINS AT BARELY 40 PERCENT.

CHINA PROVIDED THE GREATER HOPE FOR AGRICULTURAL EXPORT GROWTH IN THE EARLY PART OF THE 1980'S, PARTICULARLY WHEN A LONG-TERM BILATERAL GRAIN AGREEMENT (LTA) WAS SIGNED IN 1980. HOWEVER, A TREMENDOUS SHIFT IN CHINA'S AGRICULTURAL POLICY AND FAVORABLE WEATHER HAS LED TO A CONTRACTION IN THAT COUNTRY'S AGRICULTURAL IMPORTS, AND A RISE IN CHINESE AGRICULTURAL EXPORTS OVER THE PAST FEW YEARS.

ALL OF THIS HISTORY PROVIDES A FRAMEWORK OF WHERE WE HAVE COME FROM, AS WELL AS INDICATING WHERE WE MAY GO FROM HERE. IT IS CLEAR TODAY THAT WE GENERALLY FINANCED AN ARTIFICIAL DEMAND LEVEL DURING THE 1970'S, FUELLED NOT ONLY BY AGRICULTURAL EXPORT CREDITS, BUT ALSO BY RECYCLED PETRODOLLARS.

NOW, ECONOMIC GROWTH RATES ARE NOT EXPECTED TO RETURN TO THE FEVERISH PACE OF THE PAST DECADE, NOR ARE BANKERS EXPECTED TO RETURN WITH FULL POCKETS TO PRESS FUNDS ON EAST BLOC GOVERNMENTS. THOSE COUNTRIES, MEANWHILE, ARE DETERMINED NOT

TO BE PUT INTO A FURTHER DEBT CRISIS, SO THEY WILL NOT NORMALLY BORROW TO FINANCE CONSUMPTION OF AGRICULTURAL PRODUCTS. THE SOVIET UNION WILL CONTINUE AS THE DOMINANT FORCE IN AGRICULTURAL IMPORTS, WHILE CHINA IS SHAPING UP AS A COMPETITOR IN EXPORT MARKETS FOR SOME COMMODITIES OVER THE NEXT FEW YEARS.

I'D LIKE TO EXAMINE THESE AND OTHER ASPECTS OF THE OUTLOOK FOR TRADE WITH CENTRALLY-PLANNED ECONOMIES (CPEs) FOCUSING PARTICULARLY ON THE SIGNIFICANT FACTORS AFFECTING IMPORTS APART FROM YEAR-TO-YEAR PRODUCTION/CONSUMPTION FUNDAMENTALS.

IT IS IMPORTANT TO REMEMBER THAT OUR AGRICULTURAL EXPORTS TO THESE COUNTRIES DO NOT TAKE PLACE WITHIN A VACUUM. BROAD-RANGING POLITICAL, ECONOMIC FINANCIAL AND TRADE CONSIDERATIONS ALL SUBSTANTIALLY AFFECT COMMERCE, AS OUR RECENT EXPERIENCE DEMONSTRATES SO VIVIDLY.

BASED ON THESE FACTORS, I CANNOT SAY THAT THE SHORT-TERM OUTLOOK IS BRIGHT FOR A MAJOR EXPORT EXPANSION TO THE CPEs. HOWEVER, THE LONG-TERM OUTLOOK MAY BE QUITE DYNAMIC AND HOPEFUL GIVEN THE CURRENT LIVING STANDARDS AND DIETARY LEVEL OF THESE 1.4 BILLION PEOPLE, AS WELL AS THE GROWING DESIRE OF THEIR GOVERNMENTS TO SATISFY CONSUMERS AND ENCOURAGE GREATER PRODUCTIVITY.

#### USSR

DISCUSSION OF TRADE POTENTIAL WITH THE CPEs MUST BEGIN WITH THE SOVIET UNION, THE LARGEST FACTOR IN TODAY'S MARKETPLACE. IN SPITE OF THE FOOD PROGRAM FIRST ANNOUNCED BY PRESIDENT BREZHNEV IN 1980, WITH DETAILS SPELLED OUT AT A SPECIAL PLENUM IN MAY 1982, SOVIET EFFORTS TO EXPAND GRAIN OUTPUT HAVE SUFFERED. THIS YEAR'S HARVEST IS EXPECTED TO TOTAL ONLY AROUND 170 MILLION METRIC TONS (MMT), WELL BELOW THE CURRENT 5-YEAR PLAN TARGET OF 240 MMT. OVERALL AGRICULTURAL PRODUCTION, HOWEVER, HAS CONTINUED TO RISE, WITH THE SOVIET GOVERNMENT'S AMBITIOUS PROGRAMS TO EXPAND THE SUPPLIES OF MEAT, DAIRY AND POULTRY PRODUCTS FOR CONSUMERS.

TREND LINE PRODUCTION OF GRAIN HAS FALLEN, AND IS NOW BETWEEN 190-195 MMT, WITH THE SHORT-RUN TREND LINE EVEN LOWER. NO EXPANSION IN PLANTED AREA IS EXPECTED OVER THE LONG-RUN WITHOUT A REVERSAL OF THE SOVIET GOVERNMENT'S FALLOW POLICY. THE SOVIETS HAVE JUST RECENTLY ACHIEVED A STATED OBJECTIVE OF AROUND 22 MLN HECTARES (HA) OF FALLOW AND THIS IS NOT LIKELY TO BE ABANDONED. WE SEE ONLY SMALL ADDITIONS TO PLANTED AREA ANNUALLY THROUGH THE REMAINDER OF THIS DECADE, WITH GRAIN PLANTED STABILIZING AT THE 120-121 MLN HA LEVEL IN THE NEAR TERM. IF THE STRESS ON FORAGE CROPS CONTINUES AS EXPECTED, IT COULD MEAN ANNUAL IMPORTS OF 30-35 MMT OF GRAIN FROM ALL ORIGINS TO MAINTAIN CURRENT FEEDING LEVELS. THIS IS COMPARABLE TO RECENT YEARS, AND COULD BE SCALED UPWARDS DEPENDING ON SOVIET CROP

PERFORMANCE. WITHOUT A SUBSTANTIVE CHANGE IN LEADERSHIP OR DIRECTION IN AGRICULTURAL PROGRAMS, NO MAJOR SHIFTS ARE ANTICIPATED WHICH WOULD PERMIT THE SOVIETS TO GREATLY REDUCE THEIR IMPORT DEPENDENCE. WEATHER, OF COURSE, REMAINS A PRIMARY VARIABLE.

SOVIET PROTEIN NEEDS, MEANWHILE, HAVE APPARENTLY BEEN COVERED TO A CONSIDERABLE EXTENT BY CHINA OVER THE PAST YEAR. WE ESTIMATE THAT THE SOVIETS WILL IMPORT 500,000 MT OR MORE SOYBEANS FROM CHINA, DISPLACING SALES FROM THE U.S., EUROPE AND BRAZIL. AS CHINA'S OWN LIVESTOCK FEEDING INDUSTRY EXPANDS THROUGH THE REMAINDER OF THIS DECADE, IT COULD REDUCE CHINESE EXPORTS TO THE USSR AND SHIFT THE SOVIET FOCUS FOR PROTEIN BACK TO THE WEST.

THE U.S. HAS, IN FACT, REGAINED A LARGE SHARE OF THE SOVIET IMPORT SHARE FROM POST-EMBARGO LOWS (AROUND 20 PERCENT), AS THE FOLLOWING TABLE SHOWS (SEE TABLE 1), WITH PROJECTED U.S. SALES IN THE CURRENT JULY/JUNE YEAR AT AN ESTIMATED 20.5 MMT (6.8 WHEAT, 13.7 CORN) OUT OF TOTAL SOVIET IMPORTS OF 49 MMT (26.4 WHEAT, 22.4 CORN). THE SOVIETS HAVE LONG-TERM AGREEMENTS WITH MOST OTHER EXPORTERS -- EXCEPTING AUSTRALIA -- TO SUPPLY IN THE AREA OF 29.5 MMT ANNUALLY. U.S. GRAIN SHOULD CONTINUE TO HOLD ITS POSITION IN THIS TRADE, ACCOUNTING FOR RESIDUALLY HIGHER PURCHASES IN SOME YEARS. THE SOVIETS WILL BUY GREATER QUANTITIES OF ARGENTINE WHEAT AT A PRICE, AND FEAR OF LOWER SALES TO THE USSR WILL MOVE ARGENTINE PRICES LOWER TO MAINTAIN THIS IMPORTANT MARKET. AS IS WELL UNDERSTOOD, THE AVAILABILITY OF WHEAT FROM MANY OTHER SOURCES -- CANADA, THE EC, AUSTRALIA, ARGENTINA -- WILL CONTINUE TO EMPHASIZE SOVIET PURCHASES OF FEEDGRAINS FROM THE U.S.

USSR Wheat and Coarse Grain Imports (mmt, Jul-Jun)

	80-81	81-82	82-83	83-84	Agmt.		Est. 84-85
					Av.	Id.	
Arg wht	3.0	3.1	4.2	3.6	2.0	2.0	2.7
cn	5.4	6.9	2.5	1.4	2.0	2.0	2.9
sorg	2.8	3.3	2.9	1.9	2.0	2.0	2.4
Aus wht	2.4	2.5	1.0	1.6	1.5	1.5	2.0
CG	.5	.0	.0	.1	.0	.0	.2
Can wht	4.5	4.8	6.9	5.8	5.5	5.5	7.5
CG	2.3	4.5	1.8	.5	1.5	1.5	.4
EC wht	.9	1.7	3.4	3.8	3.0	3.0	5.3
bly	.6	.7	.3	.2	.0	.0	.5
Others							
wht	2.1	1.5	1.5	1.5	1.0	1.0	2.1
CG	1.7	1.1	1.0	1.3	.5	.5	2.3
Non-US							
wht	12.9	13.6	17.0	16.3	13.0	13.0	19.6
CG	13.3	16.5	8.5	5.4	6.0	6.0	8.7
Sub T+I	26.2	30.1	25.5	21.7	19.0	19.0	28.3
US wht	3.0	6.9	3.0	4.4	5.0	5.0	6.8
cn	5.0	8.4	3.2	6.0	5.0	5.0	13.7
T+I WHT	15.9	20.5	20.0	20.7	18.0	18.0	26.4
CG	18.3	24.9	11.7	11.4	11.0	11.0	22.4
TOTAL	34.2	45.4	31.7	32.1	29.0	29.0	48.8

SOVIET TRADE OFFICIALS ARE, HOWEVER, CONCERNED ABOUT OVER-DEPENDENCE ON THE U.S. THE LESSON OF THE EMBARGO WILL NOT SOON BE FORGOTTEN, NOR THE TRADE TIES FORGED WITH OTHER SUPPLIERS BROKEN. AT THE SAME TIME, THE SOVIETS ARE POINTING TO THE CONTINUED SUBSTANTIAL TRADE DEFICIT THEY ARE CARRYING WITH THE U.S., AS TABLE II SHOWS.

U.S. TRADE BALANCE WITH THE USSR

	<u>U.S. EXPORTS (M \$'s)</u>	<u>U.S. IMPORTS (M \$'s)</u>
1981	2339	357
1982	2589	229
1983	2002	341
Jan-Aug 1983	1126	202
Jan-Aug 1984	1792	330

Source: U.S. Department of Commerce

DURING THE JANUARY-AUGUST PERIOD OF THIS YEAR, U.S. EXPORTS TO THE USSR TOTALLED NEARLY \$1.8 BILLION (CORN, WHEAT AND COTTON ACCOUNTED FOR NEARLY \$1.4 BILLION); U.S. IMPORTS DURING THAT SAME PERIOD TOTALLED ONLY \$330 MILLION. THE SOVIETS HAVE COMPLAINED ABOUT THESE TRADE IMBALANCES WITH OTHER GRAIN EXPORTING NATIONS AS WELL AS THE US, EXCEPTING THE EUROPEAN COMMUNITY (EC) WHICH IS IN A TRADE POSITION WITH THE USSR DUE TO BIG IMPORTS OF NATURAL GAS.

HOWEVER, COMMERCIAL RELATIONS MAY IMPROVE. BILATERAL TRADE TALKS ARE PLANNED FOR THIS JANUARY IN THE CONTEXT OF THE WORKING GROUP OF EXPERTS CHAIRED ON THE U.S. SIDE BY THE UNDERSECRETARY OF COMMERCE. THIS IS A PRELIMINARY STEP TO RESUMPTION OF THE JOINT COMMERCIAL COMMISSION (JCC) -- A CABINET-LEVEL EXCHANGE WHICH HAS NOT MET SINCE 1978. AT THIS SESSION, THE U.S. WILL EMPHASIZE ITS INTEREST ON EXPANDING NON-STRATEGIC TRADE, PARTICULARLY AGRICULTURAL GOODS, TECHNOLOGY AND EQUIPMENT. THE SOVIETS ARE EXPECTED TO RAISE VARIOUS TRADE ISSUES, INCLUDING U.S. MEASURES SINCE THE EARLY 1970'S TO RESTRICT SOVIET EXPORTS TO THE U.S. CERTAINLY, THE MOST PROMINENT ISSUE IS DENIAL OF MOST-FAVORED NATION (MFN) TARIFF TREATMENT, WHICH MAKES SOVIET GOODS LESS COMPETITIVE IN OUR MARKET. THE JACKSON/VANIK AMENDMENT TO THE TRADE ACT OF 1974 DENIES MFN TO COUNTRIES WITH RESTRICTIVE EMIGRATION POLICIES. DENIAL OF MFN ALSO PROHIBITS ANY OFFICIAL U.S. GOVERNMENT CREDITS OR GUARANTEES. THE SOVIETS HAVE MFN WITH ALL THEIR OTHER AGRICULTURAL TRADING PARTNERS.

OTHER TRADE ISSUES ARE CURRENTLY CAUSING FRICTION AS WELL. A TRADE CASE AGAINST IMPORTS OF SOVIET POTASH TO THE U.S. IS AS YET UNRESOLVED, BUT A PRELIMINARY DECISION BY THE INTERNATIONAL TRADE COMMISSION (ITC) HAS FOUND THE SOVIETS TO BE DUMPING POTASH IN THE U.S. MARKET. AND, A VERY SENSITIVE STUDY BY THE ITC ON FORCED LABOR IS DUE TO BE RELEASED BEFORE THE END OF THIS YEAR. REQUESTED BY THE



SENATE FINANCE COMMITTEE'S CHAIRMAN SENATOR ROBERT DOLE (R-KS) EARLIER THIS YEAR, THE STUDY IS EXPECTED TO CLARIFY THE APPLICATION OF THE FORCED LABOR PROVISION OF THE SMOOT-HAWLEY TARIFF ACT OF 1930. THE U.S. CUSTOMS COMMISSIONER WANTS TO BAN SEVERAL CATEGORIES OF SOVIET IMPORTS FROM THE U.S. ON THE GROUNDS THAT THEY ARE PRODUCED WITH FORCED OR CONVICT LABOR. THIS ACTION IS FAVORED BY HARD-LINERS WHO FAVOR REDUCED COMMERCIAL RELATIONS WITH THE USSR. THE WHITE HOUSE HAS ATTEMPTED TO DETER ACTION, RECOGNIZING NOT ONLY THE DETRIMENTAL IMPACT ON FRAGILE U.S./SOVIET RELATIONS FROM THIS PROTECTIONIST LAW, BUT ALSO THE POTENTIAL TO USE THIS ACT TO AFFECT TRADE WITH OTHER IMPORTANT TRADING PARTNERS LIKE THE PRC.

ON THE AGRICULTURAL SIDE OF TRADE, RECENT U.S./SOVIET GRAIN CONSULTATIONS FOCUSED ON SOVIET COMPLAINTS ABOUT THE QUALITY STANDARDS OF U.S. WHEAT SHIPMENTS IN LIGHT OF THE UNUSUALLY HIGH LEVEL OF INSECT INFESTATION IN EXPORTS THIS SEASON. THERE IS A CLEARLY UNRESOLVED PROBLEM SURROUNDING THE QUALITY OF U.S. GRAIN BOUND FOR SOVIET PORTS DUE TO SOVIET REQUIREMENTS WHICH DO NOT PERMIT THE IN-TRANSIT FUMIGATION CUSTOMARY WITH OTHER COMMERCIAL BUYERS. YET, THE SOVIETS ARE A VERY MAJOR CLIENT OF U.S. EXPORTERS AND THIS IMPLIES THE NEED TO COME UP WITH ADEQUATE PROCEDURES OR ALTERNATIVES TO MEET CONDITIONS, IF FUTURE EXPORTS ARE NOT TO SUFFER. ALTHOUGH SOVIET OFFICIALS AT THE TALKS DID NOT THREATEN TO CUT IMPORTS FROM THE U.S., THEY IMPLIED THAT POSSIBILITY IF THE PROBLEM IS NOT SUFFICIENTLY REMEDIED WITHIN OUR OWN SYSTEM. THE SOVIETS ARE ALSO UNHAPPY ABOUT UNEQUAL TREATMENT FOR THEIR SHIPS AT U.S. PORTS IN THE ABSENCE OF A MARITIME AGREEMENT AND THE BAN ON THEIR OFFICIAL AIRLINE IN THE U.S., IN PLACE SINCE KAL.

#### EAST EUROPE

IF GRAIN PRODUCTION HOLDS AT RECENT AVERAGE LEVELS AND THERE IS NO RETURN TO A BIG EXPANSION IN LIVESTOCK FEEDING PROGRAMS, IMPORT NEEDS FROM EAST EUROPEAN COUNTRIES WILL LIKELY STABILIZE AT RECENT LOW LEVELS. WHEAT, FEEDGRAIN AND MEAL WILL CONTINUE TO BE IMPORTED AS NEEDED. TODAY'S PRIMARY SUPPLIERS -- THE EC, CANADA AND THE U.S. -- SHOULD CONTINUE TO HOLD. EAST EUROPE'S EXPORTABLE SURPLUS IS LIKELY TO STAY IN THE 1-2 MMT RANGE ANNUALLY, THOUGH IT COULD TOP 2 MMT IN YEARS OF EXCEPTIONAL CROP YIELDS. THE U.S. SHARE OF EAST EUROPEAN IMPORTS HAS DROPPED SUBSTANTIALLY SINCE CREDIT PROGRAMS WERE CUT OFF IN THE EARLY 1980'S. U.S. AGRICULTURAL EXPORTS TO EASTERN EUROPE IN 1983 WERE ONLY 50 PERCENT OF THE 1981 VALUE, WITH THE TOTAL U.S. TRADE SURPLUS TO THIS REGION AT ITS LOWEST LEVEL SINCE 1972.

THE RELATIONSHIP OF U.S. EXPORT CREDITS TO SALES IS AND HAS BEEN THE DOMINANT FACTOR AFFECTING GROWTH IN AGRICULTURAL EXPORTS AND THE U.S. SHARE OF THIS IMPORTANT MARKET. POLAND IS THE MOST STRIKING CASE, AS THE FOLLOWING TABLE (TABLE III) REFLECTS:

**U.S. farm exports and CCC credit to Hungary, Poland, Romania, and Yugoslavia,  
selected fiscal year averages and fiscal 1980-83 annual**

Fiscal year <sup>1</sup>	Hungary			Poland			Romania			Yugoslavia		
	U.S. farm exports	CCC credit <sup>2</sup>	CCC share	U.S. farm exports	CCC credit <sup>2</sup>	CCC share	U.S. farm exports	CCC credit <sup>2</sup>	CCC share	U.S. farm exports	CCC credit <sup>2</sup>	CCC share
	Million dollars		Percent	Million dollars		Percent	Million dollars		Percent	Million dollars		Percent
1963-1964	12.4	0	0	107.7	8.1	8	.1	0	0	96.3	0	0
1965-1969	6.9	0.9	13	48.6	15.5	32	3.3	0	0	71.4	7.9	11
1970-1974	19.5	0.3	2	134.3	29.7	22	52.2	15.8	30	83.8	26.1	31
1975-1979	35.5	3.2	9	434.0	258.5	60	176.4	41.9	24	101.1	35.1	35
1980	40.5	0	0	676.9	562.9	83	496.6	25.0	5	333.2	54.9	16
1981	8.5	0	0	700.0	<sup>3</sup> 670.8	96	477.0	<sup>3</sup> 50.0	10	203.9	22.3	11
1982	11.4	0	0	181.4	0	0	135.7	0	0	178.9	0	0
1983	49.0	42.0	86	231.9	0	0	115.0	0	0	249.3	235.0	94

<sup>1</sup>July-June from 1963 to 1977, October-September from 1978. <sup>2</sup>Includes financing under the commercial segment of the Commodity Export Program only. <sup>3</sup>All credit was used in fiscal 1981, but a shipping extension was granted for Polish and Romanian corn purchases, resulting in \$25.2 and \$23.9 million of corn, respectively, being shipped in the first quarter of fiscal 1982. These shipments were recorded as exports in fiscal 1982.

Sources: Bureau of the Census, U.S. Dept. of Commerce, FAS/USDA.

CCC CREDITS WERE VITAL IN DEVELOPING THAT MARKET IN THE 1970'S. DEMAND FOR LIVESTOCK PRODUCTS EXISTS TODAY, BUT IT WILL HAVE TO BE AIDED IN THE FUTURE BY CONCESSIONAL SALES. THE QUESTION IS WHETHER WE ARE PREPARED POLITICALLY AGAIN TO DO THIS TYPE OF BUSINESS IN THE EAST BLOC. I DON'T THINK WE ARE TODAY -- FOR BOTH POLITICAL AND FINANCIAL REASONS -- IN ANYTHING MORE THAN A LIMITED DEGREE. AT THE SAME TIME, THE U.S. DECISION TO CUT OFF CREDITS TO SEVERAL OF THESE COUNTRIES BECAUSE OF THEIR POLITICAL ALLIANCE WITH THE SOVIETS SUGGESTS THAT THEY WILL BE RELUCTANT IN THE FUTURE TO PURSUE SIMILAR IMPORT-FED GROWTH AS IN THE PAST DECADE. FINANCING SUBSTANTIALLY HIGHER CONSUMPTION LEVELS THROUGH CREDITS HAS PROVEN VERY COSTLY TO THESE GOVERNMENTS.

TODAY, SEVERAL OF THE EAST EUROPEAN DEBTOR COUNTRIES HAVE BEEN ABLE TO MANAGE THEIR DEBT SERVICE THROUGH ECONOMIC ADJUSTMENT AND DEEP IMPORT CUTS. HUNGARY, THE GDR AND ROMANIA AS WELL ARE PARTICULARLY NOTED. THIS HAS AGAIN MADE THEM ATTRACTIVE TO THE INTERNATIONAL BANKING COMMUNITY. ECONOMIC GROWTH IN THE REGION WILL BE PARTICULARLY IMPORTANT IN CONTINUED PROGRESS REDUCING EXTERNAL DEBT AND EXPANDING DEMAND FOR FOOD AND OTHER GOODS. GROWTH RATES FOR THE SIX EAST BLOC COUNTRIES (BULGARIA, CZECHOSLOVAKIA, EAST GERMANY, HUNGARY, POLAND AND ROMANIA) AVERAGED 10 PERCENT IN 1979; THIS DROPPED SHARPLY TO A NEGATIVE 1 PERCENT IN 1980 AND 1981 AND IS ONLY BEGINNING TO EDGE BACK UP, WITH AVERAGE GNP IN 1983 AROUND 2 PERCENT.

AS ECONOMIC CONDITIONS IMPROVE, THESE COUNTRIES MAY AGAIN TURN TO THE INTERNATIONAL MARKETS TO FINANCE EXPANSION. HOWEVER, THEY ARE MORE LIKELY TO FOCUS PRIMARILY ON BORROWING FOR CAPITAL INVESTMENT, RATHER THAN CURRENT CONSUMPTION, UNLESS A CROP DISASTER FORCES THEM TO SPEND HARD CURRENCY OR UNDERTAKE MORE INDEBTEDNESS TO FINANCE FOOD IMPORTS.

WITH STAGNANT IMPORT GROWTH EXPECTED, THE U.S. IS NOT LIKELY TO BENEFIT GREATLY DUE TO THE MEAGRE FLOW OF CCC CREDITS INTO THE REGION -- AND, HERE, LARGELY OUTSIDE THE BLOC TO YUGOSLAVIA. IT MUST ALSO BE REMEMBERED, THAT ONLY HUNGARY AND ROMANIA TODAY HAVE MFN, (POLAND'S WAS SUSPENDED DUE TO MARTIAL LAW) AND THAT THESE COUNTRIES LIKE THE SOVIET UNION, ARE CONCERNED ABOUT EXPORT OPPORTUNITIES WITH TRADING PARTNERS. EAST GERMANY (GDR), FOR EXAMPLE, HAS LONG HAD A SPECIAL COMMERCIAL RELATIONSHIP WITH THE EC. RECENTLY THE GDR HAS SHOWN A PREFERENCE TO BUY FROM CANADA AS WELL, BECAUSE THAT COUNTRY SIGNED A BILATERAL TRADE AGREEMENT LAST YEAR GRANTING MFN TO THE GDR, AS WELL AS GRAIN SALES ACCORD. POSSIBLE GAINS FOR THE U.S. COULD COME ABOUT PRIMARILY IF U.S. FIRMS ARE ABLE TO PUT TOGETHER COUNTER-TRADES OR VARIOUS TYPES OF OFFSET TRANSACTIONS. HOWEVER, IF THE BROAD PERSPECTIVE OF EAST-WEST RELATIONS IMPROVES, AS SEEMS APPARENT TODAY, AND IF THE U.S. DECIDES TO FUND GSM 301 INTERMEDIATE CREDITS OR WRITE A NEW GUARANTEE PROGRAM TYING COMMODITY EXPORTS TO FACILITIES AND INFRASTRUCTURE EXPANSION, A NEW PHASE OF MARKET DEVELOPMENT COULD BEGIN IN THESE IMPORTANT CONSUMING COUNTRIES.

#### CHINA

TRADE ISSUES ARE PREDOMINANT IN CHINA'S AGRICULTURAL DEALINGS WITH THE U.S. PROBLEMS OVER THE U.S. TEXTILE QUOTA HAVE REDUCED U.S. GRAIN EXPORTS OVER THE PAST FEW YEARS. HOWEVER, CHINA'S FAILURE TO FULFILL THE TERMS OF THE LTA IN BOTH 1983 AND 1984 STEMS AS MUCH, IF NOT MORE, FROM THAT COUNTRY'S SURPLUS PRODUCTION. IN OTHER WORDS, THE TEXTILE ISSUE WAS A CONVENIENCE FOR LEVERAGE WHICH WOULD NOT LIKELY HAVE BEEN LINKED TO GRAIN PURCHASES HAD RECORD PRODUCTION NOT BEEN THE CASE WITHIN CHINA.

WE ARE ASSUMING AT LEAST AVERAGE CROPS IN CHINA OVER THE NEXT FEW YEARS, BELOW THE 1984 RECORD OF 400 MMT BUT IN THE 360-375 MMT RANGE. GIVEN SLOW IMPROVEMENTS IN INTERNAL STORAGE, TRANSPORTATION AND DISTRIBUTION AS WELL AS PORT FACILITIES, AND SLOW, BUT STEADY GROWTH IN THE FEEDING INDUSTRY, CHINA IS NOT LIKELY TO BE A DOMINANT FORCE ON THE IMPORT SIDE. WHEAT IMPORTS WILL CONTINUE, BUT LIKELY ONLY AT THE 8-9 MMT LEVEL FROM ALL SOURCES. EXPORTS OF FEED-GRAINS (CORN) SHOULD CONTINUE ON AN "AS AVAILABLE" BASIS, UNTIL INTERNAL DEMAND INCREASES. CURRENT LEVEL OF CORN EXPORTS THIS YEAR ARE AT AN ESTIMATED 2 MMT (ABOUT DOUBLE LAST YEARS), MAINLY TO JAPAN, SOUTH KOREA AND THE SINGAPORE MARKET. CHINA HAS ALSO EXPORTED SOYBEANS AND PRODUCTS, AND HAS TURNED FROM AN IMPORTER TO EXPORTER OF COTTON. A TABLE OF CHINA'S GRAIN IMPORTS IS AS FOLLOWS (TABLE IV):

## CHINA: GRAIN IMPORTS, JULY-JUNE, MLN MT

	80-1	81-2	82-3	83-4	AGMT DATE	84-5 EST
Arg wht	.2	.2	2.0	1.0	.7-1	.0
C gr	.0	*	.2	.1	.3-.5	.0
	.2	.2	2.2	1.1	12/84	.0
Aust wht	1.4	1.4	1.2	1.5	1.5-2.5	2.1
bly	*	.1	.0	.1	.0	.1
	1.4	1.5	1.2	1.6	12/84	2.2
Can wht	2.9	3.0	4.3	3.7	3.5-4.2	2.9
bly	.0	.1	.1	*	.0	.1
	2.9	3.1	4.4	3.7	7/85	3.0
EC wht	.6	.1	.1	.2	.0	.0
Thal cn	.1	.1	.1	.1	annual	.1
Non-US						
wht	5.1	4.7	7.6	6.4	5.7-7.7	5.0
C gr	.1	.3	.4	.3	.4-.6	.3
	5.2	5.0	8.0	6.7	6.1-8.3	5.3
US wht	8.7	8.4	4.1	3.2	5.3-6.8	5.0
cn	.7	1.0	2.3	.0	.7-1.2	.0
	9.4	9.4	6.4	3.2	6.0-8.0	5.0
TOTAL						
wht	13.8	13.1	11.7	9.6	11-14.5	10.0
C gr	.8	1.3	2.7	.3	1.1-1.8	.3
	14.6	14.4	14.4	9.9	12.1-16.3	10.3

\* less than 50,000 mt

THE U.S. LTA WILL LAPSE ON DECEMBER 31, 1984, OR AT LEAST IT WILL NOT BE RENEWED UNTIL CHINA COMPLIES WITH THE MINIMUM IMPORTS UNDER THE CURRENT AGREEMENT. BILATERALS WITH OTHER EXPORTERS -- AUSTRALIA AND ARGENTINA -- ALSO RUN OUT THIS YEAR. BY THE FALL OF 1985, THE CANADIAN AGREEMENT WILL BE COMPLETE. IT IS NOT LIKELY THAT CHINA WOULD SEEK TO HAVE AN LTA WITH ONLY ONE OF THE MAJOR EXPORTERS, WITHOUT PROVIDING FOR AN ARRANGEMENT WITH THE OTHERS. ANY NEGOTIATION OF NEW AGREEMENTS WOULD UNDOUBTEDLY BE AT LOWER LEVELS THAN THE LAST ROUND, GIVEN THE HIGHER LEVELS OF INTERNAL GRAIN PRODUCTION RECENTLY ACHIEVED. THE CHINESE WILL NO DOUBT DEMAND CONSIDERABLE FLEXIBILITY IN HOW THEY MUST MEET TERMS SET OVER THE LIFE OF THE ACCORDS, AND WILL SEEK BROADER ESCAPE CLAUSES ON FULFILLING AGREEMENTS.

IN THE CASE OF CHINA, RATHER THAN LOOKING FOR GREATLY EXPANDED EXPORT MARKET POTENTIAL OVER THE SHORT-TERM, THE MORE LIKELY EXPORT OPPORTUNITIES WILL BE IN TRANSFERS OF U.S. TECHNOLOGY AND INVESTMENT IN CHINA'S AGRICULTURAL INFRASTRUCTURE. FOREIGN AND INTERNAL INVESTMENT IS LIKELY TO INCREASE THE PRC'S ABILITY TO CONSUME ITS PRODUCTION. THE MOST POSITIVE FACTOR FOR FUTURE IMPORT POTENTIAL IS THE CHINESE GOVERNMENT'S EXPANDED COMMITMENT TO INCREASE URBAN

INCOMES, OPEN UP THE ECONOMY TO GREATER MARKET FORCES AND IMPROVE THE AVAILABILITY OF CONSUMER GOODS, INCLUDING FOODSTUFFS. MEAT OUTPUT HAS MORE THAN DOUBLED SINCE 1970; PER CAPITA MEAT SUPPLIES ARE UP NEARLY THAT MUCH. SHOULD THERE BE A SERIOUS CROP PROBLEM WITHIN CHINA, IMPORTS WOULD BE NEEDED TO COVER DEMAND REQUIREMENTS, PARTICULARLY IN URBAN CENTERS. IT'S IMPORTANT TO REMEMBER THAT CHINA'S AGRICULTURAL TURNAROUND WAS VERY MUCH AIDED BY GENERALLY FAVORABLE WEATHER.

CHINA WILL CONTINUE TO EXPAND ITS ECONOMY ON A VERY CAUTIOUS BASIS AND IS NOT LIKELY TO USE INTERNATIONAL FINANCING TO PUSH FOR RADICAL OR SWIFT ADVANCEMENT. IN FACT, THE LEADERSHIP APPEARS COMMITTED TO MAINTAINING A VERY HEALTHY BALANCE IN CHINA'S FAVOR IN ITS EXTERNAL TRADE ACCOUNT.

UNLIKE THE SOVIET UNION, CHINA IS CARRYING A VERY FAVORABLE BALANCE IN ITS BILATERAL ACCOUNT WITH THE U.S., AS THE FOLLOWING TABLE SHOWS (TABLE V):

U.S. TRADE BALANCE WITH CHINA

	<u>U.S. EXPORTS</u>		<u>U.S. IMPORTS</u>
1980	3.750 B	75-80% of	1.054 B
1981	3.603 B	exports agric. commodities	1.892 B
1982	2.912 B		2.084 B
1983	2.173 B	approx 75% of	2.244 B
Jan-Sept 1983	1.432 B	exports are manu-	1.679 B
Jan-Sept 1984	2.016 B	factured goods	2.372 B

Source: U.S. Department of Commerce

FOR THE CURRENT YEAR, CHINA'S EXPORTS TO THE U.S. STAND AT \$2.37 BILLION (JAN-SEPT), WHILE ITS IMPORTS TOTAL \$2.02 BILLION (JAN-SEPT). THIS IS A REVERSAL OF THE TRADE BALANCE OF THE PAST FEW YEARS. THIS WOULD SUGGEST THAT THE U.S. IS IN A VERY GOOD POSITION TO BARGAIN WITH CHINA OVER MORE FAVORABLE OPPORTUNITIES TO EXPORT, BUT THE CHINESE HAVE BEEN CONSISTENTLY TOUGH NEGOTIATORS IN THIS REGARD. AT THE SAME TIME, THE U.S. AGRICULTURAL LOBBY HAS BEEN FRIGHTENED ABOUT ESTRANGING CHINA IN THE TRADE FRAMEWORK, DUE TO THE LONG-TERM POTENTIAL PERCEIVED IN THIS ONE BILLION PLUS CONSUMER MARKETPLACE.

GIVEN CHINA'S DESIRE TO EXPAND OVERSEAS SALES, THERE COULD BE A PERIOD AHEAD OF INCREASING TRADE FRICTIONS, NOT ONLY DUE TO TEXTILES, BUT ALSO DUE TO THE GREAT STRIDES CHINA HAS MADE IN EXPANDING OTHER SENSITIVE GOODS TO THE U.S. MARKET, PARTICULARLY BASIC CHEMICALS, FOOTWEAR AND CERAMICS.

## CONCLUDING OBSERVATIONS

GROWTH IN TRADE WITH THE CPEs CAN ONLY EXPAND AS POLITICAL RELATIONS IMPROVE WITH THE EAST BLOC, AND AS ECONOMIC GROWTH EXPANDS IN THESE COUNTRIES AND THROUGHOUT THE WORLD.

THE TREMENDOUS JUMP IN U.S. TWO-WAY TRADE WITH THE PRC OVER THE PAST DECADE HAS EVOLVED FROM THE FRIENDLY, THOUGH NON-ALIGNED STATUS OF THE CURRENT BILATERAL RELATIONSHIP. THIS IS NOT LIKELY TO TURN AROUND, GIVEN THE CHINESE GOVERNMENT'S COMMITMENT TO ENORMOUS CHANGES TOWARD DECENTRALIZATION AND MARKET-ORIENTATION WITHIN THE ECONOMY. CHINA'S ECONOMY, MOREOVER, IS VERY ATTRACTIVE TO FOREIGN INVESTORS, IT CARRIES A STRONG CURRENT ACCOUNT BALANCE AND MAINTAINS SUBSTANTIAL GOLD RESERVES. BANKERS WILL HAVE NO TREPIDATION ABOUT PROVIDING FINANCING FOR CAPITAL DEVELOPMENT IN THIS COUNTRY. IT IS CHINA THAT WILL DETERMINE ITS OWN LEVEL OF BORROWING NEEDS AND ECONOMIC EXPANSION.

POLITICAL RELATIONS WITH THE SOVIETS AND THEIR EAST BLOC NEIGHBORS REMAIN UNCERTAIN, ALTHOUGH THEY HAVE IMPROVED IN RECENT MONTHS. BOTH THE U.S. AND SOVIET LEADERSHIP NOW APPEAR POISED TO MOVE AHEAD ON A PATH OF CONSTRUCTIVE DIALOGUE AND NEGOTIATION, BUT MAJOR AMBIGUITIES REMAIN IN ASSESSING THE RELATIONSHIP. AFGHANISTAN AND POLAND ARE CONTINUED PROBLEMS, AS IS CENTRAL AMERICA. WITHIN THE U.S. GOVERNMENT THERE ARE THOSE WHO WOULD LIKE TO SEE NO RELATIONSHIP AT ALL WITH THE SOVIETS, INCLUDING AGRICULTURAL TRADE. AS DISCUSSED EARLIER, THERE ARE SIGNIFICANT BARRIERS (BOTH STRATEGIC AND ECONOMIC) TO EXPANDING TWO-WAY TRADE. THE SOVIET UNION CAN RECEIVE NO OFFICIAL CREDITS AND IS INELIGIBLE FOR MFN TARIFF TREATMENT. EFFORTS TO REVISE THOSE PROVISIONS IN 1979, WHEN CHINA WAS GRANTED MFN, WERE NOT SUCCESSFUL. IT MAY BE POSSIBLE TO RAISE THE ISSUE AGAIN IF BILATERAL RELATIONS IMPROVE OVER THE NEXT FEW YEARS, AND PERHAPS ALTER THE CONDITIONS UNDER WHICH MFN AND CREDITS CAN BE GRANTED. HOWEVER, THIS WILL NOT COME ABOUT EASILY OR QUICKLY.

FEW EAST EUROPEAN COUNTRIES -- ONLY ROMANIA AND HUNGARY -- CURRENTLY HAVE MFN. THE NATURAL TRADING POSITION OF THE EAST BLOC WITH WEST EUROPE WILL CONTINUE TO DOMINATE COMMERCIAL RELATIONS. THEIR DECISION TO IMPORT FROM THE U.S. OR THE WORLD MARKET GENERALLY WILL DEPEND UPON AN ADEQUATE HARD CURRENCY AND TRADE POSITION. THE PERIOD AHEAD WILL FOCUS CONTINUED EMPHASIS ON COUNTERTRADE AND BILATERAL ARRANGEMENTS WHEREVER POSSIBLE.

I THINK WE WOULD BE FOOLING OURSELVES TO BELIEVE THAT A RETURN TO EASY MONEY POLICIES OF THE 1970'S WOULD BE GOOD FOR OUR MARKET. OUR OVERDONE CREDITS GAVE A FALSE SIGNAL TO EXPAND, BASED ON INFLATED PROJECTED CONSUMPTION LEVELS. HOWEVER, I DO BELIEVE THAT OPPORTUNITIES EXIST TO INCREASE U.S. AGRICULTURAL EXPORTS TO THESE COUNTRIES OVER TIME, AS WE HELP THEM TO ACHIEVE HIGHER RATES OF ECONOMIC GROWTH. THIS, OF COURSE, IMPLIES THE NEED TO BUY FROM THEM, TO OPEN OUR TRADE WITH THEM MORE FULLY ON A BILATERAL BASIS. IT

IMPLIES A COMMITMENT TO PROVIDING CAPITAL AND KNOW-HOW IN DEVELOPING THEIR INFRASTRUCTURE AS WELL AS OFFICIAL FINANCING FOR SOME SALES OF COMMODITIES.

MY TOPIC TODAY WAS FOCUSED ON THE CPEs, BUT I WANT TO CLOSE ON THE NOTE THAT IT IS ONLY THROUGH MARKET DEVELOPMENT AND GLOBAL GROWTH THAT THE U.S. WILL EXPAND ITS AGRICULTURAL POTENTIAL. IT IS TIME WE TAILORED OUR RESOURCES AND INITIATIVES TO THESE OBJECTIVES. THE CPEs STAND HIGH ON THE DEVELOPING COUNTRY SCALE. THEY ARE A MARKETPLACE WHICH CAN BECOME A MAJOR IMPORTER OF GRAINS AND OTHER RAW AGRICULTURAL PRODUCTS, AS WELL AS PROCESSED COMMODITIES AND OTHER FOODSTUFFS. THESE ARE NOT COUNTRIES AT THE BOTTOM END OF THE SCALE, SCRATCHING TO MAINTAIN SUBSISTENCE DIETS FOR MUSHROOMING POPULATIONS. THESE COUNTRIES, PARTICULARLY THOSE IN EASTERN EUROPE, ARE STRIVING TO ACHIEVE THE DIETARY STANDARDS OF THE WEST. THIS WILL NOT HAPPEN OVERNIGHT, BUT NOW IS THE TIME WHEN WE MUST BEGIN PUTTING THOSE POLICIES IN PLACE FOR WHAT WE HOPE TO ACHIEVE BY THE END OF THIS DECADE.

THANK YOU.