UNITED STATES AGRICULTURE IN AN INTERNATIONAL ENVIRONMENT

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This paper addresses the issues related to U.S. agriculture in an international environment. U.S. agriculture is at a crucial point. Despite an apparent, but as yet not well documented, advantage in production, most U.S. farm commodities sustained four years of export decline during 1981-86. As the 1980s roll to conclusion, this is an appropriate time to examine U.S. policies and strategies.

Agricultural exports are vital to the economic well-being of U.S. agribusiness in general and farmers in particular. Farm exports accounted one in four acres of crop production in the 1985-86 period. Thus, exports are important to the economic health of agriculture and kindred industries. Unfortunately, the world trading environment has become increasingly ominous. Particularly for those of us in the U.S. Department of Agriculture's Foreign Agriculture Service (FAS) who deal with international trade on a daily basis, the trends in protectionism, increased production and growing subsidization to move that production into export markets are upsetting and often baffling.

Agriculture in a Changing Environment

The trading environment for agricultural products changed tremendously between the 1960s and 1980s. U.S. agricultural exports expanded rapidly during the 1970s to record setting levels. Agriculture was the bright spot in the export picture for the United States, fueled by production problems abroad, rapid economic growth, abundant credit, and OPEC money, and the declining value of the dollar.

But the 1980s brought cold reality. The world was not our oyster. There are a number of reasons generally cited for the turnaround including:

- Abnormally favorable world weather during the 1980s with record crops four of the five years, 1982-1986.
- A world-wide recession during 1981-1983 that reduced the ability of nations to buy goods.
- The value of the U.S. dollar was abnormally high which made it extremely difficult for the U.S. to compete against other currencies.
- Other countries subsidized their production and their exports and limited the entry of competing products.

In short, the entire industry of agriculture and agricultural exporting were massively restructured during the early to mid-1980s.

John Naisbitt, a renowned economist, refers to changes that are critical restructurings as "megatrends." At the 1986 annual meeting the President of the American Agricultural Economics Association laid out the implications of these megatrends for American agriculture. He identified them as:

1. A shift in domestic consumption from animal to plant products.
2. An increase in the domestic and international economic interdependencies of U.S. agriculture.
3. A shift from an industrial to an informational economy.
4. Structural change on U.S. farms - which are getting larger and fewer.
5. Environmentalism.

This paper focuses on the second of those megatrends -- the domestic and international economic interdependence of U.S. agriculture -- because I think that is where the Foreign Agriculture Service, as international marketers and agribusiness representatives, can have the most effect.

Agriculture in a Global Context

The term "interdependent" is the key word. For most policymakers, it is a new word. In the past, U.S. agriculture operated in an independent fashion. But the events of the 1980s demonstrated that we have to deal with not just our own concerns, but with those of all countries -- developed and developing alike. The growing volatility in agriculture illustrates that we no longer operate in a vacuum.

One of the reasons U.S. agriculture (and indeed world agriculture) is in its present state relates to our own thinking. By "our" I mean United States policymakers, farmers, and exporters. We cannot continue to isolate ourselves from consequences of changes in the global trading environment.

Global macroeconomics is shaping the world around agriculture as never before. Some familiarity with "the big picture" is essential if we are to successfully steer agriculture through the changing world's economic environments.

In a recent article, G. Edward Schuh of the World Bank lays much of the blame for the malaise in agriculture on our failure to educate students for the international climate. He argues that students at Land Grant Universities are receiving inadequate training in international trends that are controlling our lives.

Our overall economic performance, he says, is determined in large part by our ability to compete in the international economy. And the stakes are high. Schuh says roughly 25 percent of our gross national product now comes from international trade.

I share his views on the need for greater focus on international trends. The events of the mid-1980s illustrated that U.S. domestic farm legislation in consort with a rising value of the dollar can price U.S. farmers out of world markets and depress the agricultural economy.

The following sections of this paper address some of the factors policymakers, exporters and educators must consider in making U.S. agriculture economically healthy again.

Macroeconomic Trends

Conducting international business -- whether it is agriculturally related or not -- without examining current macroeconomic trends is like sailing without a compass. Unless we examine the broad picture and the guide posts leading to a market, our exporting efforts are not only short-sighted, they will easily disappoint us.

Six issues seem to dominate trade outlook during the 1980s and beyond:

1. Economic stagnation of many industrialized countries.
2. Rising debt burdens of the less developed countries.
3. Continued decline of the dollar vis-a-vis our major trading partners.
4. Rigidity of the U.S. dollar vis-a-vis currencies of the newly industrialized countries (NICs) of Asia.
5. Passage of the Tax Reform Act of 1986 and its impact on capital spending to modernize U.S. industry, and
6. The volatile price of oil.
7. Protectionism and/or subsidized exports.

These issues will shape the success of U.S. marketing efforts. An understanding of them will help us answer such questions as:

Where are the markets for U.S. products?

How fast will these markets grow?

Where is the competition? Can we beat the competition?

What products will be in greatest demand? In which markets?

Having answered these questions, where do exporters go from there? Obviously there are no easy answers to this question, but a number of FAS programs could be helpful in U.S. export efforts for agricultural products.

USDA Resources -- How Can They Help?

Georgia exporters have done well moving commodities, such as soybeans, peanuts and tobacco, into international markets. But in difficult competitive times the Foreign Agriculture Service has a number of services that might be especially useful.

To help exporters stay abreast of the constantly changing trade scene, FAS maintains a worldwide network of agricultural counselors and attaches who gather marketing intelligence. Our staff covers over 100 countries, providing information on production, trade, consumption, price data and changes in governmental policy.

In addition to the counselors and attaches, FAS has agricultural trade offices in 14 different marketing areas around the world. Personnel who staff the offices have one goal -- to promote trade.

The FAS establishes and maintains good working relations with foreign businesses and governments for U.S. exporters. That is important because each market presents a different set of variables about which exporters should be knowledgeable in order to sell successfully.

FAS also maintains the Agricultural Information and Marketing Services, with the acronym AIMS. The AIMS program provides a trade referral service through which buyers' product requests are forwarded to FAS and made available to AIMS subscribers through a computer network. AIMS works in the other direction too, through the "buyer alert service" which uses high-speed telecommunications to forward sales announcements to interested overseas buyers. In addition to a monthly newsletter and weekly bulletin which compile trade news and leads, AIMS offers international marketing profiles, which provide statistics and analysis on individual markets and particular commodities.

Trade Negotiations

Another means of increasing exports is that of lowering barriers to trade. FAS is a key player in this effort. FAS negotiates with U.S. trading partners to insure that U.S. agricultural commodities get a fair shake in the international marketplace.

FAS is now engaged in negotiations, the outcome of which will be critical to the success of our efforts to liberalize trade and expand U.S. farm exports. The most comprehensive is the multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT). The new round will be initiated in Punta del Este, Uruguay, in September 1987.

The United States is seeking commitments to apply no new import barriers and to phase out existing nontariff barriers. The goal is to freeze the 1980s level of export subsidies and phase them out over a reasonable time. Another objective is to harmonize food, plant and animal health regulations.

The United States also seeks improvement in general GATT dispute settlement procedures so that once trading nations have agreed on better rules, we can be assured they will be applied consistently and dependably. As it now stands, procedures are too easily blocked by the parties to a dispute when they believe the rules have been interpreted to their disadvantage.

Promoting U.S. Products

FAS also conducts a global program of promoting U.S. food and fiber abroad. FAS representatives work with many private commodity groups including grains, soybeans, meats and citrus in order to implement this effort.

One of the most effective means of promoting processed food products is by displaying these goods at international food shows. Through personal contact with foreign buyers, U.S. exporters have the opportunity to exhibit their products, generate interest in them and gather trade leads. And these activities translate into sales.

During 1986, FAS sponsored U.S. exhibits at nine trade shows around the world, in the Far East, the Middle East and Europe. These shows offer hundreds of new-to-market and established firms the opportunity to explore foreign markets and to meet with thousands of buyers.

FAS, in conjunction with the National Association of State Departments of Agriculture, also co-sponsors the National Food and Agriculture Exposition, a food show held every two years in the United States. In 1987, it will be in Seattle, and this event affords an excellent opportunity for exporters to exhibit their goods without incurring the time and expense of foreign travel.

Another promotional effort of FAS is the Targeted Export Assistance Program (TEA). Under the TEA program, FAS is assisting U.S. exporters counter the effects of unfair trading practices by foreign competitors or importers. The entire thrust of this program is to promote U.S. agricultural products in overseas markets with growth potential.

This program was initiated in 1985 and is generating increased sales. A good example is the TEA program for canned peaches and fruit cocktail. A $2.5-million TEA program launched in the spring of 1986 was aimed at meeting and beating EC competition in Japan and Taiwan. As a result, exports of cling peaches to Japan in one month surpassed shipments for the entire previous season. Fruit cocktail exports also surged. Other gains were reported for sales of these items to Taiwan. The net result was an additional $4.5 million in sales to these two countries.

The TEA program is not just for food products. One highly creative aspect of the TEA program involved constructing a model house in Tokyo to demonstrate the quality and durability of U.S. wood products. It is difficult to break into markets in the Far East, where thousand-year-old traditions may dictate preferences. That model home is getting a lot of attention, and we are sure it will sell U.S. wood products in Japan. A major Japanese construction company has announced plans to use U.S. wood building products.

Export Credit Programs

The final area in which FAS involvement is increasing exports is that of financing exports of U.S. farm and food products. It is obvious that without credit few houses would be sold in the U.S., few old cars would be replaced, and some farmers could not afford the cost of seed, fertilizer, and other inputs necessary to produce crops and animal products. Dependence on credit also extends to many countries which would be unable to feed their people unless food could be purchased on credit.

The rationale for U.S. credit programs, both concessional and commercial, remained pretty much the same over the decades of the 1970s and 1980s. These programs were created to develop and move U.S. surpluses into export markets, to combat hunger and to foster economic development abroad.

The U.S. has been very successful in this effort. The transformation of former concessional markets to full commercial trading partners proves that aid does lead to trade. The list of countries that have made the evolution from aid to cash purchases includes such giants as Japan, Korea, and Taiwan.

The Public Law 480 Food for Peace Program has an excellent record of success in supporting the economic, humanitarian and foreign policy objectives of the United States. Funding for this program during 1986 was $1.7 billion which was consistent with recent years.

The GSM-102 program is designed to expand U.S. farm exports by stimulating U.S. bank financing of foreign purchases on credit terms of up to three years. Among its other accomplishments, GSM-102 helped preserve the traditional U.S. wheat market in Colombia, increased Egyptian purchases of a variety of U.S. farm exports, expanded exports to Korea and helped maintain Iraq as the largest importer of U.S. rice.

During 1985, the U.S. made available $4.2 billion of short-term guarantees for 26 countries so they could purchase a variety of commodities. The value of the guarantees authorized represented 15 percent of the projected value of total U.S. agricultural exports in 1986. FAS has announced more than $2 billion worth of these guarantees for fiscal year 1987.

We are also implementing the new Intermediate Credit Guarantee Program, with 3- to 10-year loans, to help developing nations make the transition from concessional to cash customers. FAS is working with over 20 countries to promote dairy cattle exports with $175 million of intermediate credit. Guarantees of $86 million have already been extended to eight countries to purchase breeding cattle.

In addition, $200 million in credit guarantees have been extended to Mexico for the purchase of feed grains and oilseeds. Also under this program, $20 million in guarantees were extended to Hungary for purchases of protein meal.

Conclusion

The programs discussed in this paper demonstrate FAS's commitment to generating exports. To succeed, however, we need the help of the private sector. Our universities and private sector "think tanks" must continue to expand our understanding of the cultures of other nations, to develop that international outlook that Edward Schuh cites as being sorely lacking in the U.S. Tle U.S. must generate innovative marketing models and create ways to test the efficacy of efforts to expand U.S. export horizons. The U.S. government and private sector must re-commit to this challenge.

As any successful salesman knows, you might chance upon a good customer and make a few lucky sales. But, if you really want to make money, you're going to need repeat business.. your customers must know that when they want your product, you are going to be there to serve them.

That means plenty of hard work .. but it's work that reaps handsome rewards, for you personally, for U.S. farmers, for the agricultural industry, and for the entire nation.

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