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# MEETING COMPETITION IN FOREIGN MARKETS

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My topic, "Meeting Competition in Foreign Markets," suggests a discussion of the tools of foreign competition. These can include price, quality, freight and credit facilities. All are important; other things being equal, any one can be decisive in a particular trade situation. But they have relatively little impact in the face of the primary force in the world market today—a large and growing surplus supply that is significantly altering both levels and patterns of trade. It is in this larger framework that I would like to discuss the question of meeting competition.

Recent increases in production have expanded food grain supplies well beyond current demand. Carry-over stocks in the five major wheat exporting areas have increased in three successive years. Wheat supplies available for export in these countries are now estimated at a record 3.8 billion bushels, more than double the expected level of world trade.

Unlike the earlier period of surpluses, today the United States holds only about a third of these stocks. The remainder is widely distributed among other major wheat exporters, all actively seeking market outlets.

At the same time, several countries which have traditionally taken large quantities of wheat from the United States are increasing their domestic production. India and Pakistan, for example, are energetically seeking self-sufficiency in food grain production.

As a result of these two trends—increasing supplies in exporting countries and reduced needs in some primary importing regions—world wheat trade has declined from 62.4 million tons in 1965-66 to an estimated 45 million tons in 1968-69. U.S. wheat exports in the marketing year just ended totaled only 542 million bushels—220 million bushels less than in the prior marketing year.

The world surplus of wheat has also spilled over into feed grain markets, especially in Western Europe. As a result, total world exports of feed grain products have leveled off, and the U.S. share of this trade has actually declined.

All of these developments are symptomatic of the growing problem of meeting competition. They result from a combination of circumstances. First, improvements in production techniques have sharply reduced the

costs of production throughout the world. At the same time price incentives to wheat producers in several potentially productive areas have been increased to levels far above world prices. Finally, through different means and for different reasons, much of the new production has been granted a preference in traditional U.S. markets.

An effective competitive trade strategy means adopting policies which respond to the challenges posed by these developments in three different types of markets—Communist countries, industrialized nations, and the less developed regions of the world.

### COMMUNIST COUNTRIES

Meeting competition in Communist countries is mainly a matter of deciding to become a competitor. We are excluded from these markets by U.S. laws and regulations that range from outright embargo of shipments to Albania, Mainland China, North Korea, Cuba, and North Vietnam to prohibitive cargo preference and part-cargo requirements in sales to other Communist countries.

It is surely understandable that the United States may wish to restrict sales of strategic goods to certain countries for reasons of foreign policy and national interest. The decision to restrict grain sales to these countries is not as easily understood. We can impose little hardship on Communist countries by refusing to sell them grain. France, Canada, and Australia have shown themselves quite willing to meet Communist needs. On the other hand, by these restraints we deny ourselves a great deal. They reduce our export volume, reduce farm income, reduce resource employment in export-related trades, cost the United States valuable foreign exchange, and offer no particular advantage to maritime unions, who support the restrictions most enthusiastically.

As I emphasized earlier, these economic considerations should not overrule broader national policy interests. It seems reasonable, however, to ask whether the economic advantages of East-West trade have been weighed as fully as they might be in these policy decisions.

### INDUSTRIALIZED NATIONS

The problems of meeting competition in the markets of developed countries are more complex and their importance for American agriculture infinitely greater. Our exports to the two most important of these markets—the European Economic Community and Japan—are challenged by fundamentally different circumstances.

Our problems with the European Economic Community (EEC) have emerged with her implementation of a common grains policy, which

was substantially completed on July 1, 1967. Its main features include: (1) a unified system of incentives to producers at levels nearly double current world prices; (2) a common external tariff adjusted from day to day to provide an absolute margin of preference for internal producers; and (3) a system for subsidizing exports of surplus production, financed in part from proceeds of levies on imports.

These policies have sharply reduced exports to the EEC. Internal wheat production has risen much more rapidly than anyone anticipated and reduced import requirements from all external suppliers. The burden of increases in internal feed grain production and widespread substitution of wheat and lower quality feedstuffs for corn and grain sorghum in animal feeds has fallen mainly on the United States. Our feed grain exports to the EEC declined a third in fiscal year 1969.

These changes have not been achieved without cost. The rapid buildup in European agricultural production will cost the EEC an estimated \$2.5 billion for market intervention, storage and handling, denaturing subsidies, and export restitutions this year. On the other hand, the revenues from variable levies on imports, which were expected to finance these expenses, have declined as the EEC approaches self-sufficiency.

These costs represent only about half of total farm expenditures. The rest, for such things as land improvement, farm consolidation, and research, are borne almost entirely by individual member countries. When consumer costs, measured in higher food prices, are added, the total cost of agricultural support within the EEC is estimated at \$14.5 billion annually.

These rising costs are bringing demands for change in the EEC's agricultural policies. Most recent proposals—such as still higher corn and barley prices, larger denaturing subsidies, and consumption taxes on soybean oil and meal—would further restrict competition of U.S. farm products with those of European and associated origins.

Beyond these immediate proposals lies the "Mansholt Plan," calling for a broad restructuring of European agriculture. Mansholt proposes a set of measures designed to increase farm size and efficiency. A direct consequence of these measures, Mansholt observes, is that this farm structure "with [its] greater openness to technological progress, is bound to speed up the expansion of agricultural output." While the eventual goal of this plan is nowhere openly stated, it seems clear that Mansholt has proposed a production model capable of supplying the EEC's needs and the export market at very competitive prices.

The timing of our response to the challenge posed by the EEC's new policy seems especially critical. Most of the EEC's increased grain produc-

tion has been achieved, presumably, by increasing variable input costs, including those for improved seed, fertilizer, and other chemicals. Much of this investment would be discouraged by the prospect of significantly lower prices.

But if the EEC implements Mansholt's program of structural reforms, present high prices are likely to be capitalized into fixed costs for land, land improvement, machinery, storage and transportation facilities, all likely to remain in production at much lower price levels. If this occurs, the EEC will no longer be a significant market for U.S. producers but instead will become an active competitor in world grain trade.

Japan, too, must decide who will supply her basic foodstuffs, but for her the goal of self-sufficiency is probably unattainable. Nevertheless, the decisions which lie ahead for the Japanese government could radically alter the potential of this market for future U.S. exports.

Joseph Barse has analyzed the policy foundations and implications of alternative food strategies for Japan.<sup>1</sup> He suggests that the Japanese government's choices will be governed by a number of considerations—the position Japan desires in Southeast Asia, the degree to which she will be willing to depend on imports of essential foods, the mix of this dependency, the reliability and prices offered by different suppliers, and the markets made available for her exports.

To illustrate the implications of Japan's choices for U.S. farm exports, Barse suggests three alternative models—a Western strategy heavily oriented to the United States as a source of food, a Pacific strategy oriented to Southeast Asia as a food supplier, and an Eastern strategy which would rely mainly on domestic food production. Barse estimates that by 1985 Japan would import only 18.8 million metric tons under an Eastern strategy. Under a Western strategy, however, she would import 50.2 million metric tons. This adds up to a difference in potential grain imports of 32 million metric tons or three times the level of her present imports.

Japan will base her decisions on a number of considerations, only some of which can we influence even indirectly. The United States, however, will have two significant levers—the terms on which we are willing to buy Japanese exports and the terms on which we are willing to offer Japan grain.

Unfortunately, recent U.S. actions with respect to both exports and imports have done little to create the sort of confidence a Western food strategy decision implies:

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<sup>1</sup>Joseph R. Barse, "Japan's Food Demand and 1985 Grain Import Prospects," Foreign Agricultural Economic Report No. 53, Economic Research Service, USDA, June 1969, p. 71.

First, our support for the International Grains Arrangement and our subsequent efforts to sustain world wheat prices well above long-term equilibrium levels have created apprehension and resentment in Japan. This dissatisfaction has not been wholly quelled by our more recent insistence that U.S. wheat be competitively priced in the Far East, if necessary at levels well below IGA minimums.

Second, our failure to deal effectively with interferences in the flow of grain resulting from prolonged strikes in the maritime industry has made Japan hesitant to increase her dependence on the United States for her essential food requirements.

Moreover, efforts by the new administration to exact from Japan a "voluntary" agreement to limit textile shipments to the United States have renewed doubts about our commitment to the principles of the General Agreement on Tariff and Trade (GATT) where imports impinge on basic industries.

Finally, with respect to both Japan and Western Europe, if the United States is to meet competition, sooner or later we must face up to the problems inherent in our domestic farm policy. The United States cannot expect other developed countries to reduce price incentives and import restrictions unless we are willing to lead the way with domestic policies that assure consistent, market-oriented pricing of our farm exports.

While lower U.S. export prices would not in themselves deter production in the EEC, they would amplify and focus attention on aspects of the common grains policy which seem most vulnerable—their social and governmental costs. Also, they would tend to discourage capital investments in other developed countries where government policies are now aimed at increasing less efficient domestic production for import substitution and commercial export.

On balance, it would seem, this country has much to gain by taking the initiative in rationalizing farm policies on a worldwide scale.

### **DEVELOPING COUNTRIES**

Effective demand in developing countries is still largely dormant. As it emerges, however, traditional patterns of competition among exporting countries are likely to develop.

The most problematical aspect of this market involves the extent of future import requirements. Several developing countries are gearing their production to meet domestic needs and, in some cases, to produce surpluses for export. In both India and Pakistan programs of self-sufficiency in food grains have been incorporated into overall strategies for economic development.

Such agricultural policies concentrate on supplying the operational and technical components of what has been called the "green revolution." By 1970-71, India plans to increase total grain area by 5 million hectares, gross irrigated grain area by 18 million hectares, areas planted to high-yielding varieties by 13.2 million hectares, and fertilizer used for grain by 3 million tons, all over levels employed in grain production in 1959-60 to 1961-62. With these investments India hopes to achieve a 1970-71 target of 120 million metric tons of food grains, an increase of nearly 50 percent over a five-year moving average output for 1962-63.

In order to achieve this goal, the Indian government is committing large portions of her limited capital and foreign exchange, as well as large amounts of borrowed funds to capital- and skills-intensive farm technology.

In making these commitments, the Indian government has been strongly encouraged by several international agencies and lending organizations as well as by new "self-help" provisions of Public Law 480. These latter provisions are especially important. They require food aid recipients to demonstrate that their resources are being committed: (1) to expanding food acreage, increasing investment in technical and capital-intensive agricultural supporting industries and in modern technical farm education and research, (2) to developing marketing, storage, and transportation facilities, and (3) to the creation of market incentives through input subsidies and price supports.

Clearly, the priority in this strategy is to increase the aggregate level of food grains production, following a pattern familiar to Western experience. But there are two sorts of questions concerning this strategy that have not been widely discussed. First, where would a successful implementation of the new production technology lead India? Second, is India's agricultural problem simply one of aggregate supply?

The issues surrounding the first of these questions—what would success mean—seem fairly clear. Success is likely to occur in areas where operational and technical components can be most quickly implemented and where market incentives and a marketing structure are at least minimally present. In other words, a successful implementation of the "green revolution" is likely to proceed most rapidly in the areas where the best farmers, the most reliable water supplies, the most "marketized" economy, and the most developed infrastructure are present. Indeed, these areas could quickly become surplus producing areas.

With present marketing patterns oriented toward the large cities and the coast, rather than the rural hinterlands, this very success could prove a frustration and an economic burden. India's farm sector could

become spotted with localized surpluses and localized deficits, amplifying present inequities in wealth and welfare. At the same time, India would be burdened with exportable surpluses in a market already depressed by present and growing carry-over stocks.

The second question—what are India's agricultural development needs—raises issues even more problematical. India must do more than raise the level of her production. She must seek to balance increased supplies with increased demand and—often outside the framework of money markets—must link available supplies with real need. In other words, India's agricultural problem is also one of distribution, both of production and of benefits.

A glance at India's transportation network suggests the problem in distributing production gains. Only 11 percent of India's 580,000 villages have reasonably adequate access roads. One village in three is more than five miles from a satisfactory road. It has been estimated that India needs a million miles of new roads to satisfy the needs of small villages.

Moreover, rural markets capable of supplying inputs—fertilizers, seeds, insecticides, and small machinery—and of marketing the output must be created in areas currently lying outside the money economy. As Gunnar Myrdal has pointed out, much of this isolation from market incentives is not simply the result of limited capital resources.<sup>2</sup> The village social structure and its tenure policies concentrate wealth, land, and power in the hands of a feudalistic and religious minority at the top of the social pyramid. They are impediments to the diffusion of market incentives of an institutional and attitudinal nature. During the long transitional period required to break down these ingrained impediments, many rural areas will depend almost exclusively on local production for their food needs.

These structural impediments are responsible for another of India's developmental problems, her low productivity and vast underutilization of labor. Again, as Myrdal has pointed out, these labor problems cannot be resolved by strictly economic means. Religious and social attitudes have excluded many from the laboring population who could and should be working. Tenure policies and village institutions also have limited the days and hours worked.

In other words, many bottlenecks in India's agriculture are ingrained in attitudes and institutions, in a developmental history, which has been in the past and will be in the medium-term future, remote from technological changes. To cast her agricultural problem simply as one of raising aggregate production is to overlook problems which, from India's point

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<sup>2</sup>Gunnar Myrdal, *Asian Drama, An Inquiry into the Poverty of Nations*, 3 Vols., Random House, New York, 1968, p. 1053 ff.



of view, are more urgent. While India cannot afford to ignore her food supply problems, neither can she afford to ignore her food distribution problems, nor the larger question of the diffusion of the benefits of economic development.

The exclusive preoccupation of many well-meaning international agencies and of P.L. 480 "self-help" provisions with questions of technology and production increases may be an unfortunate and dangerous strategy for reasons far more fundamental and important than their effect on our ability to meet competition in these markets, though this too is involved.

### CONCLUSION

In each of these market areas—Communist countries, industrialized nations, and the developing regions of the world—meeting competition means more than merely performing well in the market place. Meeting competition means identifying problems and their supporting policies, formulating constructive responses, which reflect not just our own interests but the interests of all the parties involved, and implementing these policies on a broad scale.

The record suggests we have not met this challenge effectively. Unless a conscious decision is made to give farm exports a higher priority in the order of U.S. objectives, the prospects for success in meeting foreign competition are not very promising.



PART V

*The Changing Structure of  
American Society*

