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Aid For Third World Agricultural Development: Help Or Hindrance To U.S. Agriculture

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AID FOR THIRD WORLD AGRICULTURAL DEVELOPMENT: HELP OR HINDRANCE TO U.S. AGRICULTURE?

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American agriculture experienced relatively prosperous times during the 1970s on the basis of rapid expansion in agricultural commodity exports. These exports expanded from approximately $7 billion in FY 1970 to over $43 billion in FY 1981. Since then, however, the annual value of our agricultural exports declined to $31 billion in FY 1985.

One alleged reason for this decline, increasingly cited in policy debates, is the growth in agriculture sectors of Third World countries. Reports of "agricultural self-sufficiency" in such countries as India and China have caused some to suggest that Third World countries may no longer continue to be major importers of U.S. agricultural products. Some feel, in fact, that Third World countries will increasingly be our competitors for agricultural markets. Therefore, some persons argue that the U.S. should not continue to provide agricultural development assistance to low-income countries.

Much of the U.S.'s agricultural policy debate is now focused on means of expanding U.S. agricultural exports. Therefore, an understanding of the role of Third World countries in international agricultural trade is critical. The purpose of this Newsletter issue is to present evidence regarding Third World agricultural development and trade. In doing so, we show a positive interconnection between (1) agricultural economic health in Third World countries and (2) many of those countries, at the same time, being strong potential market outlets for U.S. agricultural exports.

U.S. Foreign Assistance

The U.S.'s foreign assistance efforts were first initiated through the Export-Import Bank in the 1930's. These efforts were much intensified in the late 1940's and early 1950's, particularly through the Marshall Plan, which involved the transfer of up to 3% of the U.S. Gross National Product (GNP) for the reconstruction of war-torn Western Europe.

Following the successful Marshall Plan experience, the U.S. entered into assistance efforts with low-income countries in other parts of the world. Emerging nations such as India, Pakistan, Taiwan, and South Korea received substantial assistance from the U.S. during the 1950s, 1960s, and 1970s. This assistance was through both bilateral and multilateral efforts, channeled through such institutions as the World Bank.

Although the U.S. continues to be the world's largest development assistance donor, the share of its assistance relative to GNP is shrinking. The U.S. now provides about 0.12% (far less than even 1%) of its GNP in the form of foreign economic assistance. The composite average for the 17 member nation Development Assistance Committee (DAC) is 0.35%. The U.S. ranking in this regard relative to other DAC countries has steadily slipped over the past decade, until now when we rank 16th out of 17.

Another means of envisioning the size of the U.S.'s foreign agricultural economic assistance is its relation to the U.S.'s domestic agricultural economic assistance. Earl Kellogg, Executive Director of the Consortium for International Development, reports that U.S. domestic agricultural commodity price and farm income support expenditures in 1983 (exclusive of PIK payments) were 25 times larger than the U.S. expenditure on agricultural, rural development, and nutrition assistance programs for the Third World.

Third World Agricultural Production

Since 1950, total world food production has increased at a compound annual growth rate of 2.4%. The rate of growth in food production in the developing countries (3.0%/yr) has been considerably greater than that in the industrialized or "developed" countries (1.8%/yr). Over the past 10 years, growth rates have slackened, particularly in the developed countries.

On a per capita basis, the rates of growth in food production are much less than for total production. The difference, of course, is represented by population growth. Even so, since 1950, the world has grown in its overall capacity to feed itself--as reflected by a 0.5%/year increase in per capita food production. Because of their higher population, developing countries have generally lagged behind the developed countries in their per capita food production growth rate.

Changes over time in per capita food production have varied much in different parts of the Third World. Sustained performance has been strongest in Asia, and weakest in Africa and the Middle East.

The very creditable performance of Asian agriculture has come about because of general economic development initiatives taken by newly-independent nations beginning in the 1950s, and by increased emphasis on agricultural investments and policies since then. International assistance--for agricultural research, development of irrigation and other infrastructure, fertilizer imports, and training of personnel--has also played a critical role in many of the successes achieved. The development of high-yielding dwarf varieties of wheat and rice through internationally organized and supported research is perhaps the most well-known example of international assistance in the agricultural development process.

World Agricultural Trade

The general stagnation in world agricultural trade during the 1980s has resulted from a complex of factors, e.g., a general weakness in the world economy, problems of foreign debt, bumper crops generally throughout the world, protectionist trade policies in many countries, and reduced imports by centrally planned countries. The impacts of these general world constraints to international agricultural trade have been accentuated in the U.S. because of strong increases in the foreign exchange value of the U.S. dollar (until 1985), U.S. domestic agricultural price support policies prior to implementation of the 1985 Farm Bill, and an increased competitiveness in international agricultural trade by other developed countries.

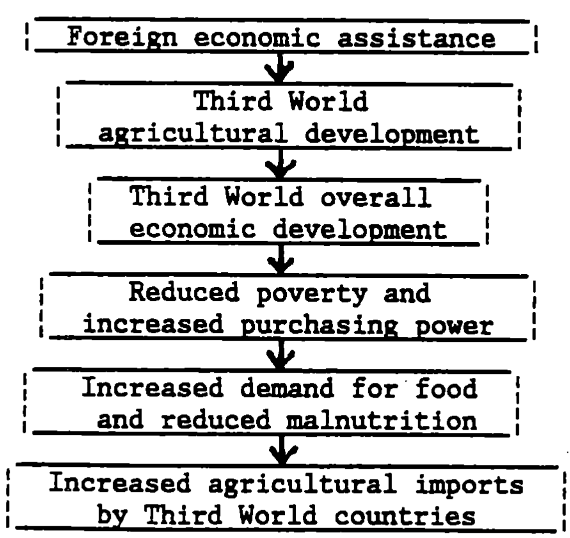
A popular view is that shrinking agricultural world trade has been caused by successes in Third World agricultural production. A substantial body of evidence shows this notion to be wrong, however. In fact, the overall relative importance of developing countries as an outlet for U.S. agricultural exports has increased. During the 1970s, roughly 35% of our total agricultural exports went to developing countries. In the 1980s, this proportion for total agricultural exports is exceeding 40% and for wheat the proportion exceeds 75%.

The strongest growth in agricultural imports of Third World countries has been among those with somewhat higher incomes. This point is particularly significant, because the higher income Third World countries are precisely those which have achieved the most rapid advances in agricultural production. Thus, the view that successes in Third World agricultural production contribute to overall restricted demand for agricultural commodities from elsewhere in the world is not generally supported. We now examine the rationale underlying this circumstance.

Underlying Linkages

In this section, the interconnections among foreign assistance, Third World agricultural development, and Third World imports of agricultural products are explored (Figure 1). In so doing, we establish why providing aid for Third World agricultural development can, paradoxically, be in the best interest of the agricultural sector in the aid-granting country.

Figure 1. Linkages Among Foreign Economic Assistance, Third World Agricultural and Economic Development, and Third World Agricultural Imports.



Clearly, most of the responsibility and credit for increased levels of Third World agricultural production rests with the domestic policies and development initiatives of the individual Third World countries themselves. In many instances, as indicated above, those in-country efforts have also been encouraged and facilitated by economic assistance from abroad.

A country's agricultural production sector does not exist in isolation. Agriculture is linked with input producing, input service providing, product processing, and other types of marketing industries and activities. Because agriculture is the largest economic sector in most Third World countries, the development of agricultural production capabilities in the Third World is often accompanied by more broadly based national economic development.

A central feature of many growing agricultural economies is expanded employment requirements and opportunities. Thus, as agricultural economic development takes place, work opportunities generally expand. As poor people pursue expanded employment opportunities, they earn added wage income, and hence their power to purchase commodities expands.

Poor people, with added purchasing power, spend relatively large proportions of their added income on food. Those added food expenditures usually result in improvements in both the quantity and quality of food intake, thus permitting more nutritionally adequate diets.

A special feature of this phenomenon in many higher income Third World countries is an increased importance in diets of meat and milk products. What otherwise have traditionally been "foodgrains" thereby also become "feedgrains". Because several pounds of feedgrains are required to produce a pound of meat or milk, those Third World countries that have moved away from exclusively cereal-based diets have experienced noticeably increased demand for traditional foodgrains. Spurred by economic development, Third World countries have experienced some definite broadening in the range of food and other products that their people purchase.

Deepened and broadened consumer purchasing habits and expanded investment patterns are at the heart of the familiar "multiplier" effect. Part of the added goods and services demanded is always met by within-country producers. Which products are produced domestically depends importantly on indigenous relative resource endowments and comparative advantage.

No matter what product mix emerges in a particular Third World country, however, economic linkages with other countries are bound to expand. These linkages frequently expand rapidly as the added purchasing power in the hands of these new trading partners makes itself known in international markets.

An important lesson learned over the past decade is that the forces driving Third World countries to increase their demands for U.S. agricultural products are much more income-driven than either population- or famine-driven. Without added purchasing power, the needs of Third World countries remain latent. With added purchasing power, those needs can become actualized.

Two brief illustrations of U.S. experience with the Third World help to illustrate the pragmatism of this reasoning. (1) South Korea has become a significant commercial market for U.S. farm products--following successful economic development efforts in the 1960s and 1970s. U.S. agricultural exports to South Korea were valued at $2.1 billion in 1981, more than the <u>total</u> value of U.S. food aid to that country between 1955 and 1979. (2) Taiwan exported more grain than it imported in the early 1950s. Although Taiwan has been very successful since then in further expanding its food production capacity, its rising per capita income has permitted people to include more livestock products in their diets. Consequently, Taiwan now imports 60% of all its cereals. Most of these imported cereals are feedgrains.

Thus, economic development is not a zero-sum game. It is incorrect to assume that American foreign economic assistance that helps to teach a Third World farmer to produce an additional bushel of grain will necessarily result in one less bushel of grain export sales by the U.S.

<u>Limitations and Prospects</u>

We have described a process and set of linkages in which agricultural development in particular Third World countries can result in expanded markets for U.S. agricultural products. However, agricultural development in Third World countries does not always conform to the pattern described. It is important to realize that the strength of agricultural linkages described in this Newsletter depends on developing country successes in fostering widespread employment growth. Agricultural and general economic development efforts which are narrowly based and enhance incomes primarily of elite groups have been observed in some Third World countries. In such countries, the poor may experience little or no increases in employment, income, and food purchasing power. The

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agricultural development, purchasing power, food consumption, and trade linkages we have described can be weak or non-existent in those cases. Therefore, not only the level, but also the form, of agricultural development efforts in Third World counties are critically important.

Moreover, we currently observe a substantial number of debt-ridden Third World countries which have had to devalue their currencies and embrace economic policies to reduce imports and expand exports (to service the debt). Until these countries are able to reduce their debt loads to more manageable levels, it will be extremely difficult for them to expand their commercial imports of U.S. products.

Another reality is that development assistance which leads to expanded Third World agricultural production may result in disrupted patterns of inter-country comparative advantage. If so, painful adjustments may be experienced by the producers of displaced commodities. In the long-run and for the U.S. economy as a whole, however, the added purchasing power that accompanies Third World economic development is likely to be translated, in part, into added demands for at least some of our exports.

Finally, it is unlikely that U.S. agriculture will experience any time soon a growth in the demand for its products like that in the 1970s. As possibilities for growth in the demand for our products are considered, however, it soon becomes clear that the prospects for growth in U.S. domestic demand for agricultural products are extremely limited. Growth in the U.S. population and the translation of increased U.S. incomes into added food demands are simply very limited. Developed country export outlets are in much the same situation.

Further, low-income Third world countries lack the purchasing power to become strong and dependable commercial trading partners with the U.S. Food "self-sufficiency" in such countries as India has not yet meant "nutritionally adequate" diets, because large numbers of people remain impoverished and, therefore, lack adequate purchasing power. Futher agricultural and overall economic development is essential in such countries.

Apart from unexpected break-throughs in trade opportunities with the Communist Eastern Bloc, the only potential fast-growth market for U.S. agricultural commodities is that part of the Third World experiencing rapid agricultural and economic development. Therefore, policies to increase Third World agricultural development assistance offer prospects for helping to revitalize the U.S. agricultural economy.