

Enhancing Competitiveness: International Economic Policies

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The United States is the world's leading exporter of agricultural and food products. The European Community is the world's leading importer of such products, and it is also one of the U.S. farmers' best customers. Even in fiscal 1984, with the strong dollar discouraging U.S. exports, the European Community bought \$6.7 billion worth of U.S. farm products and ran a farm trade deficit of \$3.6 billion with the United States. It is proper, therefore, that a symposium devoted to the world's agricultural marketplace should bring together representatives from both sides of the Atlantic to examine the present situation and prospects.

This paper sets out some reflections, from the point of view of a European, on the issues that face us. We both have a dynamic modern agriculture, enjoying the benefits of technical progress that have caused rapid increases in production in the last decades. Consequently we are both more and more dependent on exports for the marketing of our production. But we both face severe difficulties of demand on world markets, resulting principally from slow economic growth in the importing countries. In the case of the developing countries, the lack of demand stems not from a lack of mouths hungry for food, but from desperate problems of indebtedness on the external account and an incapacity to pay.

It follows, therefore, that the biggest contribution we could make to the stimulation of international demand for food products is action on a scale wider than agriculture to create a better economic order by promoting world development. The prescriptions of the Brandt report, including a combined effort by the rich countries to step up development aid and a reform of the international financial system, remain unful-

filled. This is a challenge that above all faces the United States, Japan, and the Europeans. We can never solve our problems of agricultural trade by agricultural actions alone. We need, on the part of our leaders, a much wider effort of political will.

In Europe, we are conscious of a historic precedent, created through the foresight of the United States. From the ruins of the war, in which we Europeans exhausted ourselves politically and economically, the Marshall Plan helped us recreate our productive capacity. It provided conditions in which at last the nation states of Europe could embark on the path of political union—a path we are still treading, as in January 1986 Spain and Portugal join the existing ten members of the European Community (Germany, France, Italy, Britain, Holland, Belgium, Luxembourg, Denmark, Ireland, and Greece). For the United States, it was an act of enlightened self-interest that permitted stability and growth in Europe and laid the foundations for a transatlantic understanding that has helped us both to make the world a safer place. It is for similar reasons that, 40 years later, the rich countries of the North need to aid our partners of the South.

This reflection of a global nature is a necessary preface to an examination of the agricultural aspects of the international economic environment. The examination is presented in this paper in two parts. The paper itself sets out some considerations of an economic and political nature concerning the international economic environment in which agricultural trade takes place, the interaction of agricultural policies, particularly of the United States and the European Community, and possible future scenarios. This paper also contains an appendix of a statistical and analytic nature concerning the development of world agricultural trade in the 1970s and early 1980s and the prospects for the future, taking account of recent studies, particularly of the cereals sector.

The international economic environment

Two important conclusions may be drawn from the experience of the last decade in international agricultural affairs: agricultural policies have become more and more open to influences of a general nature and the traditional rules for handling international agricultural questions have been less and less adequate for coping with the problems.

Linkages between agriculture and the general economy

Although agricultural trade has increased less rapidly than trade in

manufactures, it has certainly expanded; and as in the manufacturing sector, there has been increased specialization. The "mixed farming" enterprise is giving way to monoculture or specialized livestock units with their economies of scale. Increased capitalization has involved the farm sector with financial institutions — to the point where in some parts of the United States it is the banks that depend on the farms rather than the farms on the banks. The growing dependence on world markets for disposal of exportable surpluses — and this has been the experience of both the United States and the European Community — has brought agriculture up against the same problems of monetary instability as confront manufacturers. Finally, the large budgetary outlays that central government has devoted to support of agriculture have brought agricultural policy directly into the firing line as finance ministers grapple with budget deficits.

These linkages help explain why in the 1970s and 1980s farm policies on both sides of the Atlantic ran into turbulence as monetary instability, inflation, and high interest rates accompanied the deceleration of growth in incomes and employment. The traditional reaction, to isolate the agricultural sector from such undesirable fluctuations, was neither appropriate nor possible.

Of all these factors, one may perhaps single out monetary instability as the most pernicious, in the sense that it showed the policymakers least able to find a rational solution. In the European Community, the combination of a common price level for agricultural support (expressed by the fixing of prices in 'units of account') with sharp variations in the value of the European currencies against each other led to the creation of "monetary compensatory amounts" that act as taxes or subsidies on farm trade. When these amounts reached the order of more than 15 or 20 percent, they threatened to destroy the common market. But the success of the European monetary system since 1979 in creating a zone of monetary stability within Europe — with periodic, but limited, adjustments of our currencies against the European Currency Unit (ECU)—has much reduced the scale of the problem.

For the United States, monetary instability has had other effects on farming in the 1980s. In the 1970s, there was an enormous growth in U.S. agricultural exports, stimulated by a weak dollar. But then government deficits, accompanied by the inflow of foreign money, drove up the dollar, which had the consequences one might expect on trade, making U.S. farm exports less competitive. On the large share of U.S. farm production going into export, it had the effect of reducing volume

and receipts. From the point of view of an observer on the other side of the Atlantic, this appeared to be a classic case of the Americans shooting themselves in the foot as regards agricultural trade policy. Now that action has been taken to bring down the rate of the dollar—and this was to some extent in response to representations from the Europeans—one could wonder whether we have not done the same trick.

Deficiencies of the international trade rules for agriculture

The rules of the General Agreement on Trade and Tariffs (GATT) governing agricultural trade can be categorized in two parts: rules concerning access for imports and rules concerning competition in export.

Access. With some risk of oversimplification, one may say that there is a basic rule regarding access, to which there is one basic exception. The basic rule is that a country can protect itself only by means of border tariffs and nothing else. The basic exception is that, for agriculture, a government can apply quotas in addition to or in place of tariffs, on the condition that it restrict its production and import at least a minimum quantity of goods. Now these conditions are not difficult to respect, since nobody has ever determined what exactly constitutes a production restriction or a minimum quantity.

Furthermore, the biggest and most powerful trading partner in agricultural goods opted out of the rules at the time they were drawn up—that is, the United States, which obtained a waiver on some of the major rules regarding imports. This waiver or exception, although supposedly temporary, was introduced in 1955 and still exists.

Exports. Here again the rule is fairly simple. Export subsidies for agricultural products are tolerated on condition that they do not result in the country that applies them having more than an equitable share of the world market or in undercutting prices. Since an equitable share for one country tends to appear an inequitable share for its competitors, and prices by their nature fluctuate, irremediable differences of opinion have arisen as to the interpretation of the rule.

These remarks are not intended to decry the existence of GATT. Winston Churchill said of democracy that it was the worst form of government, except for all the alternatives; and so it probably is with GATT. What is worrying is a situation where one or the other partner feels increasing frustration with its operation and is tempted to take action to remedy grievances outside the multilateral context—in bilateral or even unilateral actions damaging to the other partners, who will

subsequently and almost inevitably take further countermeasures. This is plainly a reason for including agriculture in a future round of trade negotiations in GATT, with a view to making the rules operational in ways that are acceptable to all parties.

Interaction of agricultural policies

It is not an exaggeration to state that, among the principal hallmarks of the government of an independent nation state is its wish to defend its territory and to feed its people. From this basic and honorable ambition flow directly the concepts of a defense policy and an agricultural policy that, by an inevitable law of economics, lead sooner rather than later to taxation. To put it another way, there is no developed country in the world that does not have an agricultural policy of some kind, and in the body politic of the nation, this particular element is usually one of the more vital organs. From such a consideration it follows that, in designing and developing its agricultural policy, a country generally gives priority to the interests of its own people, including both its consumers and producers of farm products. The interests of other countries figure in a secondary place. This remark is not intended to be polemic; it is a simple observation of what actually happens, particularly in democratic countries. Those of us who observe the progress of the U.S. Farm Bill do not seriously expect it to be designed in the first place to meet the needs of other countries. In the same way, the reform of the Common Agricultural Policy (CAP) on which the Europeans are embarked must naturally respond to our own political imperatives; and it would be surprising if one imagined otherwise.

But this is not to say that farm policy decisions on both sides of the Atlantic are conducted in a crude beggar-my-neighbor fashion. It is rather to say that trade policy considerations do not normally take precedence over such objectives as the maintenance of stable prices and farm incomes or the limitation of farm budget costs. It is certainly true that trade in agricultural products is generally affected more by domestic governmental policies than trade in industrial products—not only because of the special nature of agricultural markets (variability of supply and inelasticity of demand).

How then should we view the interaction of agricultural policies in the international environment? Perhaps the most positive line of analysis is to consider what similarity of interests exist between the principal actors on the stage—and in this context that means the United

States and the European Community—so as to discern which of the possible responses to domestic political imperatives are likely to frustrate or to further the shared objectives. One may suppose that such an approach is more likely to lead to satisfactory conclusions than an approach based on the idea that the best way to deal with competition is to tell it to go away. This approach is not unknown among farm organizations, whether in Europe or the United States, that may too easily convince themselves that, if there are difficulties with exports, it is because the foreigners are breaking the rules.

If one addresses the questions of similarity of interest, it is rather striking that the conduct of farm policy at the present time on both sides of the Atlantic appears to be based on the objectives of a more market-oriented policy and a limitation of budgetary costs. These, at least, are the themes that figure most often in public declarations, though both sides are faced with the delicate problem of reconciling such objectives with the considerations of farm income.

U.S. agricultural policy

It is well known that the Farm Bill currently before Congress faces a number of conflicting requirements. To meet budget constraints and remain competitive in export markets, support prices should be reduced. But to avoid large-scale farm bankruptcies, income support must be provided. Within a rather short space of time, we should know whether the President will veto the package now emerging from the deliberations of the House and Senate—a package that is certainly on the high side in budgetary terms and could have an important influence on the U.S. budget deficit in the medium term. In the longer term, we shall see what effect it has on U.S. competitiveness in the world marketplace through lower prices. Rather less, one suspects, than in the administration's original concept. But there are two other considerations of a more short-term nature that are of concern to observers in Europe.

The first is that, whatever happens, this legislation will not take effect until 1986 and will not have much influence on the disposal of this year's harvest. But this year's harvest is of very immediate interest—there are large carryover stocks and substantial new crops, in both Europe and the United States, while the Soviet Union is expecting a better harvest.

The second consideration is that, independently of the Farm Bill, the United States is faced with a choice of whether to become a regular

subsidizer of farm exports. The administration's Export Enhancement Program for agriculture took a long time to get off the ground—much to the frustration of Congress which demanded it—but now it appears to be in full swing. It cannot be categorized as anything other than a classic export subsidy program; and although it is limited in time, experience suggests that this type of measure, once it is put into operation, has a lot of staying power. Already there are demands to improve it by the inclusion of additional target markets, such as the Soviet Union. Already there are demands to attack not only the European Community, but other exporters, such as Canada and Argentina. Already the Russians have used the program as an excuse for not buying the minimum quantity of wheat specified in the U.S.-Soviet Union long-term agreement. But these are the details. The basic question is whether the United States intends to continue with this type of export subsidy and whether it is fully aware of the consequences.

The question poses itself, of course, not only in the agricultural sector but also in other sectors such as industrial goods where the Export-Import Bank is making its first allocations from the administration's so-called war chest to help exports of computers, transportation, and power equipment.

One of the consequences certainly has been a downward pressure on world prices, for the prices offered under the Export Enhancement Program have effectively undercut the European Community in certain markets. This obliged the European Community to follow suit to maintain its sales. Who benefits, therefore, from this kind of measure? And who pays?

Another consequence has been to mobilize criticism of the United States not only from the European Community, which was originally the principal target competitor, but also from other agricultural exporting countries. The chairman of the Australian Wheat Board, for example, has strongly attacked the United States for its subsidized sale of wheat to Australia's number one wheat market, Egypt; he described the U.S. action as 'economic lunacy,' and said the United States was hypocritical in claiming to use the Export Enhancement Program to justify attacking the European Community's export subsidies.

Finally, the U.S. action largely undermines the credibility of the recent decision of President Reagan to initiate proceedings under GATT against the European Community's wheat exports. It is not surprising that the reaction on the European side has been astonishment that we are reproached for having depressed world market prices for wheat,

and the announcement of our own challenge to the 'Export Enhancement Program in GATT.

It is all the more ironic that these developments come at a time when analysts on the U.S. side are increasingly pointing to factors other than the European Community as principally responsible for the decline in U.S. exports. Even the U.S. Wheat Associates, in recent testimony to the House Agriculture Committee, listed the following factors which it considered to have caused this decline.

- The value of the U.S. dollar.
- World economic stagnation.
- Debt problems in client countries.
- World wheat prices below those of the United States.
- U.S. trade policy such as embargoes and import restraints.
- Cargo preference.

Common agricultural policy of the European Community

It is not the object of this paper, however, to examine a catalog of current United States/European Community disputes in the agricultural sector. The bilateral questions concerning citrus, canned fruit, wine, or pasta are—we hope—short-term problems that can find durable solutions through responsible decisions on both sides. For wine, the International Trade Commission has recently defused the issue by rejecting the complaint of producers against wine imports from Europe. For the analysis of the international economic environment in which U.S. agriculture has to live, it is probably more useful to describe some of the underlying developments on the European side that will have an influence on our farm policy in the medium term.

The European Community has presided over a spectacular success in the development of agricultural productivity in the last 25 years. To what extent this explosion of production, at an annual rate of the order of 2 percent, has been due to the decisions of politicians or policymakers is a matter of debate. It is probably the backroom experts in agricultural research and development that have made a more profound, if less publicized, contribution to the surge of production. However, it is certainly the case that the framework of price stability created by CAP has permitted Europe's agriculture to develop its productive potential rapidly.

But meanwhile our demographic structure in Europe, with a gen-

eral decline in birth rates, leads to an annual increase of only about 0.5 percent in domestic consumption at best.

These divergent trends have brought CAP to a crisis that has become increasingly severe in the 1980s. On the one hand, the budgetary costs of the farm policy, borne by European Community funds, have increased at a time when those same funds—the European Community's 'own resources'—have reached the limits set in existing rules. On the other hand, the increasing share of the European Community's production going into world markets has brought us into conflict with trading partners.

It has not been easy to persuade the European Community's decision-making body—the Council of Ministers—to take effective action to control the situation. The principle has been accepted in recent years that, if production exceeds a certain level, then the farmers should participate in the cost of disposal of production beyond that level; in other words, that the unlimited price guarantees originally provided under CAP should be subject to certain disciplines. However, the measures to be taken to apply these disciplines have not proved easy to put into practice. This was notably the case in 1985, when the Council of Ministers was unable to agree on how to apply the reduction in cereals prices that should have automatically resulted from the 'guarantee threshold' for cereals being exceeded. In the end, in the absence of a decision, the European Community's executive body—the European Commission—was obliged to step in to apply on an interim basis a price reduction of 1.8 percent.

Despite these difficulties, the European Community has pursued a restrictive price policy under CAP in recent years, with reductions in the level price support in real terms after account is taken of inflation. It has also introduced a quota system for milk production, that led to a decline of 5 percent in supplies in the first year of application. Europe's farm organizations have not easily accepted these measures at a time when milk production in other countries is increasing; they note that U.S. exports of subsidized dairy products, especially milk powder, have expanded rapidly. (Although rarely attaining 15 percent of world trade up to 1982, they now account for more than 25 percent, and this gain has been largely at the expense of the European Community.)

In July 1985, the European Commission published a 'green paper' on the perspectives for CAP in which it underlined the need for a more market-oriented policy and set out some of the options for achieving this policy. From the debate that has taken place on the basis of this

consultative document—that covers a whole range of themes—two points are worth mentioning.

First, at the level of the Council of Ministers—and in this case that means the Ministers of Agriculture—there is a virtual consensus that the development of CAP must take account in the future of both the international constraints and of the domestic budgetary constraints. The explicit acknowledgment of these two elements, which in the past have tended to be sidelined in policy discussions, is an important political fact.

Second, at all levels, there is agreement that action is urgently needed to reform the European Community's cereals policy, which is running into real problems. Evidently the action to be taken on cereals will have important consequences in the medium and long term for U.S./European Community relations. While the European Community does not accept that its restitutions or 'subsidies' have resulted in its taking an unfair share of world cereals markets, it is conscious that the divergence between trends of European cereals production (currently about 140 million tons and rising at an average rate of 2 to 3 percent a year) and consumption (around 117 million tons and rising much less rapidly) will lead to exportable surpluses of a magnitude that neither the world market nor the European Community budget could realistically be expected to bear.

The commission is likely to propose, therefore, a package of measures for cereals, drawing on the elements already outlined in the green paper. These include a restrictive price policy, a more limited use of intervention on the internal market, revised quality standards to avoid the arrival of quantities of feed wheat in public intervention stocks, and a 'co-responsibility levy' by which cereals growers would pay all or part of the cost of disposal of surpluses beyond a certain point.

Possible scenarios for the future

With the prospect of a major international trade negotiation in GATT in 1986 and for which the preliminary discussions are already under way in Geneva, it is essential to look at the possible scenarios that could evolve. At this stage, none of the parties have worked out their position on agriculture in detail. Indeed, in the short term there are continuing disputes, not least between the United States and the European Community, that are clouding the atmosphere in the agricultural sector and also in the case of industrial goods, where steel is a notable example.

Altogether, the United States and the European Community share a two-way bilateral trade flow of \$100 billion. We are each other's biggest customers. Only a small proportion of this bilateral trade flow gives rise to problems, and we must avoid a situation in which they spill over into our wider trading relationship, with all the damage that could be caused. Moreover, on both sides of the Atlantic, we know that our economic well-being depends on the existence of open markets for our exports. To give in—especially at this stage—to the protectionist pressures to which our public authorities are subjected would be a disaster. It need hardly be said that a wave of protectionism would be particularly disastrous for the U.S. farm sector, dependent as it is on exports.

That is why the European Community has recently taken steps to accelerate the tariff reductions agreed in the last multilateral negotiations. That is why we applaud the stand the U.S. administration has taken against protectionist tendencies in Congress. Two further remarks, which go wider than agriculture, are also in order.

- Progress in the monetary field should be sought in parallel with progress in the trade talks, to avoid disruptive currency movements that undermine or even negate achievements in the trade field. There is not much point in seeking solutions by trade negotiations to problems with root causes in the monetary and financial fields.
- In future trade talks, the cooperation of the United States and the European Community will continue to be crucial, but a special responsibility must fall to Japan, which must show a willingness to assume its fair share of the burden for supporting the open multilateral trading system, in line with the benefits which Japan has drawn from it, particularly for manufactured exports.

On the side of the European Community are a number of basic assumptions that are necessary in our approach to negotiations on agricultural trade. These are that they will:

- Maintain its position on world markets for import and export of agricultural products. We cannot enter a negotiation, for example, on the basis that our agricultural sector will be sacrificed in the interest of other sectors of economic activity which are important for the trade balance.
- Retain a system of variable import levies and variable export re-

funds as a mechanism for stabilizing its internal agricultural market. This does not exclude improvements and adjustments to the mechanisms in the interest of more orderly world trade, but it does mean that the European Community, which has paid with concessions in earlier negotiations for the right to apply these mechanisms, will defend its rights.

- Keep the concept of "Community preference" in the agricultural sector, that is, the transposition at the European Community level of the priority given to domestic produce on national markets.

Within this framework, the European Community accepts very well that its expanding role in world trade in agricultural products gives it a responsibility toward the world market. It has become the major exporter of dairy produce and beef, the second exporter of cereals and sugar, and a leading exporter of wine, spirituous beverages, and processed products. As regards relations with the United States, however, this calls for two remarks.

- The European Community is not in fact a competitor for most U.S. farm products on export markets. Some 75 percent of U.S. farm exports are products where competition from the European Community is either nonexistent or indirect, for example, soybeans, cotton, and corn.
- Most U.S. farm exports enter the European Community free of import charges. In 1984, despite having ample supplies of its own cheap feed wheat, the European Community imported free of levy or duty one-third of all U.S. soybean exports and almost half of all U.S. soybean meal sales overseas.

Exports

It is part of the European Community's approach to reforming farm policy that our own agricultural producers must participate in the cost of disposal of production beyond a certain point. The practical implication of this for exports of products for which we are a principal actor in the world markets is that there should be arrangements whereby producers themselves can take over export risks. Schematically, this approach can be expressed in the following ways:

- Restricting the price and disposal guarantees granted by the European Community to specific quantities, beyond which disposal at

world market prices would be the responsibility of producers. This could be implemented either by means of a quota on production or a levy paid by the producers. Although the European Community already has production quotas for sugar and milk, it would not be desirable to extend these types of physical limitations to other sectors. Therefore, a levy paid by the producers to cover some or all of the export costs (co-responsibility levy) seems the more likely course.

- In the longer-term, fixing European Community support prices at levels closer to those of other exporting countries. This would be logical, especially for products where the world market accounts for a significant part of the European Community production.

Imports

When the European Community set up its import system 20 years ago, it opted for a protection based on variable import levies for the staple farm products and little or no protection for products for which at the time it was far from self-sufficient. It negotiated this system in GATT, the concession of freedom to impose import charges on certain products being offset by the reciprocal concession of low or nil protection "bound" in GATT for other products. Thus, there is little or no external protection against imports of vegetable fats, vegetable proteins, and certain energy products for animal feed. This negotiated system has had two main consequences for the European Community.

- It has had to introduce in its arrangements for many products either consumption aids (to enable the European Community product to compete with corresponding imports) or production aids (deficiency payments to support the farmers' incomes). This has been the case for olive oil, oilseeds, butter, skimmed milk powder for animal feed, and certain processed fruits and vegetables.
- Imports of products subject to low or zero protection, especially various feed stuffs, have expanded considerably because of their price advantage and have discouraged the use of European Community cereals in animal feed. This, in turn, has contributed to the surpluses of livestock products and cereals.

As agricultural output in the European Community has increased, the subsidies resulting from these factors have become more and more costly for the budget. The imbalances in our external trade system

have also contributed to the artificial maintenance of production structures and trade flows that owe their existence largely to the difference in prices for competing products.

Is there a way of changing this situation? One approach under GATT rules might be a **tradeoff** between high protection and low protection, without increasing the average level of protection of European agriculture. This would make it possible to diversify agricultural production and uses of agricultural products in the European Community, achieve budget savings, and reorient the European Community's price policy in a more rational way.

On the U.S. side, such an approach also deserves reflection. It is not always recognized that serious imbalances exist in the U.S. external trade arrangements, which cause distortions within the U.S. farm sector and spill-over effects on world agricultural markets. With the benefit of the waiver in GATT concerning U.S. imports, high rates of effective protection are maintained for several products.

For example, there is an import quota for sugar, whose protective effect has been reinforced by the recent reductions in the level of the quota. Meanwhile, the support for corn is relatively moderate. Consequently, under the umbrella of the high sugar protection, the production of corn sweeteners has developed profitably and rapidly. This has had consequences on the external trade front. U.S. raw sugar imports have been reduced from a high point of 5 million tons at the end of the 1970s to less than 2 million tons in 1985-86, leading to considerable difficulties on the international sugar market, which has thus contracted from about 20 million tons to 17 million tons. There has also been an increased production and export of corn gluten feed, which profits from the imbalance in the European Community's own trade arrangements.

Another example is the high level of support given to U.S. milk production, combined with the relatively low price of animal feed. This state of affairs has consistently frustrated the administration's efforts to control milk production and has led to the accumulation of very large public stocks of dairy products and subsidized sales by the United States in a world market already suffering from grave oversupply.

The foregoing remarks are a long way from the philosophy of "free trade" that is commonly believed in U.S. circles to be the sovereign remedy for agricultural difficulties. The facts of international life are rather different, notably because of the domestic political imperatives that lead governments to intervene in agricultural markets. While it

may be possible to demonstrate theoretically that free trade conditions would lead to adjustments within agriculture that could yield economic advantages in the long run, there is no evidence that democratically elected governments of the developed countries wish to make the sacrifices that would be necessary in the short and medium term.

Nevertheless, a better comprehension by the major agricultural exporters—including the United States and the European Community—of those objectives they share in their agricultural policies must lead to better cooperation. These objectives include a better control of production, particularly for products in oversupply, the limitation of budgetary expenditure, a more rational structure of external protection, a more market-oriented price policy, and perhaps above all the progressive integration of agriculture into the general economy.

The prospect of a new multilateral round of trade negotiations—against the background of poor prospects for expansion of demand on world food markets—must raise hope that trade tensions in agriculture will be alleviated. The challenge is to make the trends, which already exist in domestic agricultural policies, converge internationally in terms of accepted policy aims and procedures.

Appendix

The development of world agricultural trade

Introduction

The spectacular progress of world trade has been one of the most striking developments on the international scene in the last 25 years. World trade increased in volume by a factor of 3.5 during the period from 1960 to 1980, that is, at an annual rate of 8.2 percent. Agricultural trade meanwhile increased at a rate of 4.6 percent a year, a rate that although less than that of total trade was nearly twice the average rate of increase of world agricultural production (2.5 percent a year) during the period.

Table 1 shows the rate of growth in volume of world trade in agricultural products, broken down by product groups. Products for which trade increased most rapidly were, for the most part, sources of protein for human consumption (meat and dairy products) or constituents of animal feed (fodder cereals and oilseeds).

TABLE 1
Rate of Increase in Volume in World Trade
of the Main Agricultural Products, 1960-80

	<u>Annual Rate of Increase (percent)</u>
Meat	6.8
Dairy products	5.4
Cereals and cereal-based products for human consumption	4.0
Cereals for animal feed	7.6
Oilseeds and derived products	11.3
Fruits	3.2
Vegetables	2.7
Sugar	2.5
Textile fibers	0.0
Total	4.6

Source: OECD figures based on FAO statistics

Table 2 shows the development of world agricultural trade in volume for the main groups of countries from 1967-69 to 1983. The group of developed countries, particularly North America and Western Europe, more than doubled their agricultural exports, while their imports grew by scarcely a third. A quite different development took place in the case of the developing countries, whose imports practically tripled, while their exports increased by little more than a third. The state-planned economies saw their imports more than double, while their exports decreased.

Highlights of the 1970s and the early 1980s

In the 1970s, world agricultural trade increased more rapidly than in the 1960s. But despite this rapid expansion, agricultural markets experienced greater instability. In fact, five of the eight principal disturbances recorded since 1945 took place between 1972 and 1980.

In addition, the trade flows polarized around three principal lines of development.

- The increasingly dominant position of certain developed countries in world exports, particularly North America. Between 1970 and 1982, nearly two-thirds of the additional cereals entering

TABLE 2
Development in Volume of World Agricultural Trade
According to the Main Regions (1967-69 = 100)

	Imports			Exports		
	<u>1974-76</u>	<u>1978-80</u>	<u>1983</u>	<u>1974-76</u>	<u>1978-80</u>	<u>1983</u>
Developed countries with market economy	121	134	138	152	203	223
North America	112	116	116	159	226	234
Western Europe	122	137	142	160	208	250
Centrally planned economies	161	216	232	99	98	98
Soviet Union and Eastern Europe	165	205	224	97	95	93
Developing countries	144	225	271	109	123	138
Africa	146	241	298	100	87	89
Latin America	149	248	267	112	135	150
Near East	206	337	476	100	95	126
Far East	121	156	188	121	150	171
Total	130	161	176	128	175	

Source: Based on FAO statistics

world trade came from this region, more than half of the increase being attributable to the United States.

- The growing dependence of the majority of developing countries on food imported from elsewhere. The developing countries alone absorbed more than 85 percent of the increase in world cereals imports between 1972–73 and 1982–83.
- The appearance on world agricultural markets from 1972 onward of a new actor destined to play a fundamental role in the increase of trade but also in the instability of markets—that is, the Soviet Union. Following a series of disastrous harvests, the cereals imports of the Soviet Union went from 4 million tons in 1971 to 16 million tons in 1972 and to 24 million tons in 1973, then fell to 8 million tons in 1974 and increased to 17 million tons in 1976.

This growing polarization of trade, particularly for cereals, also appears in Table 3, which shows the main changes in the structure of world trade in cereals during the last half-century. Before 1939, only Western Europe imported more cereals than it exported. Today, Western Europe is, with North America and Australia, a net exporter of cereals. On the other hand, Africa, together with Eastern Europe and the Soviet Union, who before World War II were all self-sufficient or even net exporters, has become a net importer of increasing quantities.

Since 1960, the market for coarse grains has shown greater dynamism than that for wheat, which evidently results from the spread of animal feeding systems based on the use of concentrates. World trade in coarse grains, such as barley and corn, has more than quadrupled in two decades, first with increased demand in Western Europe and Japan, and then from the mid-1970s with demand from the centrally planned economies and the developing countries.

But since 1981–82, there has been a distinct slowing down of world cereals trade, affecting especially the developing countries and the centrally planned economies. This slowing down has been less marked for wheat than for coarse grains.

Another phenomenon of world agricultural trade in the 1970s has been the considerable increase in imports of cereals, particularly wheat, by China, especially since 1977. Because of increased urban demand and the appearance of grain deficits in rural regions, China's cereals imports went from 4 million tons in 1975 to 9 million tons in 1980. Several long-term agreements for the supply of cereals have been

TABLE 3
Development of World Trade in Cereals
(net exports (+) or imports (-) in million tons)

	<u>1934-38</u>	<u>1948-52</u>	<u>1960</u>	<u>1970</u>	<u>1980</u>	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>
North America	+5	+23	+38	56	+13	+118.2	+120.9	+118.2
Latin America	+9	+1	0	+4	-1	-2.3	-0.8	-0.9
Western Europe	-24	-22	-28	-30	-1	0	+2.9	+13.9
Economic Community	---	---	-7	-17+	-	+8.5	+10.1	+17.2
Eastern Europe and Soviet Union	+5	n.a.	0	+1	43	-36.6	-37.5	-47.8
Africa	+1	0	-2	-5	-8	-16.2	-26.2	-29.6
Asia	+2	-6	-17	-37	-2	-75.9	-72.5	-71.2
Australia and New Zealand	+3	+3	+6	+12	40	+9.7	+14.4	+19.4

*European Community of six member states, 1959-60 average

+European Community of nine member states, 1973

concluded in recent years between China and the exporting countries. However, most observers believe **that** the increases in imports by China are unlikely to continue, and it is more probable that they will stabilize around 10 to 15 million tons.

As regards the developing countries, their exports of agricultural products have increased less rapidly, both in volume and value, and since 1980 their agricultural trade balances have gone from surplus to deficit. This has aggravated their balance-of-payments problems. Among the developing countries, the rapid economic growth of OPEC and the newly industrialized countries has made them the principal new markets for agricultural exports of the developed world. The food deficit of the Arab region especially has greatly increased during the last two decades. In ten years, their cereals imports have tripled, and their imports of oils, eggs, and meat have increased even more rapidly. In these countries, the rapid population growth, accelerated urbanization, and increased incomes have transformed food habits. Combined with limited local agricultural production, this has led to a sudden increase of imports.

While agricultural trade in the 1970s increased at a steady rate, it slowed down in 1981 and 1982 with the world economic recession and the stagnation of effective demand.

Meanwhile, the structural surpluses in the producing countries became larger and more widespread because of the continued production increases. Thus, competition between the main exporting countries became more acute, which aggravated the depression of prices on world markets. Increased commercial aggressivity manifested itself in the development of long-term agreements often based on special measures for credit, in the greater use of subsidies, and even in the use of barter deals.

Prospects for the future

Numerous studies have been made in recent years of the future development of world production, consumption, and trade in agricultural products. The following paragraphs mention some of the principal studies and summarize their results in broad quantitative and qualitative terms.

Evidently, no forecast of agricultural trade can be made in isolation from forecasts concerning the development of the general world economic and demographic situation, and the prediction of such macroeconomic variables is particularly hazardous in a period of world

economic recession. Moreover, it must be emphasized that the results of such projections or forecasts are by no means neutral from the political and economic point of view. Insofar as they indicate what will happen in the future if certain hypotheses are fulfilled or if past trends continue, they can very well result in the political authorities taking decisions or initiatives that will modify the results of the forecasts.

Among the principal forecasts of medium and long-term agricultural developments are four reports that are summarized in the following paragraphs.

Agriculture, Horizon 2000: United Nations' Food and Agriculture Organization (FAO)

The first version of the **FAO** study was made in 1979, and after revision it was published in 1981. It focuses particularly on the developing countries and on three scenarios.

- A. More rapid growth (optimistic scenario).
- B. Small improvement in growth (less optimistic scenario).
- C. Continuation of present trends (pessimistic scenario).

For the developed countries, the annual rates of growth in agricultural production forecast in both Scenarios A and B are lower than the trend (1.5 percent). The developing countries, on the other hand, would have rates of growth in agricultural production in both scenarios higher than the trend (2.8 percent). But these scenarios assumed rates of growth of GNP in the developing countries (Scenario A: 7 percent and Scenario B: 5.7 percent), that now appear rather high compared with the average rate in the 1970s of 5.3 percent.

Table 4 shows the self-sufficiency forecasts for the main agricultural

TABLE 4
Self-Sufficiency in Agricultural Products
in the Year 2000 According to the FAO
(net exports (+) or (-) in million tons)

	Trend		Scenario A	Scenario B
	Developed Countries	Developing Countries	Developing Countries	Developing Countries
Cereals	+ 213	- 165	- 81	- 132
Sugar	- 13.5	+ 20.7	+ 20	+ 18
Vegetable oils	- 2.8	+ 6.0	+ 8	+ 7
Meat	+ 12.3	+ 3.0	- 1	0
Milk	+ 17.5	- 25.0	n.a.	n.a.

products in the year 2000 according to the different scenarios. The continuation of the trend implies an increase in surpluses for several products in the developed countries, despite the increase in the potential deficit of the developing countries. Meanwhile, in both Scenarios A and B, the deficits of the developing countries would be much lower. As regards cereals, the forecast deficits of the developing countries in the year 2000 (trend: 165 million tons, Scenario A: 81 million tons, and Scenario B: 132 million tons) should be compared with the historic deficits (1961–65: 17 million tons and 1978–79: 53 million tons).

The general conclusion of the FAO study regarding the cereal deficits of the developing countries—and particularly the most vulnerable countries—is that because of their lack of resources to finance such imports, only a massive increase in food aid would allow an increase in consumption and in levels of nutrition.

Global 2000: Report to the President of the United States by the Council of Environmental Quality and the Department of State

The Global 2000 report, published in 1980, studied the long-term consequences of present policies. The agricultural projections, derived from a USDA model, were based on three series of hypotheses.

- Variant 1—Continuation of present trends.
- Variant 2—Optimistic.
- Variant 3—Pessimistic.

The main conclusion of the report is that the world has the economic and physical capacity to produce sufficient food to meet the big increase in demand by 2000. However, production would have to increase at unprecedented rates merely to keep consumption per head at the level of the early 1970s. This implies substantial productivity gains and a pressure on natural resources.

As regards cereals, the volume of world trade in the year 2000 would be 220 million tons according to Variant 1, 178 million tons according to Variant 2, and 240 million tons according to Variant 3, compared with the average of 114 million tons in 1973–75.

The report concludes that only the most prosperous of the developing countries could satisfy their needs from the commercial market, while the poorer ones would rely more and more on food aid.

Interfutures: Organization for Economic Cooperation and Development (OECD)

This report, made in 1979, is based on six scenarios that aim to define the challenges facing the member countries of the OECD in the year 2000. As regards cereals, the OECD study forecasts a decline in the rate of increase of demand in developed countries and an increase in developing countries—mainly as a result of population increase. The report is optimistic concerning the resources available to meet the need forecast for the end of the century, except for some developing countries and the OPEC countries. In the long term, the cultivated area could be increased by 50 percent in the developed countries (except for Japan and Western Europe) and doubled in the developing countries (except for South Asia). The implied increase in yields (from 50 percent to 150 percent by the year 2000) would not be subject to biological limits, even in Western Europe; the energy requirement could be moderated by means of technological progress, allowing more efficient use; and supplies of natural fertilizers would be sufficient.

International Wheat Council (IWC)

In 1983, the IWC carried out an independent study of the long-term prospects for world production, consumption, and trade in cereals. It reckons that past trends no longer provide a sure indication of future development, because too many factors influencing production and consumption have changed in recent years. According to the hypotheses used for population growth, economic development, and the degree to which different countries attain their own objectives, world consumption of wheat would increase by 50 percent in the next 20 years. It would reach 2,180 million tons by the end of the century, compared with 1,451 million tons in 1980. This increase would be much slower than in the last two decades. Contrary to past trends, consumption of cereals for animal feed would increase less rapidly than for human use.

Table 5 shows the IWC forecasts for world trade in cereals, which would increase in the next two decades at a rather slower rate than recently, reaching a level of 265 million tons (27 percent more than the 1980 level). It should be recalled that between 1960 and 1980 it experienced a spectacular leap of 1980 percent.

TABLE 5
World Trade in Cereals According to
the International Wheat Council

	1980		2000	
	million tons	percent	million tons	percent
<u>Exports</u>				
Six main exporters*	190	91	248	93
Others	19	9	17	7
Total exports	209	100	265	100
<u>Imports</u>				
Developing countries	79	38	144	54
Low-income countries	23	11	64	24
Others	57	27	80	30
Centrally planned economies	68	33	52	20
Soviet Union, Eastern Europe, Cuba	54	26	27	10
China, East Asia	14	7	25	10
Developed countries	60	33	52	10
Total exports	209	100	265	100

*United States, Argentina, Australia, Canada, European Community (ten members), and South Africa

According to the IWC, the shares of world trade taken by the various groups will probably change markedly. Contrary to recent trends, the share of centrally planned economies could fall from 33 percent in 1980 to 10 percent in 2000, while that of developed countries would continue to fall, going from 29 percent to 26 percent. The imports of developing countries would practically double, with their share reaching 54 percent, compared with 38 percent in 1980. The low-income countries would be largely responsible for this increase.

The IWC observes that the expansion of world cereals trade could exceed 265 million tons, if economic growth is more rapid than assumed, but could also be inhibited by other factors, particularly the difficulties that developing countries may encounter in financing their imports.

The indebtedness of the developing countries is a problem whose ramifications go well beyond the field of trade in cereals. The granting of credit facilities by the cereals exporting countries would constitute at best a partial and temporary solution. Any significant

increase in the price of cereals would result in a further burden on the balance of payments of many developing countries. In real terms, export prices are now at their lowest level since the 1930s. Some exporting countries have taken steps to reduce their production, which could result quite soon in a shortage of supply. The cereals economy would thus commence another phase in its cycle, going from surplus to shortage and back again.

In 1984 the IWC held a symposium in Ottawa on the prospects for the world cereals trade at which Professor D. Gale Johnson of the University of Chicago expressed himself pessimistic on the prospect for the long-term development of world trade in cereals "but not so pessimistic as the USDA or the IWC Secretariat." According to Professor Johnson, the increase in world trade in cereals to the year 2000 is not likely to be more than half of that recorded in the 1970s. The price of cereals on the international market would continue to decline in real terms, as supply would continue to increase more rapidly than demand.

Conclusion

It is evident from this rapid survey of different projections that forecasts of the development of world trade differ according to the hypotheses used for population and incomes. For example, estimates of the cereals import needs of developing countries by the year 2000 vary from 30 million tons (Variant 2 of the Global 2000 report) to 144 million tons (IWC), while another set of forecasts (FAO) puts them between 81 and 132 million tons according to different scenarios. For the centrally planned economies, estimates vary from 10 million tons (Variant 2 of the **Global 2000** report) to 52 million tons (IWC).

Despite these wide differences, the forecasts show, in general, that the rate of increase in agricultural trade up to the year 2000 is likely to slow down, because of the slackening demand in the developed countries; at the same time the variability in the food imports of the centrally planned economies is likely to continue, with destabilizing consequences for the agriculture-exporting countries.