NEW DEVELOPMENTS AFFECTING AGRICULTURAL TRADE

by John A. Schnittker

In his inaugural address last week, the President emphasized change, which is the chief characteristic of our world today. Change at breath-taking speed distinguishes our age from all those which have gone before us.

A changing world presents new challenges and new opportunities to American farmers and to that part of industry and trade which deals with agriculture.

The great test of our time is not our skill in preserving the past but of our ability to direct the future to the fulfillment of our highest aspirations.

There are before us now many new economic and political developments whose importance to agriculture have been clearly recognized and thoroughly debated. The European Economic Community and its internal agricultural policies and external trade policies and the Kennedy Round of trade negotiations are two examples in this category.

There are other actual or potential developments in world economic and political affairs whose importance is less clear and on which debate has been both confusing and vague. The possibility of linking domestic farm policies and trade agreements is one example here.

There are still other economic prospects on the horizon which are intimately bound up with political considerations and where those considerations call for a flexible policy which may differentiate between countries. Our trade relationships with the Soviet Union and with Soviet Bloc countries are one example in this area.

Finally, there are emerging developments whose shape and scope are yet so dim that they remain on the fringe of public discussion, and they are debated seriously only within government and in the universities. Excellent examples of this latter group are the crucial role of the developing economies to the future of world trade, the arithmetic of the food gap

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in a decade or two if agriculture in the developing economies does not "take off" and the importance of the unity shown by the underdeveloped nations in last year's United Nations Conference on Trade and Development.

The European Economic Community is, of course, the most visible and most important of a number of endeavors to promote regional economic integration. The European Free Trade Association and the Latin American Free Trade Association are less well known. All of them increase the possibility of expanded trade in the future. If these economic groupings do not follow liberal, outward looking trade policies, all of them pose the threat and danger that the walls dismantled within may be maintained or even raised against outside countries.

The prospects for continued economic growth and expanded markets in Western Europe and Japan appear to be good. Continued pressure on food prices and wages may make our farm products even more attractive there than they have been, barring setbacks to expanded trade as the negotiations and the Common Agricultural Policy develop, and as their effects are felt.

On the supply side, the United States will continue to be in a favorable position to supply Western Europe and Japan with all they need since we continue to have an exportable surplus and an excess productive capacity.

Rising incomes in Western Europe have rapidly increased the demand for meat and meat products in recent years -- more rapidly, in fact, than their domestic production could be increased. Clearly this expansion in demand for meat and other quality foods will continue. What is less clear is whether or not efficient producing countries will have competitive access to European markets -- particularly for feed grains and oilseeds. Pending decisions on other products give cause for concern that European markets may not be allowed to expand as rapidly as their own interest might require.

A second "new development" much in the public eye is the Kennedy Round of trade negotiations under the GATT. In Geneva today is being held a meeting of the Committee on Agriculture, the first since April of last year. Charged by the Ministers of the GATT countries in May 1963 with conducting negotiations leading to expansion of trade in agricultural products, the Agriculture Committee is exploring the means of furthering the negotiations.

The United States remains determined that any ultimate Kennedy Round agreement must include liberalization of trade in agricultural as well as industrial products.
The second category of developments which I noted -- the relation of domestic farm policies to international trade -- is one of the enigmas of present negotiations. More than two years ago, responsible officials of the United States and the EEC as well as other countries made known the willingness of their countries to "bring domestic policies into the negotiations" on a reciprocal basis.

Since that time, there has been a striking contrast between the direction of the domestic farm policies of the two major parties to the negotiations.

In the EEC, protection of poultry was increased sharply. The EEC grain price decision promises to give sharply higher prices to the only producers in the Community capable of significant expansion -- the French farmers.

In the United States, in approximately the same period, feed grain export subsidies have been terminated, wheat export subsidies sharply reduced and cotton export subsidies slowly reduced. And the beef import legislation, which has been criticized in some quarters, is inoperative because of the world beef shortage. But more than that it provides an access formula for imports which includes growth -- the kind of formula we would like to have our friends abroad consider.

A year ago in citing our hopes for agriculture in the Kennedy Round, Secretary Freeman said that our negotiating approach"...is a plan for trade liberalization and that is what the trade negotiations are all about.

"It would require tariff cuts."

"It would assure markets to efficient producers and would require some limit to the measures encouraging inefficient production."

"It would expose the trading practices and the domestic farm policies of the Free World to the test of the high principles under which the trade negotiations were launched."

These words are at least as relevant today as a year ago.

A third category of factors affecting trade is represented by our uneasy East-West trade position.

There are some farm products whose export to the Soviet Union we license routinely. There are others -- like wheat -- which have been licensed under certain restrictions and after a long public debate.

Trade with the Soviet Union and the countries of Eastern Europe is still another question, and there are extremely sensitive political
questions which must be resolved in connection with our policy toward these countries. As you know, the President said in the State of the Union Message that the government is now exploring ways to increase peaceful trade with these countries and with the Soviet Union.

My purpose in citing this problem is to call it to the attention of a group of economists well situated to bring this matter to public attention. Future trade flows may well be significantly affected by the policy we ultimately adopt with respect to this trade.

Finally, there is the role of the developing economies in the expansion of the world's commercial trade.

The highly developed countries have been the best export markets for U.S. agricultural products. With higher incomes, their consumers demand not only a larger volume of farm products but also a much greater variety.

Our agricultural trade with the developed countries has grown about in line with increases in their national incomes. It will continue to expand this way. In fact, our farmers can look upon the developed world in much the same manner they view our own economy -- as a solid expanding market -- and one which we expect to share in.

It is the developing countries of the world that promise the greatest potential for long term growth in our markets for farm products. Population in these countries is increasing more than twice as fast as in developed countries. Most of their people have been poorly fed and clothed, and they will demand more and better food and clothing as their incomes improve. However, in the absence of sufficient production or foreign reserves to finance food imports, the increased demand can frequently result in inflation and reduced economic growth. It is in these situations that food aid can make a vital contribution.

Total world trade appears to expand at a slightly faster rate than world incomes under present conditions.

But world trade in farm commodities rises more rapidly than total trade. A 10 percent increase in income in most countries is likely to result in a 12 percent increase in imports of farm commodities. Farm products commercially imported from the United States, those bought for dollars, have gone up fastest of all in recent years.

If these large potential markets for our farm products are to be tapped in the emerging countries of Latin America, Asia and Africa, the countries must have higher incomes.
Our stake in their success may not appear to be as great as their own. But it is great enough to draw from us an enormous investment in food assistance, and a growing investment in technical assistance.

There are other developments in the developing world which demand our attention. I referred to the "arithmetic of the food gap." The ominous decline in per capita food supplies in free Asia the past few years must not only trouble the Free World nations; it must move us -- and them -- to action.

The trade aspirations of the developing countries as expressed in last year's U.N. Conference and as noted in new GATT provisions about to be signed present a serious challenge to developed countries. These nations want to trade. In particular, they want concessions which will expand their exports without reciprocity. Expanded trade for the less developed countries will raise their standard of living, expanding demands for all kinds of products.

In laying the groundwork for the Trade Expansion Act, the late President Kennedy pointed out that a rising tide raises all boats. Our objective is a rising tide of international trade.