The Challenge of Foreign Marketing

By Robert J. Wicks

The significance of international trade for U.S. agriculture has become increasingly important. It has grown substantially in recent years, and the vitality of our agricultural sector to a large degree depends upon exports. About a third of our coarse grains and tobacco, more than half of our cotton and soybeans, and about two-thirds of our wheat production ultimately find their way into export markets.

These exports account for about one of every four jobs in agriculture. Each $1 billion in exports generates about $2 billion in GNP (Gross National Product) which in turn generates some $400 million in tax revenue. The sheer magnitude of our agricultural production and exports illustrates the ability of U.S. farmers to produce, and the importance of foreign markets. However, there remains the question of what means are available to American farmers to enable them to develop or influence these markets that have become so important to all producers.

Unlike manufacturers, farmers operate within a system where productive resources are fragmented. For the most part, they lack control over marketing, product price and total output. Production is frequently determined to a large extent by weather rather than farmers' management decisions. Due to all this and the fact that product differentiation is virtually impossible, an individual farmer has little incentive to devote resources to influence the market, either foreign or domestic. Benefits of such efforts would accrue primarily to others because of the individual's small share of total production. As a result of these circumstances, and the risk involved, individual producers typically are not well prepared to seek or take advantage of foreign market opportunities. As individuals they stand little chance of either influencing or gaining access to foreign markets.

Yet, there is a need to seek and develop markets for U.S. farm products. To be effective, the effort has to be concerted — one which includes producers as a group, and often the Government as well. Since many barriers to increased trade are not truly economically motivated, there is a need for other than purely commercial responses, and this is a legitimate role for the Government to assume on behalf of its producers.

Despite the complexities, U.S. farmers are not completely without ways to find and gain access to or develop foreign markets. As a group, producers can and do have an impact on foreign markets. Gaining access, however, is frequently a process which requires Government

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involvement and is often carried out at the request of, and in conjunction with, groups of producers.

Ideally, production and hence exports should be based on comparative advantage. (Production advantage arising from favorable natural conditions such as soil fertility or climate.). On a global basis, this means that production and therefore exports of specific commodities would come from countries with a comparative advantage in producing those commodities. Fortunately the United States has a comparative advantage in a number of commodities traded on the world market such as corn, wheat, and rice. Were it not for the effect of politically motivated schemes such as import duties, levies, production and export subsidies, our competitive position would better reflect our comparative advantage. Unfortunately these schemes act as barriers to trade and abrogate the effect of comparative advantage. Although the most visible barriers to exports are primarily political, several other types of barriers may be just as detrimental to free trade. But because they are less obvious in some cases, they receive less attention.

"Legitimate" Barriers

Institutional barriers could be thought of as legitimate barriers to trade so long as these are situations or conditions naturally occurring and not humanly contrived or politically motivated. Such barriers are frequently the result of imperfect knowledge and include lack of consumer awareness, lack of producer or processor interest, or lack of appropriate quality or quantity in demand. To a degree, some institutional barriers can be influenced in the framework of promotional activities, a subject which will be taken up later.

Other legitimate types of barriers to exports include economic constraints of consumers, and comparative or economic advantages of competing producers. Where our competitors have either comparative or economic advantages, we would become a residual supplier, furnishing only that amount which more competitive exporters would be unable to supply. In these cases — unless we can change our comparative advantage by increasing productivity through improved technology, better management, etc. — we must rely on building relationships with importers, traders, and foreign governments in an effort to influence them to choose our products for reasons other than purely price, such as quality or continuity of supply.

Economic constraints act to reduce effective demand. In the case of serious economic constraints which result in lack of effective demand, a shortsighted approach would be simply to ignore the market. Had that been the policy in the past, today we would not have some of our most important markets. Korea is an example of a country that grew economically as the result of developmental food aid programs which fostered growth of that economy. Developmental aid essentially amounts to guiding assistance so that economic growth enables foreign consumers to earn the capital needed to purchase our commodities.

"Man-Made" Curbs —The most visible and commonly thought of barriers to trade are those in one way or another politically motivated. They may be either tariff or nontariff, but are put in place to restrict movement of commodities and products into a market or gain unfair advantage. These "man-made" barriers take many forms. They may, for example, be import quotas, levies, or duties designed to restrict imports and protect an inefficient domestic industry. Or they may be "unfair" trade practices such as export subsidies in the form of special credit terms for producers, fertilizer subsidies, or tax rebates for exporters, which all give competitors an unfair advantage and therefore negate naturally occurring comparative or economic advantages. Embargoes, the ultimate form of trade barrier, may be imposed by either importers or exporters and are the most disruptive.

Some trade barriers can be overcome more easily than others. With time and resources, many institutional barriers can be reduced or eliminated by an array of market development techniques. Even some of the humanly contrived barriers can be made less harmful or negotiated away through an effective trade policy. In combination, market development activities and an aggressive trade policy are the best means to assure maximum foreign market opportunities for producers. As noted earlier, individual producers are hardly in a position to make a significant impact on foreign markets. To be effective in foreign market development, producers need to pool resources and join forces with the State and Federal agencies that are engaged in foreign market development.

USDA Assistance

The U.S. Department of Agriculture (USDA) plays a significant role in developing foreign markets for U.S. farm products with programs for both bulk commodities and processed agricultural products. Objective of the programs is to develop, maintain, and expand long-term commercial foreign markets for U.S. farm products. The vanguard of USDA's market development program is a joint agri-industry/Government effort where the Agriculture Department underwrites part of the expense of promoting a number of U.S. agricultural commodities in foreign markets. In effect, USDA acts as a catalyst in a free market system to get producers to do what neither they nor the Government can do alone.

Under the foreign market development program which began in 1955, USDA is currently working together with some 57 nonprofit trade associations largely comprised of producer-based farm groups. This year these producer groups will carry out some 2,400 promotional activities in foreign countries with help in funding and supervision from the Department. Response by foreign markets to these efforts of U.S. farm and agribusiness groups has been so positive over the years that both the American groups and participating foreign entities have been stimulated to increase markedly their financial support for these U.S. market expansion efforts.

Last year, program expenditures for the foreign market development program were about $72.5 million, of which USDA funded $21.2 million. The remainder was provided by U.S. producer groups and foreign organizations whose contributions for the past 9 years have exceeded those of the Government by a two-to-one ratio. In the 27 years since the program started, USDA has invested about $266 million. Producers have more than matched the Government funds with some $444 million generated from both domestic and foreign sources.

Incentives — Besides programs aimed primarily at expanding markets for bulk and unbranded commodities, there also are programs aimed at assisting private firms attempting to enter foreign markets. Export Incentive Programs are those which assist private firms, by underwriting a portion of the risk, in introducing to foreign markets their branded products such as fresh produce, processed fruits, vegetables, and wines. Assistance to participating firms depends upon export performance, with higher payments tied to substantial increases in sales. Currently about 35 firms compete for funding under this program, where Government funds never exceed 50 percent of allowable promotional expenses.

USDA, together with most State departments of agriculture, also provides a forum for individuals and firms, particularly small firms not presently exporting, to gain or increase exposure to foreign markets. This forum consists of several mechanisms which are either informational or exhibitory. Exhibitory mechanisms include participation in international trade shows and special USDA-sponsored shows for specific products such as meats, health foods, or produce. Informational activities include sponsorship of sales teams, a computerized referral system providing U.S. traders with information about foreign opportunities, and a monthly bulletin to inform foreign buyers about U.S. firms and their products.

In operating these mechanisms, USDA relies heavily on the assistance of four regional State organizations. These groups — the Mid-America International Agri-Trade Council, the Eastern U.S. Agricultural and Food Export Council, the Southern U.S. Trade Association and the Western U.S. Agricultural Trade Association — have each entered into an agreement with USDA and serve as the primary link with firms and individuals in the States they represent.

Agricultural Trade Offices

Functioning as a market development focal point in key overseas locations, USDA has established a number of agricultural trade offices. They serve as a support center to coordinate market development activities sponsored by USDA, as a support center for U.S. exporters, and as an information center for potential foreign buyers. In a number of locations, overseas offices of the previously discussed producer groups have been jointly located within the trade office complex. The producer representatives work hand in hand on a daily basis with agricultural trade officers in South America, Asia, and Europe. In the Middle East and Africa, agricultural trade offices have been established, and producer representatives plan to locate soon in the new facilities.

There is little doubt that exports are beneficial for U.S. farmers. Without foreign markets, producers would have to reduce production — by two-thirds in the case of wheat — and would not be able to take full advantage of the economies of scale they presently enjoy (economies resulting from large-scale production). However, producers would like to see exports give them higher prices for their products, not just bigger markets. Consumers, of course, do not want anything to drive up prices. And to the extent that economies of scale do not offset price strength resulting from export markets, foreign sales could become a point of friction for consumers. But since the share of the consumer dollar spent for food and fiber products represented by raw commodity prices to the producer is small, even substantial changes in commodity prices generally have minimal effect on consumer prices.

U.S. agricultural trade offices help U.S. exporters to introduce their products.

Attempts to measure the impact of exports on producer and consumer prices have been made, but evidence is scarce and generalizations from one commodity to another not at all relevant. In a recent study by the research staff of one of the Nation's major banks, it was found that for the 1979-80 season exports strengthened soybean prices to producers by 9 cents per bushel with an impact on the consumer price index of 1/20th of 1 percent. On balance it is generally agreed that the economies of scale from exports more than offset any positive price impact on consumers.

U.S. A Reliable Supplier? — An extremely important factor in building and maintaining foreign markets for agricultural commodities is the need to be recognized as a reliable supplier. It is widely accepted that U.S. producers are among the most efficient in the world and able to produce abundant supplies of many of the internationally traded commodities. However, the United States (not U.S. farmers) has a credibility problem when we try to project ourselves as a reliable supplier. Why? Because of U.S.-imposed embargoes.

Since 1973, for both domestic and foreign policy reasons the United States has imposed a number of export embargoes and other export restrictions. Discussions of their effectiveness go on unending. But whether or not the embargoes achieved their stated purposes, they did give importers a clear signal. The result: foreign buyers continue to question the United States as a reliable supplier. When we talk to importers about the United States' ability to supply, they smile and say "Yes — but will you?" Clearly, actions and not words are the only means to reestablish our credibility in the market.

As a means to that end, producer groups suggested a national policy be adopted to guarantee the sanctity of export contracts. Under such a policy, countries with most favored nation status would receive a guarantee that sales registered with the U.S. Government would not be restricted except in a national emergency or war. For countries not having most favored nation status, such as the Soviet Union, a less comprehensive guarantee extending for some limited time period into the future has been suggested.

Priorities Announced — Many feel such a policy is unnecessary in view of the Government's new long-term policy for farm exports. Recognizing that previous embargoes and restrictions on exports have damaged our reputation as a reliable supplier, President Reagan in the spring of 1982 announced two policy priorities designed to strengthen our image as a reliable supplier. Briefly, the new policy insures that: 1) Restrictions will not be placed on exports of farm products because of rising domestic prices. 2) Exports of farm products will not be used as an instrument of foreign policy except in extreme situations, and only as part of a complete boycott.

Understandably, the impact of this proexport policy will not be immediate, but the long-term effect will without question be positive. The fact remains, however, that as a result of past U.S. export embargoes and export restrictions, importers will continue to remind us of our past record. Some traders and even foreign governments have adopted policies to diversify their sources of supply. To the extent those policies are effective, U.S. producers stand to lose market share and are forced to find alternative markets.