

# **Future Challenges in Agricultural Export Marketing**

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## Abstract

This paper identifies the contributing factors that caused changes in U.S. agricultural export markets in the 1970s and 1980s and suggests key policy areas that must be addressed to improve these markets in the future. Historical analysis of the shifts in the U.S. export market from 1970 to 1985 points out how macroeconomic policies and conditions influenced those changes. Total world grain trade and the U.S. share are essential components of the change in U.S. export levels. Variations in both components had significant impacts on U.S. agricultural exports. Using recent FAPRI projections, a declining dollar and lower commodity prices are expected to assist in a recovery of U.S. export values. Three key policy areas are identified in which progress will need to be made for the greatest market development to take place: improving economic development and income growth rates in developing countries, reducing the debt service problems of developing countries, and reducing the domestic and trade policy barriers in both developed and developing countries. Aggressive and competitive marketing strategies are recommended, including use of bilateral agreements, market intelligence, and product discrimination, where possible.

## Introduction

It is clear that U.S. agriculture is dependent upon exports as an engine of growth. The export boom of the 1970s renewed the prominence of this state of affairs. The growth in U.S. exports during the seventies was followed by a dramatic decline in the early 1980s, which is why we are here today talking about challenges in agricultural markets.

Before focusing on the future, it is important to review what has transpired in export markets during the past fifteen years and the factors that influenced those developments. An understanding of what has brought us to a dismal situation will be valuable in thinking about the challenges that lie ahead. If our explanations rest on the notion that the "free market" policies of Secretary Earl Butz brought on the export boom of the 1970s and the Soviet export embargo imposed by President Carter brought on the export decline of the 1980s, we will not be very successful in charting a path for export growth in the future. There is ample evidence that these policies only incidentally influenced the export boom and bust; they tend to distract from the real contributing factors.

### Export Rollercoaster from 1970 to 1985

The major components of change in the macroeconomic environment from the 1970s to the 1980s are noted in Table 1. The economic policies that successfully wrung inflation out of the U.S. economy also slowed economic growth here and in many foreign countries. U.S. inflation rates fell more rapidly than interest rates, causing real rates of interest to rise. The 1981 tax cut reduced government revenues without an associated cutback in government expenditures, causing the federal budget deficit to increase rapidly and putting further upward pressure on real rates of interest.

As foreign investors bought dollars to invest in the United States and earned high returns, the dollar appreciated. It followed that U.S. exports became more costly abroad, exports declined relative to imports, and a substantial increase occurred in the account deficit. The world economic slowdown in the early 1980s, combined with high real interest rates and an appreciating dollar, contributed to debt crises in many Third World economies. U.S. public and private debt disbursements to developing countries declined, and debt repayments increased, until the net financial flows became negative.

All of these factors contributed to a decline in U.S. agricultural exports, down substantially from the peak in 1981. In addition to a weak foreign and domestic demand, bumper crops in the United States in 1981 and 1982 set the stage for a precipitous decline in farm prices, incomes, and land values. Commodity programs offering protection for farm prices and income absorbed substantial amounts of the surplus through stock buildup and acreage

Table 1. 1980s Economic Environment Compared to 1970s.

	1970s	1980-1984
Argentina Real GDP Annual Growth Rate (%)	2.70	-1.32
Brazil Real Income Annual Growth Rate (%)	5.72	1.44
Canada Real GDP Annual Growth Rate (%)	4.50	1.52
Eastern Europe Real GDP Annual Growth Rate (%)	4.10	2.48
EC Real GDP Annual Growth Rate (%)	3.10	0.94
Japan Real GDP Annual Growth Rate (%)	4.90	4.36
USSR Real Income Annual Growth Rate (%)	3.00	0.02
Spain Real GDP Annual Growth Rate (%)	3.98	1.16
Thailand Real GDP Annual Growth Rate (%)	7.06	2.04
U.S. Real GNP Annual Growth Rate (%)	2.90	1.80
U.S. Inflation Rate (%)	5 to 10	3 to 5
U.S. Real Interest Rate (%)	-1 to 3	5 to 9
U.S. Budget Deficit Range (1980\$ Billion)	15 to 115	66 to 158
U.S. Current Account Range (1980\$ Billion)	-20 to 8	2 to -81
U.S. Exchange Rate Change (%)	(1969-1980) -29	(1980-1984) +58
Net Financial Flows to the Third World (\$ Billion/Year)	(1978-1981) 38	(1982-1984) -18
U.S. Ag Export Changes (\$ Billion)	(1971-1981) 35.8	(1981-1985) -14.8
U.S. Ag Program Costs (1983\$ Billion/Year)	(1971-1981) 5	(1982-1985) 14

reduction. Costs of these programs rose to nearly three times those of the 1970s.

The reversal of conditions that existed before the turn of the decade could hardly have been more complete. Exchange rate shifts and export declines can be viewed as casualties, rather than causes, of this turnaround. It is clear that macroeconomic policies and conditions, which have been major elements in this reversal, have had negative impacts on agriculture.

Recently an analysis was conducted of the impact on agriculture of macroeconomic changes in U.S. and foreign markets from 1980 to 1984 (Meyers, et al., 1986). A hypothetical alternative scenario was run under the assumption that macroeconomic conditions for the 1970s, strong GNP growth rates and favorable exchange rates for the United States relative to foreign currencies, continued five more years. The results are briefly illustrated in Figures 1 and 2. The volume and value of exports were stronger over the period (Figure 1), production and prices of major export commodities were higher, the PIK program of 1983 was no longer necessary, and the government expenditures on farm programs were substantially reduced (Figure 2).

The positive impact in this study of the more favorable macroeconomic conditions on net farm income was not very large. Commodity programs that buffer the agricultural sector from external shocks felt a major impact as costs were reduced. While the scenario is highly contrived, it serves to demonstrate the importance of the macroeconomic environment to agriculture.

### Sources of Growth and Decline in Exports

For analytical purposes, it is important to consider the two components of change in U.S. exports. This helps distinguish the factors that influence each and determine the prospects for altering them. The first component is the total world imports of a commodity and the second is the U.S. share of those imports. Figure 3 shows the pattern of growth and decline in total grain trade for the world and the United States, and the U.S. share of that trade. Grain imports nearly doubled from 1970 to 1980. The U.S. production machine responded quickly to this demand growth and the U.S. trade share increased from 34 percent in 1970 to a peak level of 52 percent in 1979. Much land that had been idled by government programs in the 1960s was brought back into production, cropland and irrigation were expanded, and productivity increased. This situation led to U.S. agriculture becoming more dependent on export demand, which is far less stable and predictable than U.S. domestic demand.

In the 1980s total world grain trade has exhibited slight variations from year to year but no growth. U.S. exports, however, have declined. Meanwhile, competitors' exports including those of

FIGURE 1. VALUE OF U.S. AG EXPORTS  
(WHEAT, CORN, SOYBEANS)

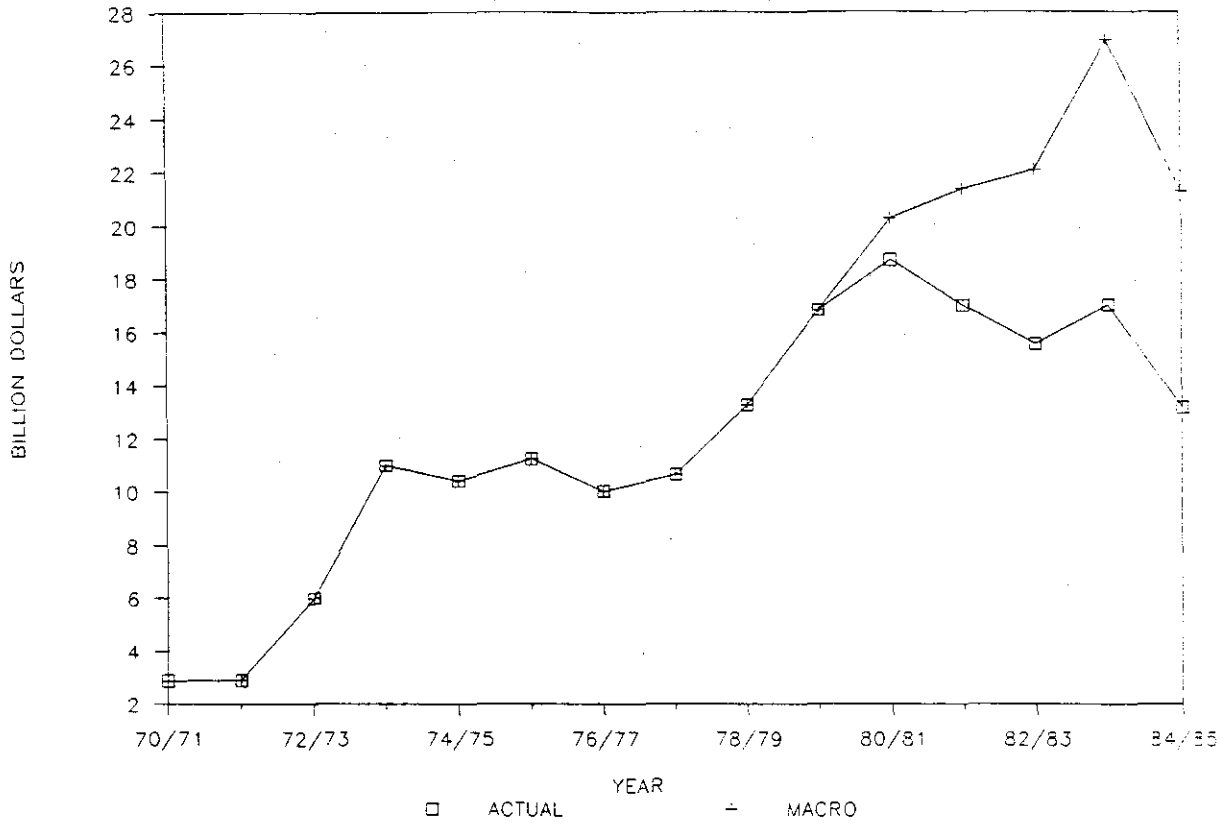


FIGURE 2. GOVERNMENT EXPENDITURES

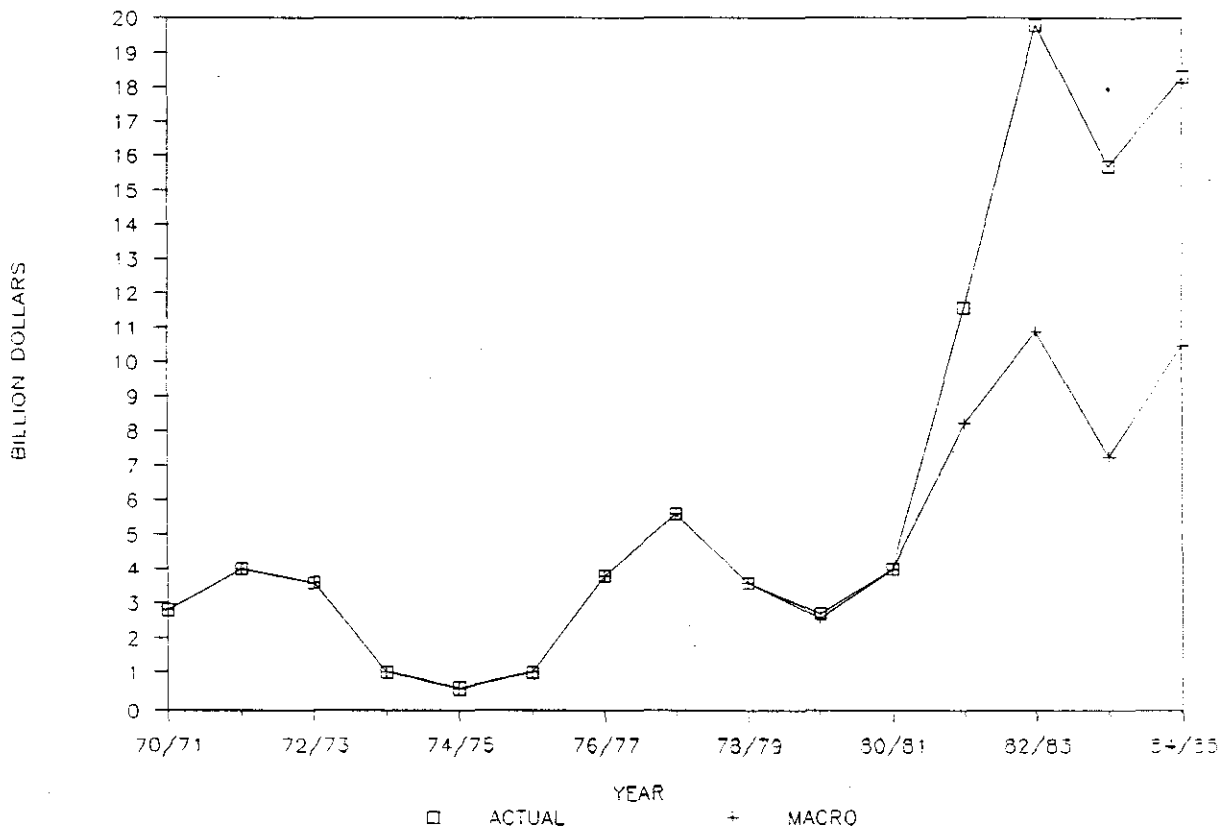


FIGURE 3. WORLD AND U.S. TOTAL GRAIN TRADE

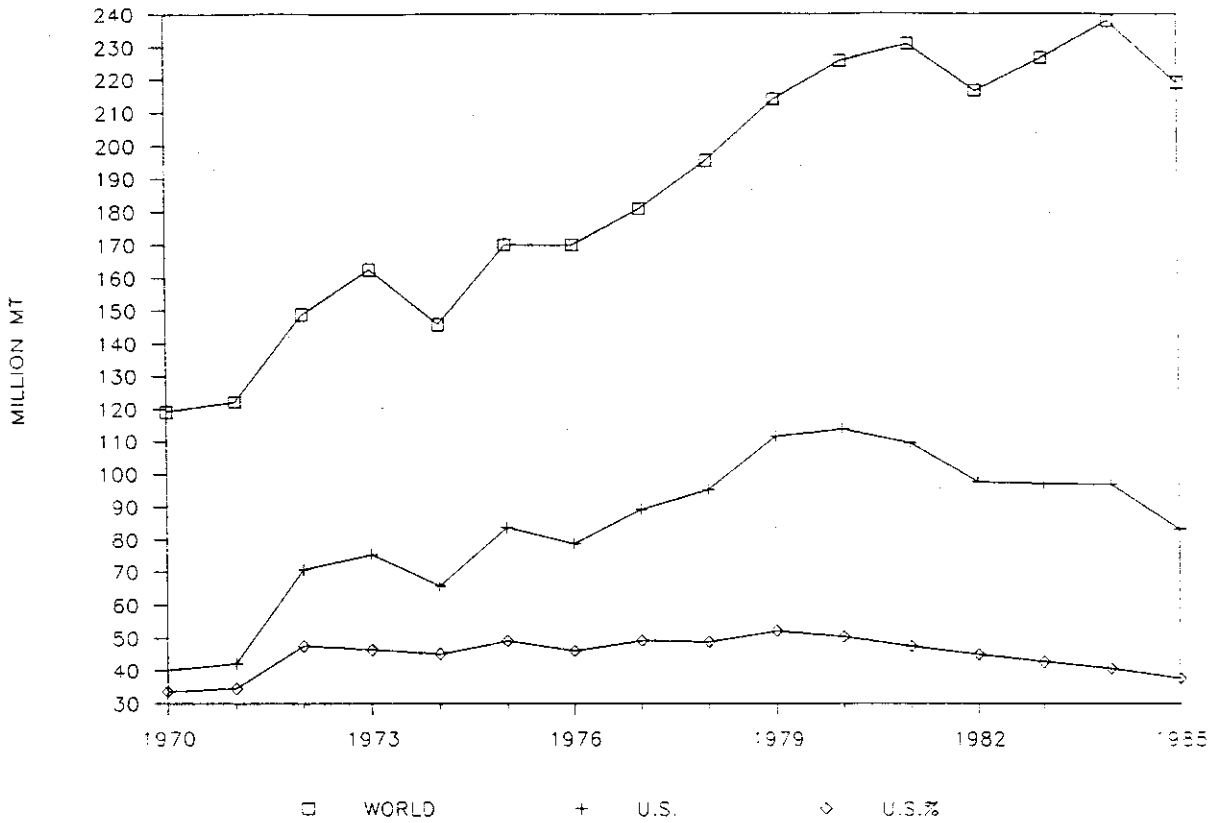
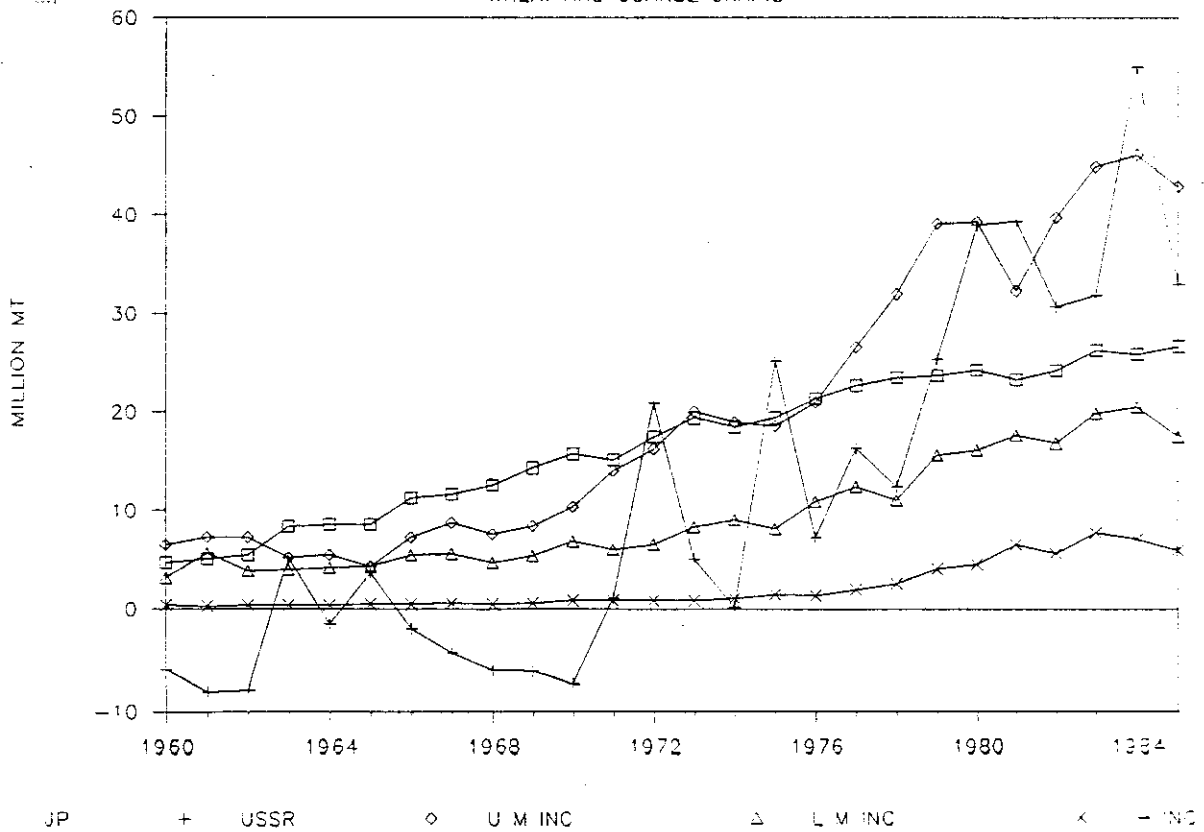


FIGURE 4. NET IMPORTS GROWING

WHEAT AND COARSE GRAINS





the European Community, have supplied markets that the United States lost. The U.S. export share declined to 40 percent in 1984 and was around 38 percent in 1985. Even if the U.S. trade share had been maintained at around 50 percent, U.S. exports in the 1980s would not have experienced growth.

Because of the relatively large U.S. share in world trade, there has been a tendency to presume that the world is heavily dependent on us for grain supplies. The picture is changing, however. Our grain exports now are about 40 percent of world trade, but they represent only about 6 percent of world production. It is clear that in the 1980s the United States is increasingly dependent on the world market as a source of demand growth at a time when the world market is becoming less dependent on the United States as a source of supply.

### Factors Influencing World Imports

The major factors affecting net import demand in the rest of the world are the rate of production growth in importing countries and the rate of income and population growth on the demand side. Population increases at a fairly predictable rate but production growth and economic growth are much more variable and subject to policy influences.

The net importing areas of the world for wheat and coarse grains are divided into nine regions in Figures 4 and 5. All of these regions contributed to some degree to the growth in import demand in the 1970s; in the 1980s, import demand declined sharply in China, East Europe, and West Europe (excluding the European Community).

The most rapid import growth of agricultural commodities in the 1970s came from these three regions plus the USSR and the Upper-Middle Income (UMINC) Developing Countries. Japan, the Lower-Middle Income (LMINC) Developing Countries, and the High Income (HINC) Developing Countries show steady rates of growth through the entire period. The Low Income (LINC) Developing Countries increased imports rapidly from 1971 to 1974 but then fell off sharply in the following three years and remained fairly flat after that. Two of the three regions that had sharp declines in imports in the 1980s-- Eastern Europe and Other Western Europe (excluding the EC)--increased production while consumption remained fairly constant. In China consumption increased but production increased more rapidly, making import substitution possible. While demand growth slowed in other regions, the stagnant import growth in the 1980s can be attributed primarily to the sharp increase in production experienced in Europe and China.

FIGURE 5. NET IMPORTS DECLINING  
WHEAT AND COARSE GRAINS

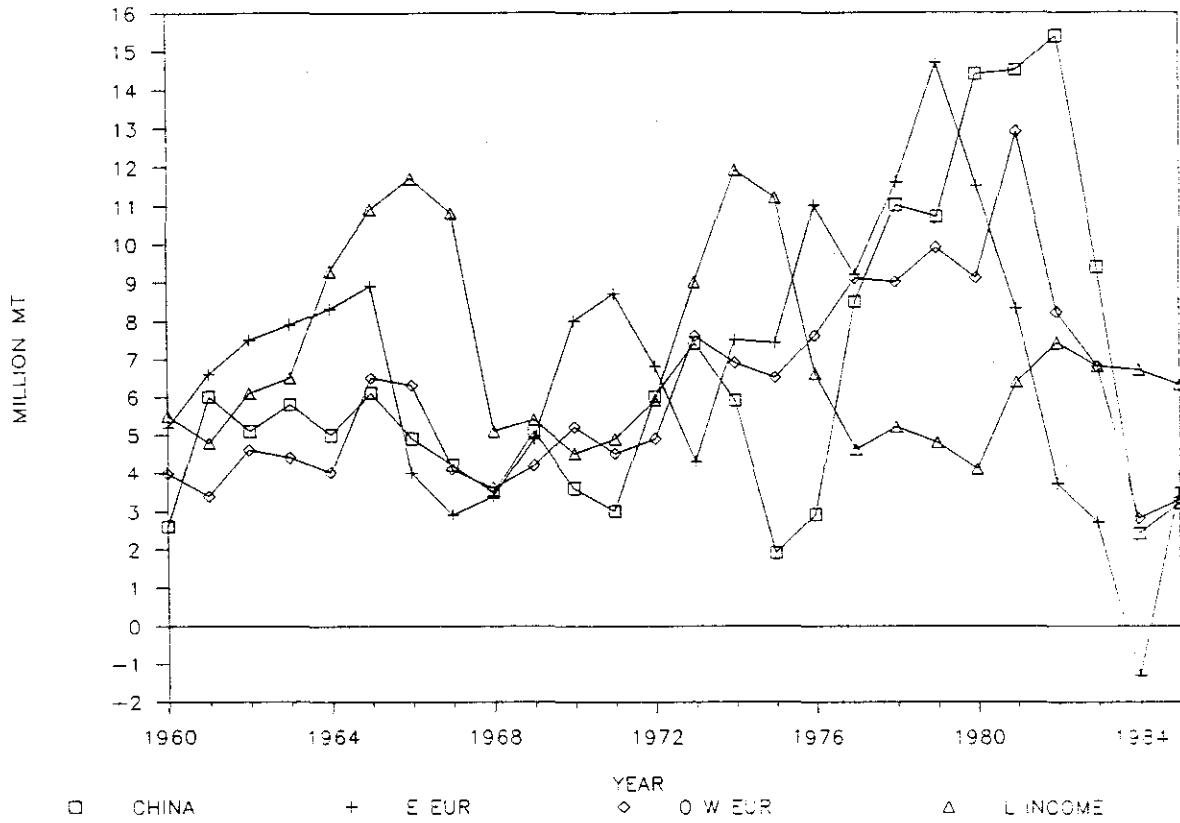
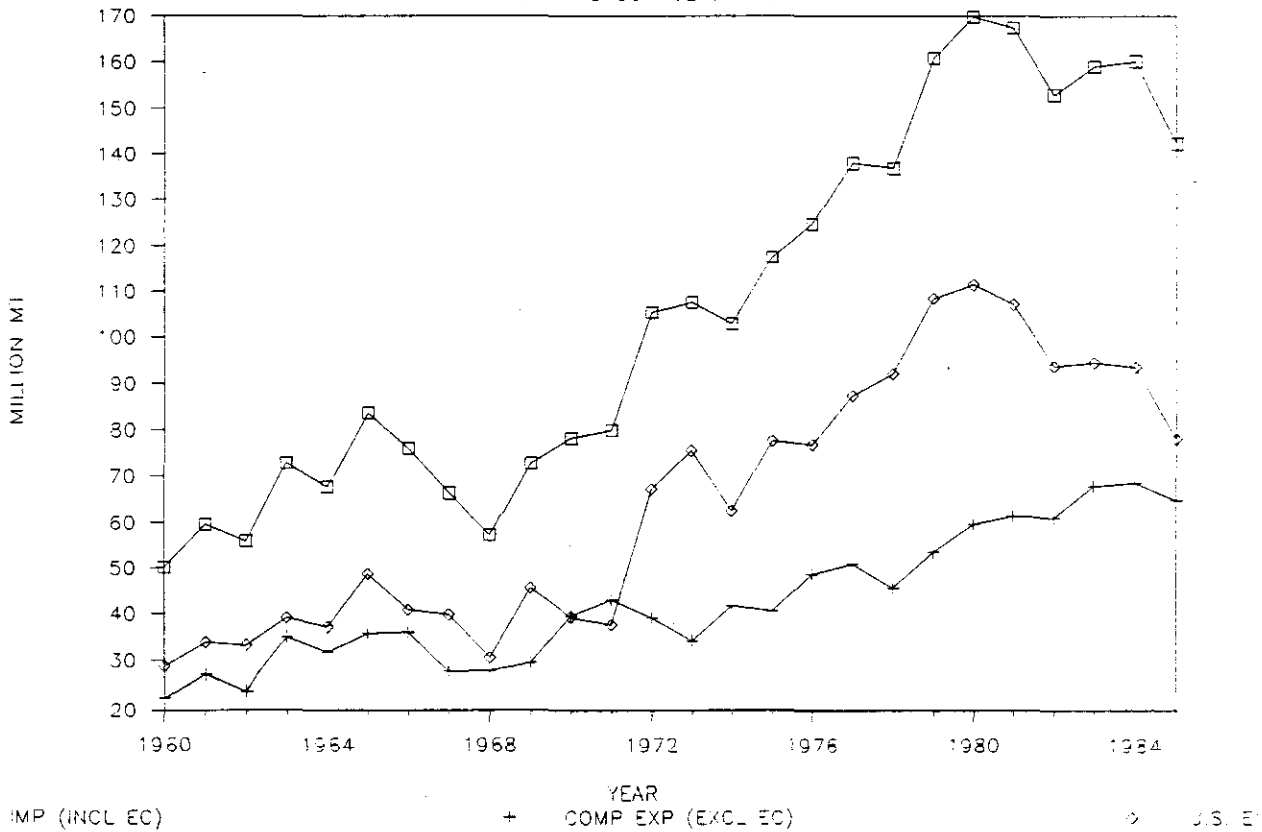


FIGURE 6. COMPONENTS OF WORLD GRAIN TRADE  
WHEAT AND COARSE GRAINS



### Factors Affecting Trade Shares

Losses in trade share are associated with increased competition exports. This could be related to the appreciation of the dollar, the price levels supported by loan rates in the United States, or policies of competing exporters that induce larger production and/or subsidize surplus commodities in export markets. U.S. exports increased more rapidly than competitors' exports from the early 1970s until 1980 (Figure 6). Then U.S. exports began to decline while competitor exports continued to grow. This pattern holds true for soybeans and the soybean equivalent of meal (Figure 7). Note that the turnaround in U.S. exports is coincident with the appreciation of the U.S. dollar relative to other currencies. The higher value of the dollar provides other exporters with greater opportunity to sell competitively in international markets.

### Challenges for the Future

The major factors affecting total agricultural exports and trade shares of U.S. exports in the 1970s and early 1980s are summarized in Table 2. In the 1970s, the positive factors overpowered the relatively less important negative factors and generated rapid export expansion. In the first half of the 1980s all of these factors turned negative.

Looking ahead to the last half of the decade, two elements of hope appear on the horizon. The dollar has been depreciating in value during the last year and is expected to decline further. Second, U.S. agricultural policies removed pricing barriers by lowering loan rates.

There is little hope for rapid improvement of the debt problems in the developing countries and they could even get worse before they get better. The other factors affecting exports are more uncertain. Recent projections (FAPRI Staff Report 3-86) based on the macroeconomic forecasts of Wharton Econometric Forecasting Associates and assuming a movement toward market-oriented loan rates in the United States indicate some improvement. With substantial declines in the value of the dollar and continued low commodity prices, U.S. exports by the end of this decade recover substantially from current levels but do not reach the peak levels achieved at the beginning of this decade (Figures 8-10). Export values (Figure 11) are expected to increase again in 1987/88 and rise above the 1984/85 level after 1992/93.

In retrospect, the export boom period of the 1970s appears as an aberration in the long-run picture. The United States and other countries of the world are once again producing agricultural commodities in excess of demand. As long as this is the case, the fierce competition will cause prices to strengthen very slowly.

Table 2. Impact on Trade of Factors Influencing Total Grain Demand and U.S. Trade Shares Over Three Time Periods.

Factors	1970s	1980-85	1985-95
<b>Total Imports</b>			
Importer's production	Negative	Negative	?
Importer's income growth	Positive	Negative	?
Net debt transfer	Positive	Negative	Negative
<b>U.S. Trade Share</b>			
U.S. dollar value	Positive	Negative	Positive
U.S. ag. policies	Positive	Negative	Positive
Competitor ag. policies	Negative	Negative	?

FIGURE 7. SOYBEAN PLUS SOYBEAN EQUIV. OF MEAL

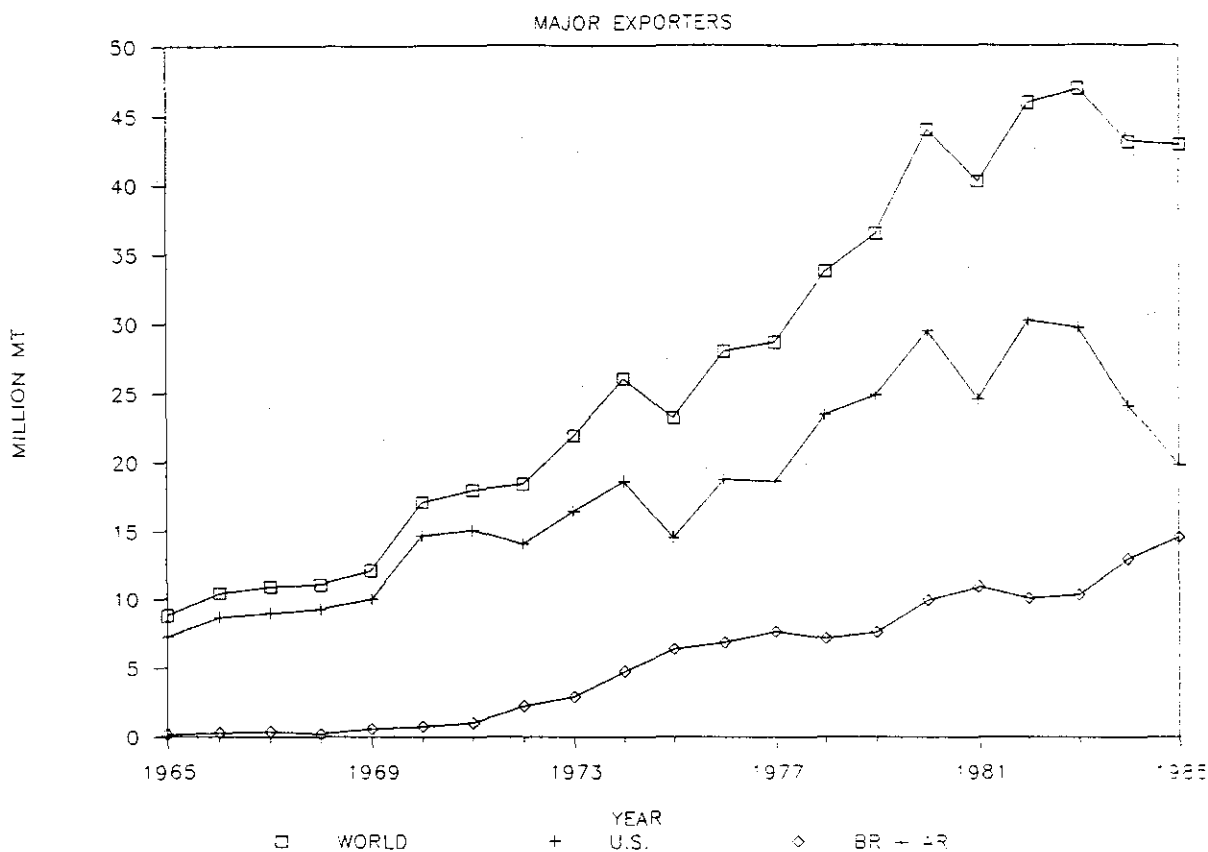


FIGURE 8. FEED GRAINS EXPORTS

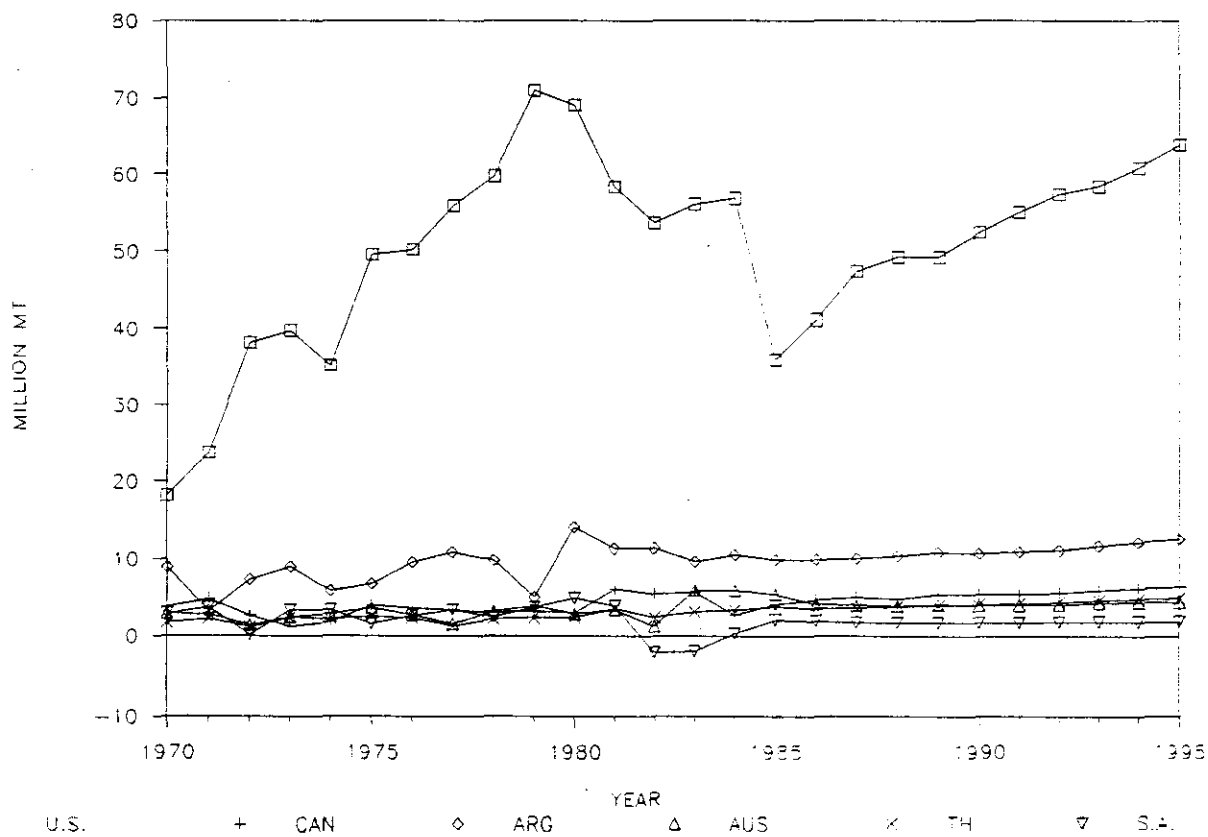


FIGURE 9. WHEAT EXPORTS

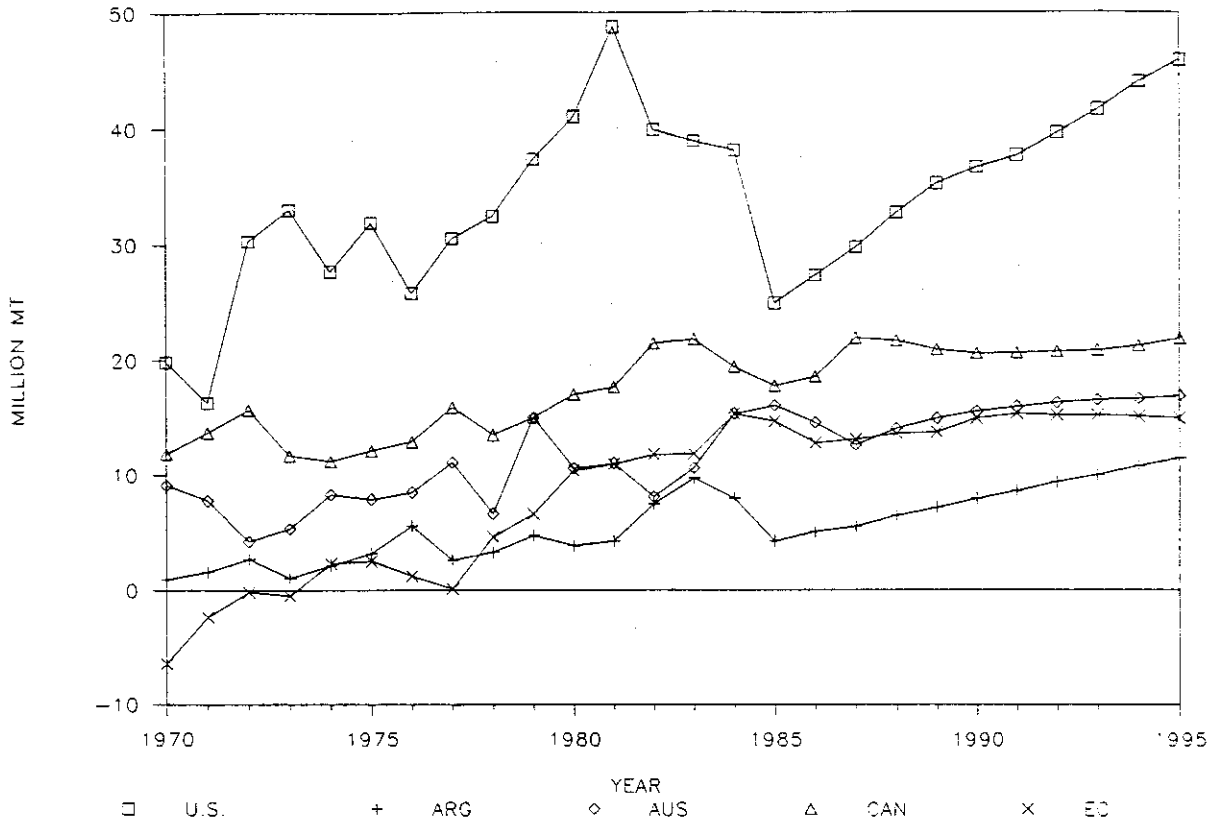


FIGURE 10. SOYBEAN EXPORTS

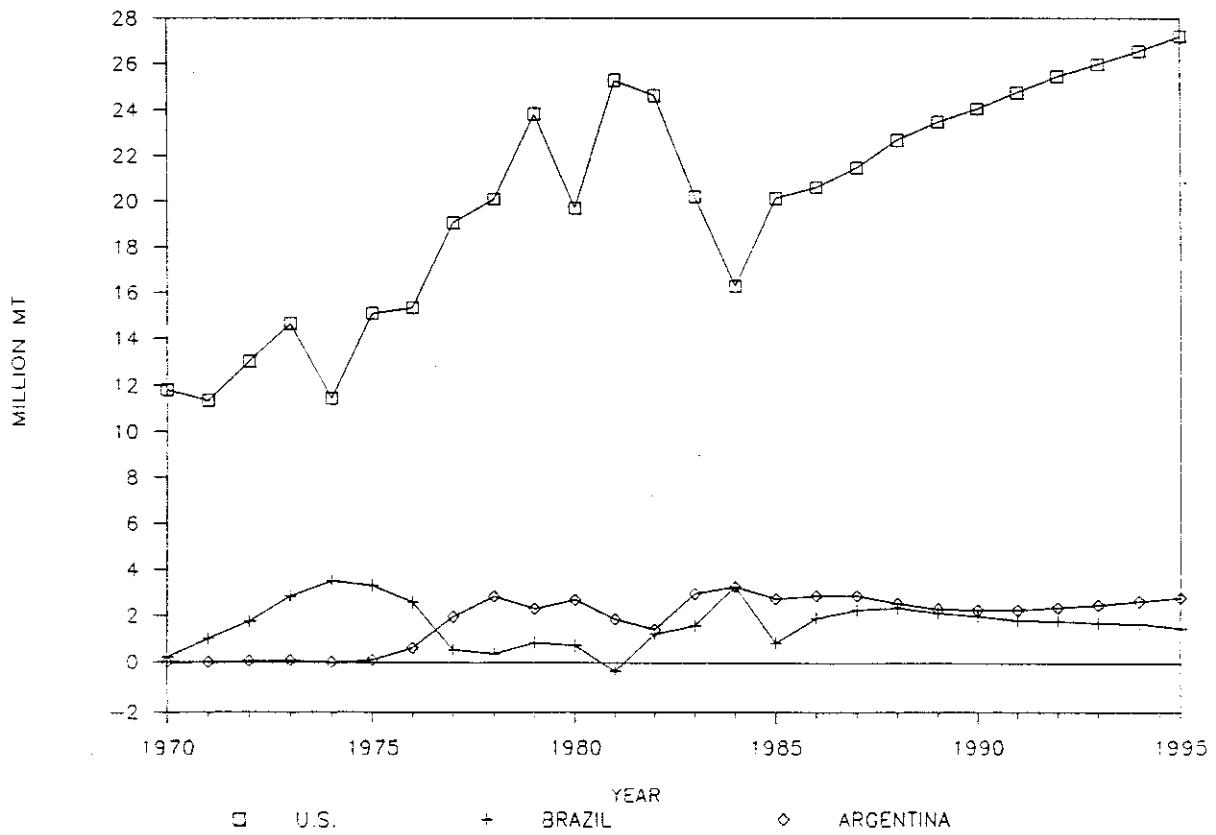
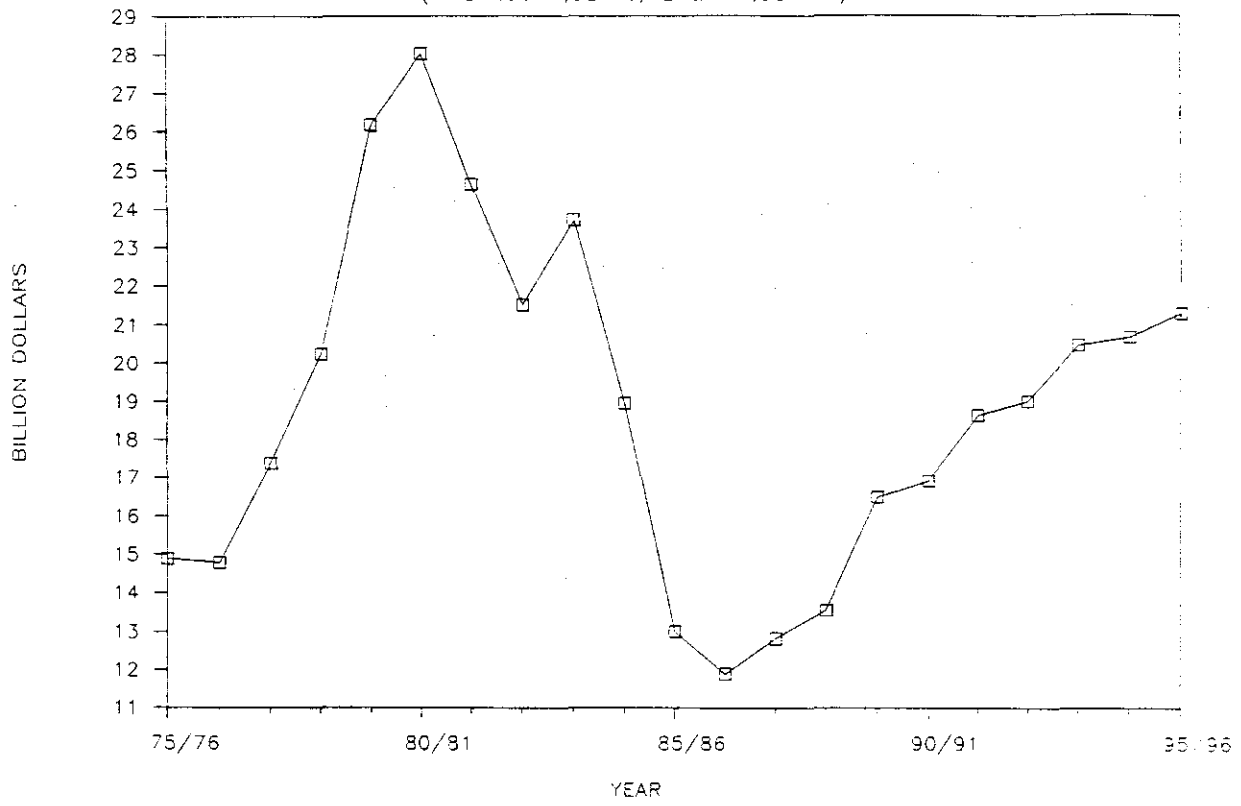


FIGURE 11. VALUE OF U.S. AG EXPORTS  
(WHEAT, CORN, BEANS, MEAL, RICE, COTTON)



Some people have suggested the idea of marketing value-added products, especially in the livestock area, as a way of increasing value of exports. A review of the data in Table 3 reveals that these products are a small part of the total U.S. export market. Out of \$26 billion of export value in 1985/86, meat and dairy products accounted for less than \$2 billion. Hides and skins make up the largest single animal product export category, accounting for \$1.5 billion of value. This is not to suggest that greater efforts toward increasing value-added exports should not be undertaken. Rather, those activities should be seen as an addition to, rather than a substitute for, efforts to increase the exports of the traditional leaders in agricultural exports, which are grains and oilseeds.

### **Future Challenges in Agricultural Export Marketing**

It is clear from historical analysis and the Food and Agricultural Policy Research Institute (FAPRI) projections that attention to certain key policy issues could pay significant dividends in improving the export market prospects. The key policy issues are related to improving economic development and income growth rates in developing countries, reducing the debt service problems of developing countries, and reducing the domestic and trade policy barriers in both developed and developing countries. Any market development effort will have a bigger payoff if progress is made in these specific policy areas.

It is also clear from analysis of export market prospects that present U.S. agricultural policies improve the competitive position of U.S. exports. Current surplus capacity in the United States and abroad suggests that intensive competition for export markets is likely to continue for many years to come. Under these conditions, bilateral agreements, market intelligence, and product discrimination (where possible) are important to achieving a competitive edge. The "let them come to us" attitude of the 1970s must be discarded. In the present and future marketing environment, aggressive and competitive marketing strategies are required.



Table 3. Volume and Value of U.S. Agricultural Exports in 1985/86.

	Volume (million ton)	Value (million \$)
Grains and Feeds	74.43	9.5
Oilseeds and Products	27.6	6.3
Animal Products	2.6	4.4
(meats and dairy products)	(1.2)	(1.9)
Fruits, Veg., Nuts	3.5	2.8
Other	4.4	3.3
	<hr/> 109.9	<hr/> 26.3

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