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The world agricultural outlook in the 1990s

*Giovanni Di Girolamo**

This article analyses various international trends in the agricultural sector which have a bearing on the external trade of the Latin American countries. The balance in recent years has been rather negative for the agricultural sector of the developing countries, both from the point of view of the terms of trade and with regard to the weakness of the markets for their commodity exports.

The coming years will be marked by intensive competition in world agricultural markets. A leading problem in world agricultural trade will continue to be the lack of resources to permit the potential demand for the products of this sector to be converted into effective demand.

Various projections bring into question the idea that processes of greater openness based mainly on incorporation into world trade by means of agricultural or agroindustrial products can be a reliable way to development. The exporting countries must diversify their primary production and progress towards a form of agroindustrial development which will make possible better internal linkages in the economy, the modernization of rural areas, and the satisfaction of domestic demands.

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Introduction

The second half of the 1980s was marked by the consolidation of a number of unfavourable trends for the agricultural sector of the developing countries. In international agricultural markets, competition between exporting countries grew considerably, and there was a heightening of protectionist tendencies in the developed countries. The terms of trade between agricultural products on the one hand and manufactures and crude petroleum on the other deteriorated to the detriment of the former throughout the period 1980-1988 (figure 1). On average, in 1988 the terms of trade between agricultural and industrial products were 25% below those of 1980. At the same time, the agricultural balance proper of the developing countries, taken as a whole, deteriorated under the simultaneous pressure of the drop in the relative value of their agricultural exports and the increase in imports of foodstuffs from the developed countries. In Africa, for example, the lower income obtained from agricultural exports in 1989 meant that that region was only able to buy 28% less manufactures and crude petroleum than in 1979-1981. In Latin America and the Caribbean too, over the same period, the total value of exports went down in spite of a considerable increase in their volume.

The deterioration of the agricultural balance of the developing countries may be explained principally by the adverse evolution of export prices, especially for food products (figure 2). Moreover, in many developing countries which are net importers of foodstuffs there was a clear divergence between the tendency towards rapid population growth and the relatively slower increase in production. In some cases, this phenomenon is due to climatic factors (partly of a previously unprecedented nature), over-exploitation of the soil, and situations of local political instability. The main cause, however, seems to be the profound crisis in peasant agriculture caused by the internationalization of agricultural markets, the growing instability of prices, and the lack of capital and training. The crisis in peasant agriculture gives rise to a vicious circle: larger contingents of the rural population move to the cities; the consequent increase in the urban population causes governments to adopt agricultural policies which tend to fix low prices for

food, for social security reasons,¹ and this, in turn, generates further subsequent backwardness in the peasant economy and fresh migrations. At the same time, the country registers a food deficit and its balance of payments deteriorates.

In most of the non-oil-exporting developing countries, the agricultural sector provides between 20% and 40% of GDP, between 60% and 80% of employment, and between 50% and 70% of total export income. Although there are a number of cases of successful and promising agricultural export-based development, at both the country and enterprise levels, recent years have not been particularly favourable for agricultural exports from the southern part of the world. The FAO (1990c) has calculated that in the 40 developing countries whose exports consist mainly of agricultural products, the macroeconomic indicators suggest a generally rather disappointing situation in recent years. Thus, for example:

a) The per capita gross domestic product went down by 1.1% in 1989, and it is estimated that in 1990 it fell by a further 0.8%. In contrast, in the developing countries with a more diversified export base the product grew by 1.1% in 1989 and is estimated to have risen by a further 0.2% in 1990.

b) In the developing countries which mainly export agricultural products, gross capital formation went down from around 17% of GDP in the early years of the 1980s to less than 14% in 1989 and 1990, whereas in the developing countries with more diversified exports the level remained relatively constant at 20%.

c) In the 1980s, inflation was considerably higher in the group of countries which are essentially exporters of agricultural products than in the developing countries with more diversified exports.

d) During the greater part of the 1980s, export volumes grew considerably less in the developing countries which primarily export agricultural products than in the countries which export manufactures, and the terms of trade of the former fell by almost one-third between 1985 and 1990.

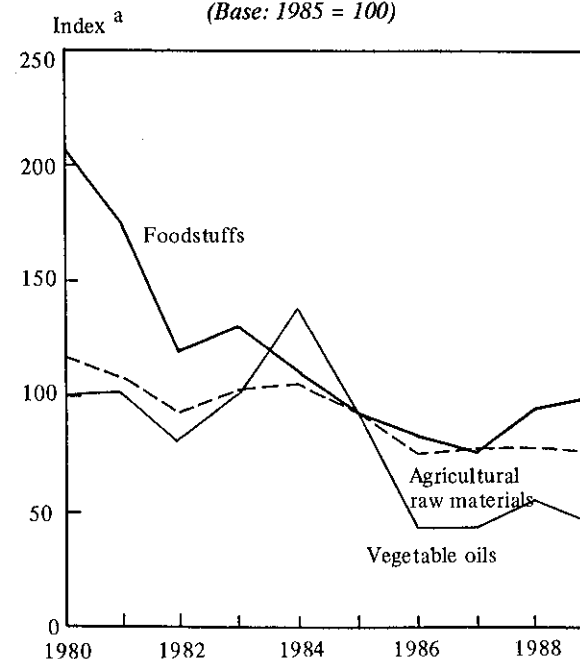
e) Import volumes went down in the countries which are essentially exporters of agricultural

products by a total of 11% between 1982 and 1990 (FAO, 1990c).

It should be noted that these disappointing results were registered at a time (the second half of the 1980s) when the world economy was recovering. It does not seem likely that better results will be obtained in the immediate future, since the growth rates of the economies of the industrialized countries are expected to be less satisfactory than in previous years.

Moreover, the most successful and frequently cited cases of agricultural export-based development have been in countries with an export base which is quite diversified rather than mainly agricultural. Thailand, Malaysia, Brazil and Chile, for example, have important non-agricultural export sectors in the fields of mining, manufacturing, etc., and they also have a dynamic agroindustrial sector which has taken advantage of the opportunities presented by agricultural export development and is at the same time stimulating domestic demand for agricultural products.

Figure 1
RATIO OF PRICES OF SELECTED
AGRICULTURAL PRODUCTS TO
PRICES OF MANUFACTURES
(Base: 1985 = 100)

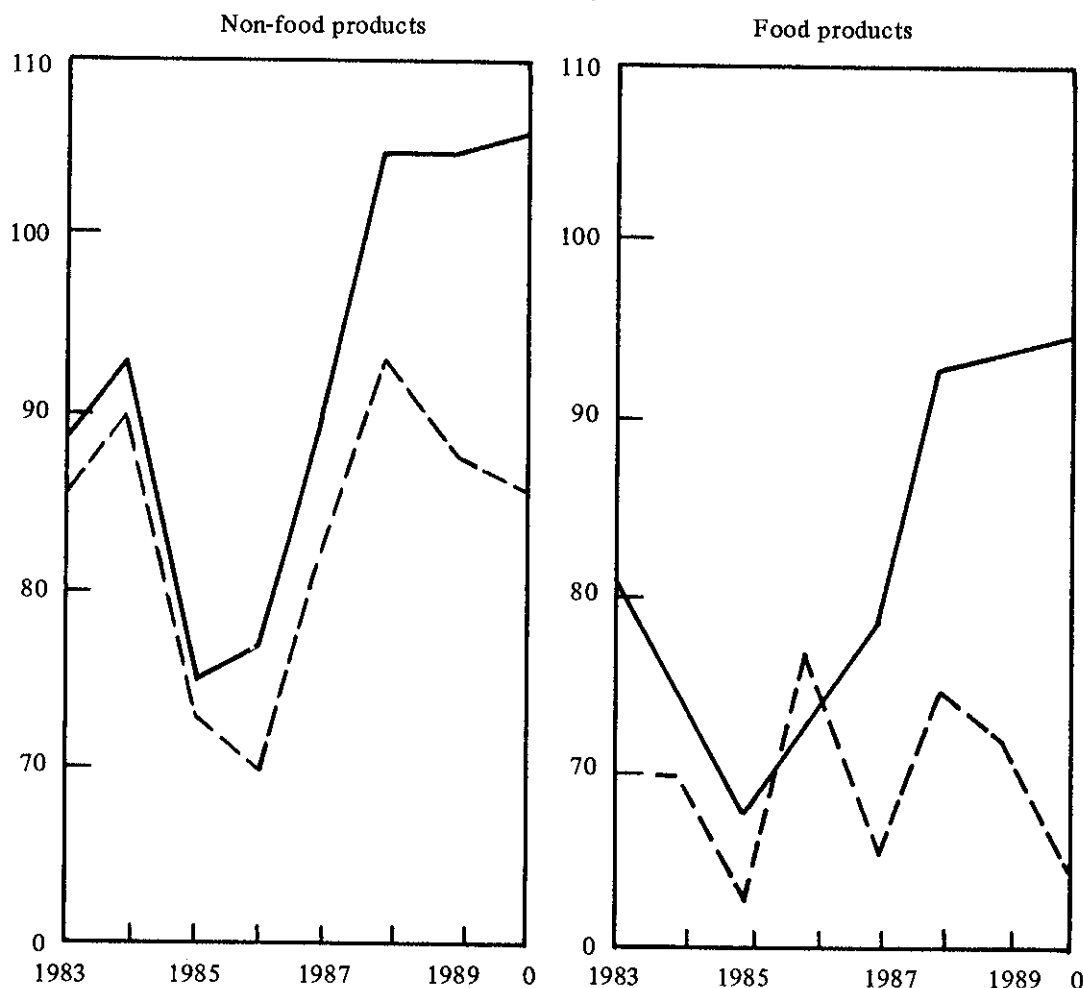


Source: United Nations, *World Economic Survey*, 1990, New York, 1990.

^a Index of prices of agricultural products, divided by index of prices of manufactures.

¹ At present, there are around 100 developing countries where one person in five is suffering from malnutrition. Serious food crises are expected in 1992 in Algeria, Ethiopia, Liberia, Mozambique and Somalia.

Figure 2
VARIATION IN EXPORT PRICES OF AGRICULTURAL PRODUCTS
 (1980 = 100)



Source: United Nations, *World Economic Survey*, 1990, New York, 1990.

— Developed countries.
 ---- Developing countries.

I

The case of Latin America and the Caribbean

1. Production

In Latin America and the Caribbean as a whole, agricultural production grew between 1981 and 1988 at an average annual rate of 2.4%, that is to say, a little faster than the population. In 1989, however, the growth rate of agricultural production in the region dropped to 1.9%, which was less than the increase in the region's population in that year.

At the same time, the long-standing downward trend in the percentage contribution of agriculture to GDP in the region ceased because of the economic crisis of the early 1980s, and it was even reversed in following years (the same thing occurred in Africa, but not in the Far East and the Middle East, where the ratio of agricultural GDP to total GDP levelled off as from 1981-1983). The reversal of this trend in Latin America and the Caribbean confirms the

agricultural sector's capacity to act as a buffer against general macroeconomic upsets in periods of depression, but if this situation persists for long it could mark the beginning of a process of de-industrialization of the region as a whole.

2. Agricultural exports

Between 1984 and 1989, the value of world exports of all types of goods grew by 60%, but over the same period the value of Latin American exports rose by only 8%. The Latin American and Caribbean region as a whole registered lower growth rates than the world average, and its share in the total value of world exports dropped from 5.8% in 1984 to 3.9% in 1989. In that year the region's share in world exports was less, in terms of value, than those of countries such as France (5.9% of world exports) or the United Kingdom (4.9%). This relative redimensioning of the region's exports is due, on the one hand, to the low level of dynamism of commodities all over the world,² and on the other, to the difficulties encountered by the region in trying to improve its relative position in the most dynamic export sectors. Thus, over the last ten years Latin America has not been able to increase its relative share in world exports in any of the six main categories of goods and services (agricultural products, mining sector products, manufactures, transport, travel and other services).

In the second half of the 1980s, world exports of agricultural products reflected the deterioration in the terms of trade already referred to, and their growth rate was less than that of world GDP and also lower than that of world trade in all categories of products (figure 3).³

² The main causes of the decline in the relative share of primary commodities in international trade have been: i) stagnation of global demand because of slackening world economic growth; ii) the growing generalization of replacement processes; iii) technical advances which make possible greater savings in industrial processes; and iv) the generally protectionist inclinations of the importing countries. It is also important to note that although primary commodities had a declining share in relative terms in international trade, the proportion of commodity exports from developed countries grew throughout the 1980s. See ECLAC, Santiago, 1991.

³ Between 1984 and 1989, the value of world exports of agricultural products rose by 35.7%, while –as already noted– that of world exports of all goods rose by 60%.

For some products such as coffee or cocoa, the second half of the 1980s was a very negative period: it is calculated that in 1989 the drop in coffee prices caused loss of income of over US\$1.5 billion worldwide. Between 1989 and 1990, however, the market for this product settled down, and although the equilibrium which exists today is rather precarious, the evolution of production in coming years will probably influence export income more than in previous periods (FAO, 1990b).

Furthermore, in 1989 and 1990 there was a reversal of the upward trend in the prices of some products such as wheat, sugar and beef, which had been rising quite briskly in previous years.

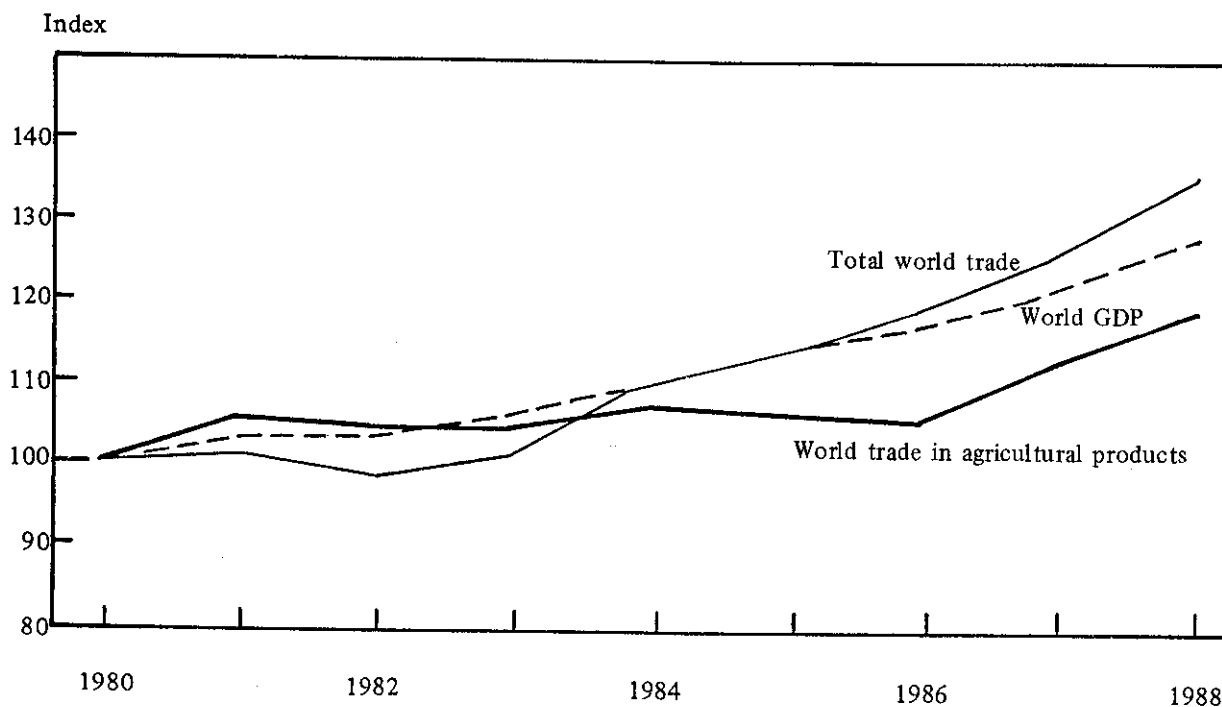
At the general level, the fact that global agricultural exports have grown more slowly than world GDP has naturally meant an increase in the proportion of consumption of domestic production by the countries: that is to say, a reduction in the global import/consumption index.

The slow growth of global agricultural exports, together with the deterioration in relative prices, has resulted at the world level in a smaller percentage share of agricultural exports in total exports. Thus, the value of world agricultural exports, which represented 11.4% of world exports of all types of goods in 1984, went down to only 9.6% in 1989. Within this already lower total, the percentage contribution of Latin America and the Caribbean contracted even more sharply, going down from 14.4% in 1984 to 10.5% in 1989. As may be seen from table 1, between 1984 and 1989 Latin America's total agricultural exports did not increase in value (on the contrary, they went down by 0.7%), whereas world agricultural exports increased, mainly because of the increase in European and Asian exports. Much of the sluggishness of the figures for the region's agricultural exports is explained by monetary factors (decline in the value of the dollar) and prices (declines in the prices of coffee, etc.). Other factors were the protectionist attitude of importing countries and, possibly, some cases of inefficiency in marketing.

The stagnation of the value of the region's agricultural exports compared with total regional exports, which grew by 8% between 1984 and 1989, has meant a decline in the relative importance of the agricultural sector in the region's external trade. Thus, agricultural exports formed 28.2% of total regional exports in 1984, but by 1989 the figure had gone down to 25.9%.

Figure 3
TRENDS IN WORLD TRADE IN AGRICULTURAL PRODUCTS
AND IN TOTAL WORLD TRADE

(1980 = 100)



Source: GATT, *International Trade 1988-1989*, Vol. II, Geneva, 1989.

By way of comparison, it may be noted that over the same period forestry and fishery exports grew by 52.1%, so that in 1989 they represented 4.7% of total regional exports, compared with 3.7% in 1984.

At all events, it should be noted that the relative stagnation which took place in the second half of the 1980s came after an important period of expansion in the first half of the decade. In the period 1978-1984, Latin American agricultural exports grew more rapidly than the world average in terms of both volume and value (table 1).

Furthermore, it should be borne in mind that even in a situation of slow growth of global exports, as was the case in the region in the second half of

the 1980s, there were nevertheless products and countries which turned in a good performance. Thus, if we look at it in detail, the situation with regard to Latin American and Caribbean agricultural exports is seen to be fairly balanced, with sectors and countries which continued with quite well advanced processes of change in production patterns. Exports of non-traditional products were particularly dynamic. Moreover, not all the traditional export products went through stages of crisis or stagnation. On the contrary, the performance of the exporting countries of the region was quite good in the case of some products, especially cotton and bananas.

Table 1

**LATIN AMERICA AND WORLD TOTAL: EVOLUTION OF EXPORTS
OF AGRICULTURAL PRODUCTS, 1978-1989**

(Indexes 1979-1981 = 100)

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Volumes												
Latin America	95	98	92	111	104	121	116	127	109	106	114	113
World total	89	92	101	106	105	105	109	108	107	114	117	120
Unit values												
Latin America	89	95	113	92	87	79	90	79	92	85	91	90
World total	86	98	103	98	90	88	90	85	93	95	104	107
Global values												
Latin America	84	93	104	102	91	97	105	101	102	91	104	102
World total	77	91	105	105	95	93	98	92	99	108	122	128

Source: FAO, *Trade Yearbook 1989*, Rome, 1990.

3. Non-traditional products

At the present time, one of the most interesting features of Latin American and Caribbean international trade in agricultural products is the promising performance of non-traditional exports.⁴ In some countries, the bigger earnings from increased non-traditional exports made it possible to compensate for or even more than offset the impact of the drop in traditional export lines. In Brazil, for example, the increased income from exports of products based on soya beans and orange juice (US\$1 908 million more in 1989 than in 1986) more than made up for the lower value of exports of coffee and sugar (US\$581 million less in 1989 than in 1986).⁵

In spite of the satisfactory performance of non-traditional exports in many countries of the region, however,⁶ it is difficult to forecast the degree of stability and the real prospects for the long-term expansion of international trade in these products. At any moment there may be unexpected upsets in the markets for particular vegetables, flowers or fruit. Often the high profitability of some products—especially temperate-zone products for the out-of-season market—has led a growing number of countries to embark upon or increase the cultivation and export of such products, resulting after a while in saturation of the market and a drop in prices and profitability. Something like this happened in the case of the markets for asparagus and fresh raspberries, causing a crisis which has affected several Latin American countries in recent years.

⁴ The definition of non-traditional export products is not very strict and often varies from one country to another. Generally, however, a non-traditional product is considered to be any agricultural product which was not exported at all or only on a very limited scale before the period 1975-1980.

⁵ Data provided by the Banco do Brasil, External Trade Department. See also ECLAC (1990).

⁶ In addition to Brazil, there are other cases of development of agricultural exports based on non-traditional lines of products which have been closely studied by specialists in the sector and are often cited by the media. Examples of this are Colombia (cut flowers, tropical fruit), Chile (fruit, vegetables), Guatemala (vegetables), Mexico (vegetables), Paraguay (soya beans) and Peru (tropical fruit and vegetables). This very incomplete list shows, however, how most of the countries have concentrated on similar product lines.

The problem with some non-traditional products is their intrinsic vulnerability,⁷ frequently connected with the fact that they are luxury products aimed at a relatively small percentage of consumers in the industrialized countries. These products are extremely sensitive to the economic cycles of the importing countries, especially because their prices are relatively high and also because—unlike traditional products such as bananas—their consumption has not become a regular habit in the importing countries. Consumers there consider that these products are attractive but not essential, and they can give them up very easily. It is therefore important that there should be good communication between exporters in the developing countries and importers in the recipient countries, particularly with regard to demand trends. As a general rule, countries exporting non-traditional products must pay close attention to information on markets and on competing supplies.

The trading characteristics of a non-traditional product may change with advances in storage and transport techniques. In the case of fresh fruit, for example, regardless of whether this is tropical or out-of-season temperate fruit, the possibility of changing from air transport to sea transport, thereby

substantially reducing prices, opens up new markets in the importing countries and is a factor in facilitating the incorporation of the product into the regular consumption habits of those countries.

For other products, especially those for agroindustrial use such as soya beans and cake, regardless of whether or not they are exported in semi-processed form, the markets may display price curves tending to go down in the medium and long term, because of the existence of production potential which is greater than demand possibilities. In other words, with the passage of time some non-traditional products may become subject to the mechanisms which are already tending to depress the markets for traditional commodities.

In view of the foregoing, and in the light of the experience of recent years, it may be stated that countries which wish to expand their trade successfully in non-traditional agricultural export lines must make an effort to ensure that their supply is as diversified as possible and they must also strive to attain a level of production and trading flexibility which will enable them to adjust to markets whose essential features change with considerable rapidity.

II

International markets in the 1990s

According to the mean “most probable” projection by the United Nations, by the year 2025 the world population will amount to 8 504 million people: a net increase of 3 104 million over the level assumed to have been reached in 1991 (UNFPA, 1991). With this growth, potential world demand for agricultural products should also increase considerably in the coming years, both in respect of foodstuffs and raw materials of vegetable and animal origin.

⁷ Some specific studies which have taken due account of the oligopsonic nature of many markets for non-traditional products have come to the conclusion that the exporting countries tend to accept rather than fix the prices paid. This phenomenon is also observed in the case of countries which control a substantial share of the market for a particular non-traditional product. Thus, for example, in the United States market for out-of-season grapes, an exporting country such as Chile does not manage to exert any decisive influence on prices, even though it controls some 25% of the market.

At the same time, however, it is difficult to forecast to what extent this potential demand will be transformed into effective demand, for 95% of the population increase foreseen will correspond to the developing countries, especially South Asia, Africa, Latin America and the Caribbean and the Middle East. In contrast, it is expected that in most of the countries of Europe, North America and Oceania natural population growth will be very low (below 1%) or even zero. In East Asia, too, population growth is beginning to stagnate. Japan has already reached fertility rates below the replacement level, with an average of less than two children per family, and China will possibly reach this level towards the end of the century, while similar situations exist in the Republic of Korea and Thailand.

Thus, in the regions with the greatest economic growth prospects, the population—and hence the

potential demand for agricultural products— will grow very slowly. In contrast, in regions such as Africa or Latin America, which are more dependent on exports of agricultural products, the agricultural sector will have to increase its output sufficiently to feed the new population contingents, while at the same time it will have to generate a trade surplus sufficient to finance the necessary imports of industrial products.

It might be useful to sketch quite briefly a table indicating the real net position of the major areas of the world in the international agricultural product markets. For this purpose, we shall use the concept of the agricultural balance (Boulard, 1990). Over the last 25 years, there have been four deficit areas: i) Western Europe; ii) Japan; iii) Eastern Europe and the Soviet Union, and iv) the Persian Gulf countries. Japan has kept its deficit more or less constant, but the deficit of the Gulf countries has grown during the 1980s. The most interesting features are the increase in the deficit of Eastern Europe and the big reduction in the deficit position of Western Europe, which is now both the biggest exporter and the biggest importer of agricultural products in the world. Both the imports and exports of Western Europe grew rapidly during the 1980s, but the growth rate of that region's exports was markedly greater. In the period 1984-1989, for example, the cumulative increase in imports was around 55.6%, whereas the growth of exports was 70.3%. In many product lines, Western Europe is now a net exporter. Underlying this expansion of its exports are the big surpluses that have been generated in many member countries of the European Community as a result of the Community's Common Agricultural Policy (CAP) and its production support mechanisms.

Among the areas with a surplus, the United States has the highest positive balances, but these are characterized by big fluctuations, which cause their value to vary between 5% and 15% or 16% of world agricultural exports. The United States surplus comes mainly from its grain exports.

Latin America, which is the other main area with a surplus, is the principal supplier of the United States in most agricultural products other than cereals (60% in 1988). The balances for Latin America also fluctuate markedly as a result of the interaction of the variations in exports of tropical products, agricultural raw materials, cereals and beef on the one hand, with those of imports of food products on the other.

Other areas with surpluses, such as Canada, Australia, New Zealand and some Asian countries, register more stable positive balances. In the case of Africa, however, which registered a substantial positive agricultural surplus equal to almost 10% of the value of world agricultural exports in the late 1960s, its surplus has gone down steadily under the pressure of growing imports of food products and the decline in the prices of its main export products.

All this forms a picture whose essential features are unlikely to be changed much in the medium term. Let us now see what opportunities could arise on the markets as a result of the great processes of economic and social change which are taking place in some regions (Eastern Europe and the Far East) and world trends with regard to trade liberalization.

It is thus possible that big changes may take place in the structures of the world agricultural food supply system, which will bring with them increases in the demand for agricultural products originating in the developing countries. These changes could result from three parallel processes currently underway in the world, whose final outcome is not yet completely predictable. These processes are: i) the social, economic and political changes taking place in the Eastern European countries and the Republics which made up the former Soviet Union; ii) the process of industrialization and rapid expansion of GDP in many countries of the Far East, and iii) the negotiations within the Uruguay Round on the liberalization of international trade in agricultural products.

We shall now briefly analyse the effects that these processes could have on world trade in agricultural products, and the possible implications of this for the developing countries.

1. The effects of the changes East of the Elbe

The intensive processes of social, political and economic change which are taking place in the Eastern European countries and the former Soviet Republics will affect the structure of the world agricultural food supply system in two different ways: on the one hand, there will be an increase in the global demand of those countries; on the other, there will be an increase in their own supply of agricultural products. These two phenomena must naturally be of particular interest to the developing countries, which, in the medium term, must organize themselves to take advantage of the opportunities and reduce the risks involved in the entry of important new actors on the world agricultural market.

There can be no doubt that an increase in the growth rate of GDP in the Eastern European countries and the Republics which made up the former Soviet Union would raise demand for some products from the developing countries, especially Latin America and the Caribbean. A higher standard of living in the former communist world would be reflected in bigger imports of tropical beverages (tea, coffee and cocoa), tropical fruit, cotton, sugar and other products. Although most analysts assert that in the medium or long term these countries should register a substantial process of economic growth, however, it is not possible to forecast with any certainty the magnitude or rate of this process, or the length of time that would be needed for GDP and demand to begin to grow significantly. Consequently, it is as yet too early to quantify these variables.

A more probable development in the medium term could be an increase in the exports of agricultural products from some of these countries—especially those closest to the EEC—to the OECD countries. The radical changes already made in countries like Hungary and Poland are giving rise to substantial increases in their agricultural productivity. In 1988, these two countries came to an agreement with the EEC whereby they can export their agricultural products to the Community free of duties. At the same time, under the powerful stimulus of the liberalization of domestic markets, Hungarian and Polish farmers have considerably increased their output, while domestic consumption has continued to stagnate or even go down as a result of the elimination of price controls. This situation has been reflected in the rapid generation of substantial exportable surpluses.

According to some estimates (Fottorino, 1991), Poland—a country which has traditionally been an importer of butter—now has exportable surpluses of this product estimated at 70 000 tons. Czechoslovakia already has the capacity to export nearly 40 000 tons of dried milk, while various Eastern European countries also have export capacity for beef and live animals (it is estimated that in 1990 these countries sold some 80 000 head of cattle at low prices).

While the potential of the Eastern European countries to export agricultural products is by no means negligible, that of the Republics which made up the former Soviet Union could be much greater in the long run. Although, as it stands at present, Soviet agriculture on the whole registers deficits, this does not mean that it will continue to do so indefinitely. Various analysts consider that between now and the

year 2000 at least some of the former Soviet Republics, such as the Ukraine, could recover the position as grain exporters which they occupied before 1917. Others consider that this could hardly take place before the period 2005-2010, but at all events, considering the present size of the cereals sector of the former Soviet Republics,⁸ the hypothesis of the development of agricultural export capacity in the medium term must be taken very seriously (table 2).

2. The potential of the Asian markets

In the medium term, opportunities may also arise for exporting countries in the markets of the Asian countries. In recent years these countries have registered and continue to register growth rates which are among the highest in the world.⁹

With regard to growth in international trade in agricultural products of the Asian countries in recent years, between 1984 and 1989 the agricultural imports of the nine countries in question grew by 58.4%. The highest growth rates of agricultural imports corresponded to China, South Korea, Thailand and Hong Kong, whose imports rose in percentage

⁸ In 1989, Soviet cereals production represented 10.9% of the world total. In the same year, United States production represented 15.2% of the total and that of Argentina 0.9% (1.2% in 1988).

⁹ Although economic growth rates in Asia and the Pacific slackened in 1989, they continued to be among the highest in the world. Thus, the real rate of increase of the aggregate GDP of the region went down to 5.3% in 1989, after the unprecedented figure of 9.4% registered in 1988. China and India—the two biggest Asian economies after Japan—registered quite a sharp drop in their GDP growth rate. In China, this went down from 11.2% in 1988 to 3.9% in 1989, while that of India fell from the record level of 9.5% in 1988 to 4.5% in 1989. In the latter year, the agricultural GDP grew by 4.5% in China and 2.0% in India. In the region in question, only Nepal, Papua, New Guinea and Samoa registered GDP growth rates in 1989 that were below 2%. No negative rates were registered at all. On the contrary, the Republic of Korea, Singapore, Thailand, Indonesia, Malaysia, the Philippines, Pakistan, Fiji, the Maldives and Taiwan all had GDP growth rates over 5%. Thailand, with a growth rate of 10.8%, was the fastest-growing economy in the whole world in 1989. Likewise, a number of countries obtained excellent results in the agricultural sector in 1989. In Nepal, Pakistan, Burma, Fiji and Vietnam, the agricultural GDP grew by 6% or more in that year. Indonesia, Laos, Malaysia, Thailand and the Philippines, for their part, registered agricultural growth rates between 3.5% and 4%. In 1989, the Asian region generated almost 90% of world rice production and 42% of world cereals production. China, India, Bangladesh and Thailand had record rice harvests thanks to a combination of good weather, greater use of high-yielding varieties, and an increase in the area planted with the cereal.

Table 2

SOVIET UNION: TOTAL CEREALS PRODUCTION, 1986-1990

(Thousands of metric tons)

	1986	1987	1988	1989	1990	Average 1986-1990	Percentage of total
Russia (RSFSR) ^a	117 968	109 084	102 807	112 360	127 000	113 844	53.5
Ukraine	43 063	50 184	47 388	54 900	53 200	49 747	23.4
Moldavia	2 044	2 011	3 052	3 538	2 600	2 649	1.2
Byelorussia	7 041	9 281	6 922	7 900	8 200	7 869	3.7
Kazakhstan	28 306	27 444	22 560	20 200	31 200	25 942	12.2
Transcaucasian Republics	2 035	2 057	2 504	1 607	2 400	2 121	1.0
Central Asia	3 447	4 443	4 775	4 071	4 400	4 227	2.0
Baltic Republics	6 164	6 897	5 050	6 324	6 800	6 247	2.9
Total	210 068	211 401	195 058	210 900	235 800	212 645	100.0

Source: U.S. Department of Agriculture, Foreign Agricultural Service.

^a Russian Soviet Federated Socialist Republic.

terms more than those of Japan. At the same time, the total agricultural exports of these countries also increased at a rapid rate—around 45%—between 1984 and 1989. In this period, the fastest growth of agricultural exports was registered by China (81%) and Thailand (57.2%). Thus, China has almost ceased to be a deficit country, and Thailand, Malaysia, Indonesia and India are net exporters (table 3).

It is interesting to note that in a number of countries agricultural export development has been accompanied by substantial growth of agroindustry. During the 1980s, another two nations—Thailand and Malaysia—joined the group of newly industrialized Asian countries.¹⁰ Unlike what happened so far in other countries of the region which are included in this category, however, Thailand and Malaysia are developing, within a rapidly expanding industrial sector,¹¹ a substantial agroindustrial subsector closely linked with export agriculture (FAO, 1990c, p. 55). In Thailand, for example, the average annual growth rate of exports of frozen poultry in 1984-1989 was 26%, and that of canned pineapple

was 14%. During the same period, exports of processed goods by Malaysia grew at an average annual rate of 10%.¹²

The success of Thailand and Malaysia in increasing their production and trade in traditional and non-traditional agricultural products, together with their capacity to create a dynamic and aggressive agroindustrial complex in order to export high-quality products, explain why they are considered newly agro-industrialized countries (FAO, 1990c, p. 55).

The dynamic development of the Asian region—one of the most striking economic and social phenomena of these final years of the century—opens up opportunities but also represents threats for the Latin American agricultural exporting countries. On the one hand, the economic growth and growing consumption capacity of their inhabitants are creating new markets for the products of the Latin American and Caribbean countries. On the other hand, however, the great dynamism of the Asian agricultural exporters may in time reduce the market shares currently won by Latin American enterprises, not only in the Asian region itself but also in Europe or North America.

¹⁰ This definition had already been applied in previous years to Hong Kong, the Republic of Korea, Taiwan and Singapore.

¹¹ In the 1980s, the average annual growth rate of the industrial sector was 30% in Thailand and 20% in Malaysia.

¹² This growth of the agroindustrial sector has formed part of the general growth of industries processing renewable natural resources. In the 1980s, for example, Thailand's exports of canned fish and shrimps grew at an average annual rate of 29% and exports of wood products grew at a rate of 21%. Malaysia's exports of rubber-based manufactures and wood products grew at average annual rates of 33% and 10% respectively.

Table 3

SELECTED FAR EASTERN COUNTRIES: IMPORTS AND EXPORTS OF
AGRICULTURAL PRODUCTS, 1984-1989

(Millions of dollars)

	Imports						Exports					
	1984	1985	1986	1987	1988	1989	1984	1985	1986	1987	1988	1989
Japan	18 446.4	16 865.9	18 129.8	20 934.3	26 805.4	29 059.5	853.7	755.3	834.6	947.5	1 016.3	1 073.6
China ^a	5 736.7	4 785.1	5 386.4	7 439.9	9 740.2	11 074.8	5 589.6	6 248.0	7 886.9	9 056.7	10 058.8	10 168.5
Republic of Korea	3 431.4	3 074.7	3 267.1	4 055.6	5 282.5	6 308.5	562.1	502.4	590.0	747.1	1 006.2	1 106.4
Hong Kong	3 569.6	3 542.0	3 707.3	4 758.9	5 738.1	6 293.3	1 279.9	1 467.8	1 644.9	2 173.4	3 020.3	3 272.3
Singapore	2 801.1	2 436.2	2 292.3	2 451.1	3 058.0	3 196.5	2 205.5	1 832.1	1 742.6	1 828.4	2 306.6	2 434.7
Malaysia	1 634.0	1 465.9	1 300.2	1 488.1	1 852.9	2 067.2	4 641.9	3 717.9	3 305.0	4 082.7	5 181.9	4 620.5
Thailand	651.1	547.9	571.1	771.9	1 056.6	1 248.8	3 821.3	3 202.7	3 596.0	3 949.0	5 045.5	6 010.2
Indonesia	1 117.1	903.5	934.7	1 124.0	1 319.3	1 625.2	2 462.0	2 475.2	2 528.3	2 769.9	3 323.0	3 184.4
India	1 941.6	1 650.5	1 311.3	1 582.7	2 319.8	1 426.7	2 259.2	2 264.6	2 376.1	2 373.4	2 207.4	2 469.0
Total	39 329.0	35 271.7	36 900.2	44 606.5	57 172.7	62 299.7	23 678.2	22 466.0	24 504.4	27 928.1	33 166.0	34 339.6

Source: FAO, *Trade Yearbook 1989*, Rome, 1990.^aIncluding Taiwan.

Indeed, in the main Asian market –Japan– the presence of Latin American products is not very great (5.9% in 1988) in spite of the great possibilities for

complementation between the economy of that country and those of the Latin American and Caribbean agricultural exporting countries.

III

The Uruguay Round

1. *The past extent of agricultural protectionism*

The direction taken by the processes of change in the Eastern European countries, as well as the processes of rapid development observed in the Far East, will decisively influence the evolution of world trade in agricultural products in coming decades. In the short term, however, the most important developments could emerge from the multilateral trade negotiations being carried out in the eighth round of GATT: the Uruguay Round. Their outcome will be of the greatest importance for world trade in general and agricultural products in particular. Indeed, the most important new feature of the Uruguay Round compared with previous GATT negotiating rounds has

been the extensive space reserved for agricultural issues on the agenda.¹³ As the debates have progressed, it seems evident that the success of the

¹³ Within GATT, agricultural issues had already been discussed in the Dillon Round (1960-1962), and more extensively in the Kennedy Round, where the opposing positions of the European Economic Community and the United States took shape quite clearly. In the Tokyo Round (1976-1979), agriculture was one of the main points of tension, and the discussions were also complicated through the lack of agreement between the United States and the EEC on procedural matters. The experiences of the Tokyo Round led to the formation in 1982 of an Agricultural Trade Committee made up of representatives of 57 nations, with significant presence of the developing countries. The work of this Committee made it possible to identify more precisely the issues and procedures for negotiation in the Uruguay Round. For a detailed analysis of the role of agriculture in GATT, see Basile (1991), Hathaway (1987) and Mine, Ingersent and Rayner (1989).

Round as a whole will depend on the possibility of reaching agreement on the liberalization of trade in agricultural products.

Another important feature of the Uruguay Round is the broad scope of the negotiations, which cover not only protective measures such as tariffs and import quotas, but also policies on subsidies for agricultural exports and the fundamental issue of subsidies and other support measures for domestic agricultural production.

The possible successful outcome of this Round could lead to a fundamental reversal of the tendency which has existed for over a century towards agricultural protectionism.¹⁴ With the depression registered in the last twenty years of the nineteenth century, the European countries began, one after another, to use tariffs to protect their agricultural production which was threatened by competition from Russia and from the new producers of those days, that is to say, the United States, Canada, Australia, New Zealand and Argentina.

The main reasons put forward in justification of protection were: i) the need to maintain a certain level of food self-sufficiency; ii) considerations connected with the "special nature of the sector";¹⁵ and iii) the need to protect the standard of living of the inhabitants of rural areas.¹⁶

With the crisis of the 1930s, the protectionist logic spread to the United States, which since that decade has displayed an attitude of openness with regard to trade in manufactures and protectionism with regard to agricultural trade.

After the Second World War, the United States progressed from defending its agriculture to active promotion of its agricultural exports. In its view, this involved the protection of a natural comparative advantage. Between the early 1950s and the beginning of the 1970s, United States agricultural exports grew fourfold and began to play a more important role in offsetting the trade deficits which grew more and more as from that period.

¹⁴ For more details of the past evolution of agricultural protectionism see: K. Anderson and Y. Hayami (1986), Basile (1990) and Jones (1989).

¹⁵ The concept of the "special nature" of the agricultural sector refers to the fact that agricultural activities run bigger risks than other sectors of production, because in addition to the risks inherent in any economic activity there are also those due to the weather and pests and diseases.

¹⁶ With the passage of time, the supporters of protectionism have also emphasized the "special social importance" of the agricultural sector in terms of both employment and political and territorial equilibria.

As long as the United States saw itself as an exporting country and the EEC as an importing area, the conflict between the United States agricultural export thrust and European agricultural protectionism remained latent. When the Community began to develop big export potential in direct competition with the United States, however, the trade conflict was manifested in increasingly open forms.

As well as stepping up the conflict, the protectionist instruments were refined and diversified.¹⁷ Tariffs were increasingly accompanied by quantitative restrictions, non-tariff duties, technical and customs barriers, and various forms of direct State intervention in agricultural markets (through subsidies for production and exports, acquisition of products by government agencies for price defence purposes, and political and diplomatic intervention in order to achieve voluntary self-restraint agreements with other countries).

Over the last hundred years of protectionism, the evolution of these instruments has also been accompanied by an evolution of the objectives pursued. There has been a gradual progression from policies involving closing markets or strengthening natural comparative advantages to policies designed to create artificial conditions of competitiveness for national agricultural producers.

It is important to note that the problems of international trade in agricultural products are of political importance, not only in the sense of the implications of these matters for the domestic policy of the various countries (electoral weight of farmers, food prices, regional policies, etc.), but also the growing international political dimension of agricultural trade. It might seem a paradox that in the last decade of the twentieth century, the most controversial aspect of trade relations between the two greatest economic areas in the world, the United States and the EEC, is agriculture. This international political dimension of agricultural issues is bound to last for many years to come, whatever the outcome of the Uruguay Round, because of the increasing importance that food and agricultural balances will have for the stability of various regions of Africa, South Asia, and, looking forward into the future, Latin America too.

¹⁷ Reference has been made to the "escalation" of protectionist instruments. See Basile (1991).

2. The positions of the various actors

The GATT rules on agriculture are relatively few in number, rather generic in nature, and moreover drafted in slightly ambiguous terms. In one way or another, they are strongly conditioned by the priorities which the contracting parties had at the time when the agreement was ratified. Thus, in keeping with the objective of permitting the consolidation of a world trade system which is as free as possible, some pains were taken to avoid introducing into the text any reference or declaration of principle on the "special nature" of the agricultural sector. In order to permit the reconstruction of European agriculture, however, some rules were incorporated which, in fact, were to give various degrees of protection to national agricultural production.¹⁸

What the Uruguay Round has aimed to modify in depth is therefore a complex of rules and established forms of behaviour which have governed international agricultural trade over the last 40 years. Furthermore, there has been an explicit desire to measure the effective obstacles impeding trade in agricultural products and to establish a clear conceptual connection between national agricultural policies and distortion of markets.

The main participants in the debates in this Round have been the United States; the EEC; the

Cairns Group;¹⁹ Japan, Korea, the Scandinavian countries and Switzerland, which share a marked sensitivity to domestic food security issues; and the developing countries which are importers of food.²⁰

These debates have highlighted above all the discrepancies between the two main negotiators – the EEC and the United States – over three points:

i) *The conversion of non-tariff obstacles to imports into customs tariffs which provide equivalent protection to begin with and could be gradually reduced to zero in the course of time.* So far, it has not been possible to reach agreement on this point for various technical reasons connected with the criteria for the determination of reference prices and years and the opposition of the European Community to a form of conversion into tariffs which does not provide for suitable "correction coefficients" for protecting the income of farmers from abrupt variations in international prices or fluctuations in exchange rates.

ii) *Reduction of domestic assistance and criteria for measuring it.* The European Community offered a 30% reduction of the global aid which it has been applying to products where it is known that there are serious structural imbalances: rice, cereals, sugar, meat, protein-rich foods, olive oil and oilseeds.²¹ This proposal has been considered unsatisfactory by other negotiators and by the United States in particular. An even more paralyzing element has been the discrepancy between the United States and the European Community on the criteria for measuring effective domestic aid. The United States negotiators proposed the use of producer subsidy equivalents, whereas the European Community advocated the use of a support measurement unit, because this essentially identifies aid affecting international markets.

¹⁸ These rules consist, primarily, of articles XI, XII and XIII, which permit the adoption of quantitative restrictions on imports and exports for various reasons (food crises, need to control international production, balance of payments problems). These articles are very important because in principle GATT does not permit the adoption of such instruments, since it considers them a form of "non-transparent" protection, in contrast with tariffs, which are the only form of "transparent" protection. In addition, article XVI, which is drafted in complex and rather vague terms, actually permits the adoption of subsidies. It is worth noting that the generic nature of the criteria and of the frame of reference selected in this article for imposing discipline on the adoption of subsidies lie at the root of the great majority of the controversies in GATT between the United States and the EEC in the period 1976-1986. Finally, article XXV.5 permits temporary exemption from the obligations of GATT in "exceptional circumstances". This rule has been repeatedly used by the United States since 1951 (in respect of dairy products).

¹⁹ The Cairns Group, named after the Australian city, is made up of 13 countries which are major exporters of agricultural products: five Latin American countries (Argentina, Brazil, Chile, Colombia and Uruguay), four Asian countries (the Philippines, Indonesia, Malaysia and Thailand), three countries from Oceania (Australia, New Zealand and Fiji), and one Eastern European country (Hungary). As may be seen, this is a group of countries which are quite different in their general economic structures but share the common feature of being efficient exporters of temperate-zone agricultural products.

²⁰ Among these countries, a particularly active role has been played by Egypt, Jamaica, Mexico, Morocco, Nigeria and Peru.

²¹ Some of these products are of great importance for the Latin American and Caribbean region.

iii) *Export subsidies*. The United States proposes the total elimination of these subsidies over a period of five years, whereas the European Community proposes a system of gradual reduction, combined with "correction coefficients".

Both the question of domestic aid and that of export subsidies form part of the same fundamental issue for the long-term interests of the developing countries: that of the net transfers of resources which the industrialized countries regularly make to their farmers in order to create artificial competitiveness, evading the cost differences with producers in developing countries. In order to appreciate the real dimension of these transfers, it may be recalled, for example, that in 1988 the global transfers by the OECD countries to their agricultural sectors totalled US\$266.7 billion, that is to say, a value comparable to that of the entire world agricultural exports in that year (US\$287.2 billion). In 1989, these transfers grew still further to US\$299 billion while world exports of agricultural products came to US\$299.9 billion in the same year (table 4).

It may be seen from table 4 that, with the notable exception of Australia and New Zealand, which are big exporters of agricultural products, all the OECD countries heavily subsidize their agriculture.

It is obvious that a reduction of subsidies and, in general, a successful outcome of the Uruguay Round, would considerably increase the relative competitiveness of the developing countries which export agricultural products. At the present time, however, the great processes of openness which are taking place in many areas of the developing world, especially Latin America and the Caribbean, are creating an unbalanced situation between a South which is opening up its economy and a North which is engaging in protectionism.

After the resumption of the Uruguay Round negotiations, the prospects of reaching agreement on agriculture could improve as a result of the debate on the reform of the Common Agricultural Policy which is taking place within the EC. The agricultural budget, which absorbs two-thirds of the entire Community budget, grew by 20% in 1991 compared with 1990, and initial calculations on the 1992 budget indicate a possible increase of 12.6% compared with 1991. In view of these spectacular increases, together with the growing imbalances which exist in the markets for cereals, beef and mutton, milk and wine, the

Commission of the European Community has prepared new guidelines for a fundamental reform of the Common Agricultural Policy. If this reform is finally approved by the member countries, it could open up the way for an agreement within the Uruguay Round (ECLAC, 1991).

At the same time, it is important to bear in mind that not all the individual countries within the Community take the same positions. The main concern of Germany is to defend the income levels of its agricultural producers, while other countries, such as France, also want to defend the export capacity of their agriculture. These internal differences markedly reduce the freedom of action of the Community negotiators.

For the North American negotiators, on the other hand, the main objective is to defend their agricultural trade surplus. The United States, in particular, regularly turns in a positive balance on its external agricultural trade. In the last two years, however, that positive balance has begun to be threatened by the reduction in the volumes exported and in the prices obtained. In other words, United States agricultural exports have suffered the effects of the same phenomena which are affecting some developing countries. In the light of these circumstances, and in view of the importance that the agricultural surplus has for a trade balance like that of the United States, which registers an overall deficit, it is easy to understand the efforts which that country is making to gain greater access to the markets of Europe and Japan. These United States efforts are clear proof of its declared will to increase the volume of its agricultural exports to all markets. In the coming years, the United States will probably further intensify its promotional activities in two geographical areas in particular: firstly, in Latin America and the Caribbean, within the trade openness initiatives which are underway throughout the region; and secondly, in the Republics of the former Soviet Union, and especially Russia itself. Indeed, of the US\$4.5 billion which the United States has so far promised to the members of the Community of Independent States (CIS) as a whole (Crisafulli, 1991; Marti, 1992), US\$3.75 billion correspond to guaranteed agricultural credits. At the same time, other credits will be given to the group of former communist countries through a specialized agency (the Commodity Credit Corporation), in order to enable them to purchase agricultural

Table 4

**ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD):
TOTAL TRANSFERS TO AGRICULTURAL SECTOR**
(Billions of dollars)

	Fiscal transfers ^a				Transfers paid by consumers ^b				Fiscal income ^c				Total transfers			
	(1)				(2)				(3)				(1)+(2)-(3)			
	1987	1988	1989	1990	1987	1988	1989	1990	1987	1988	1989	1990	1987	1988	1989	1990
Australia	0.3	0.2	0.3	0.3	0.4	0.4	0.4	0.4	-	-	-	-	0.7	0.6	0.7	0.7
Austria	1.0	1.0	0.8	1.1	2.8	2.6	2.0	2.7	-	-	-	-	3.8	3.5	2.8	3.8
Canada	5.6	5.7	4.3	4.7	3.6	3.6	3.5	3.6	0.1	0.1	0.1	0.1	9.1	9.3	7.8	8.3
EC (12 countries)	38.2	45.6	41.3	49.3	82.7	75.0	61.9	85.1	0.9	1.0	0.8	1.0	120.0	119.6	102.4	133.4
Finland	1.6	1.8	1.7	2.2	3.1	3.3	3.2	3.8	0.3	0.1	-	0.1	4.4	5.0	4.9	5.9
Japan	17.9	19.6	18.0	14.9	60.0	65.6	59.0	54.7	11.5	15.0	11.7	10.6	66.4	70.1	65.3	59.0
New Zealand	0.1	0.1	-	-	0.1	0.1	0.1	0.1	-	-	-	-	0.1	0.2	0.1	0.1
Norway	1.8	1.9	1.8	2.1	1.8	1.7	1.6	2.2	0.2	0.1	0.1	0.1	3.3	3.5	3.3	4.2
Sweden	0.6	0.6	0.5	0.5	2.7	2.6	2.7	3.0	0.2	0.2	0.1	0.1	3.1	3.0	3.1	3.4
Switzerland	1.7	1.8	1.8	2.1	4.5	4.7	3.9	4.9	0.8	0.8	0.6	0.7	5.4	5.7	5.0	6.2
United States	51.6	44.2	47.8	47.1	31.4	26.0	24.2	27.9	1.4	1.0	0.7	0.9	81.5	69.1	71.3	74.1
Total	120.3	122.3	118.4	124.3	192.9	185.6	162.6	188.3	15.3	18.4	14.2	13.6	297.8	289.6	266.7	299.0

Source: OECD estimates.

^a Fiscal transfers include State, federal and Community taxes.

^b Transfers paid by consumers represent additional outlays which consumers in the various OECD countries must make as a result of national price support policies and protectionist measures.

^c Fiscal income generated as a result of price policies occurs only in the case of products in which the countries are not self-sufficient.

products from the United States. Some US\$2.5 billion were granted through the Commodity Credit Corporation in 1991, and a third credit of US\$1.25 billion was agreed in November 1991. The CIS currently absorbs between 25% and 30% of the agricultural

exports of the United States, and in the short and medium term, until the agricultural sector of the former Soviet Republics is fully reorganized, the percentage of United States agricultural exports that goes to these markets is bound to increase further.

IV

Trade liberalization prospects and the developing countries

A successful outcome of the Uruguay Round would lead to at least the partial liberalization of international trade in agricultural products. At present the leeway open to the negotiators is not very great, especially in view of the pre-electoral period in the United States and the debate on the reform of the Common Agricultural Policy in the member countries of the European Community. As the months go by, however, the prospects of a compromise

agreement could become more likely. Open failure of the Uruguay Round would have very strong adverse psychological effects on the economic agents, precisely at a moment when the signs of world recession are already very serious.²²

²² According to an updated version of the United Nations *World Economic Survey 1991*, total world production and income went down in 1991 for the first time since the Second World War.

If the negotiations have a satisfactory outcome, this would strengthen general confidence and have a substantial anti-recessionary effect.²³ Moreover, the Uruguay Round already involves too many vital sectors of the world economy to be allowed to fail merely because of the impasse over agricultural trade.²⁴

It therefore seems important to try to guess in advance what effects international agricultural trade liberalization is likely to have on the economies of the developing countries.

In recent years, a number of analytical models have been prepared, some of them of high formal sophistication, which are expressly designed to cover the problem of the effects such liberalization would have on the various markets (Goldin and Knudsen, eds., 1990). The set of models presents multiple scenarios for different degrees of liberalization and different analytical approaches (partial equilibrium models, general equilibrium models; cases of a single product or several products; partial or specific markets, etc.). In general, they have been criticized, *inter alia*, for not taking account of the existence of preferential trade agreements (the Lomé Agreement, the Caribbean Basin Initiative, etc.); for not having paid sufficient attention to the question of food security; for not having taken account of the reactions of the countries concerned when presenting hypotheses on price variations, and not having highlighted the differences of basic interests between the various groups of developing countries (Ananfa, 1990). Nevertheless, it is interesting to make a rapid review of the results of these models, which are the only analytical instruments available so far for gaining some indications of the trends that might be followed in terms of the possible effects of liberalization on agricultural markets.

²³ As the Director-General of the International Monetary Fund expressly stated in his address before the Economic Commission for Latin America and the Caribbean on 29 November 1991: "Nothing could do more to strengthen the medium-term growth prospects of the developing countries, and the industrial countries too, than the successful completion of the Uruguay Round. This would boost confidence precisely at the moment when it is most needed".

²⁴ There are 14 issues under negotiation in the Uruguay Round: 1) tariffs, 2) non-tariff measures, 3) natural resource-based products, 4) textiles, 5) agriculture, 6) tropical products, 7) the articles of GATT, 8) multilateral agreements, 9) safeguard measures, 10) subsidies, 11) intellectual property rights, 12) investments, 13) settlement of disputes, and 14) functioning of the GATT system.

In general, the analysis of these results indicates that the developing countries will be the most affected—positively or negatively, depending on the particular cases—by the liberalization of agricultural trade. In a way, this is obvious, since the agricultural sector is relatively much more important to the developing countries than to the developed nations.

In the short and medium term, efficient exporting countries, such as the Cairns Group countries, will considerably increase their exports and earnings.

The food importing countries, on the other hand, will be adversely affected in the short and medium term by the increase which is expected in the prices of many products. All the models foresee an increase in the short and medium term in the prices of meat, dairy products and sugar. Moreover, all of them except the MTM model of the OECD (Moreddu, Parris and Huff, 1990) also foresee increases in the prices of cereals for human consumption. In the case of basic grains for animal feed, the results are more open to controversy. Thus, both the MTM model and the model prepared by Zietz and Valdés (1990) foresee a decline in prices as a result of the crisis in the stock-raising sector of the OECD countries caused by the liberalization of markets. The other models, however, foresee an increase in prices in the basic feed grains sector also.

Examination of the models also clearly reveals that if there were liberalization of the export markets of the developing countries together with liberalization of the OECD import markets, the rise in prices would be significantly less in the medium term.

In other words, if the policies of the developing countries adopted an export bias and if they abandoned, at least partially, the tax, exchange rate (overvaluation of the exchange rate) and tariff (duties on inputs) measures which make it less attractive to produce for export, this would considerably increase the possibility that farmers in the developing countries could respond rapidly to the new opportunities created in international markets as a result of liberalization in the OECD countries.

Thus, simultaneous liberalization in North and South would cause a gradual change in the geography of trade flows, together with a general increase in efficiency instead of a mere generalized rise in prices (Krissoff, Sullivan and Wainio, 1990). This makes clear the fundamental strategic importance of the transmission mechanisms between international and domestic prices in developing countries which are exporters of such goods.

Consequently, the rise in international prices would be a strong stimulus for the agricultural supply of the developing countries. In the medium and long term, it would also stimulate technological change, with consequent increases in yields. With time, the increase in international prices could be reabsorbed. It is important that the whole process should be of a gradual nature: rapid increases in food costs could have very severe political and social consequences for the importing countries, while the gradual nature of the process could facilitate the adjustment of both the importing and exporting countries.

At all events, it is necessary to highlight two unknown quantities which the models do not help to solve because of their inherent methodological approach. Firstly, it is not clear what aggregate effect the big changes in the structure of international prices will have in the medium term on the aggregate supply of China, the Eastern European countries, and the members of the CIS. Because of the size of their total agricultural production, even modest percentage increases in the supply of countries such as China or India could have big effects on prices.

Secondly, it is not clear either what impact the strategies of the big transnational firms are likely to have on the agricultural food market. In view of the market shares controlled by these enterprises,²⁵ the hypothesis of perfect competition which is at the basis of the great majority of the models seems unrealistic, at least for some products. The intermediation of the big transnational corporations means that agricultural producers in the exporting countries are faced in many markets with an oligopsony, while consumers in the importing countries are supplied through an oligopoly.

For many developing countries, the negotiations specifically devoted to tropical products have been of special importance. The position of the developed countries with regard to these products has generally been more flexible than in the case of other products.

The specific objective of the negotiating group within the Uruguay Round has been to secure the fullest possible liberalization of trade in these products, including their trade in processed and semi-processed form, extending to all the tariff and non-tariff measures affecting this trade. According to the Punta del Este Declaration, this sector should receive special attention, in view of the importance of the trade in tropical products for many developing countries.²⁶

The main achievement of these negotiations has been the unilateral granting of tariff reductions by a number of developed countries, which began to be applied in January 1989. Subsequently, other more far-reaching proposals have been put forward, but the developed countries have linked the results of the negotiations in this field with those attained in other groups. Furthermore, their markets have tended to become less and less open as the degree of processing of products increases (Ananfa, 1990). This has been reflected in the phenomenon of tariff scaling already referred to.

Since it is very important for the developing countries to progress from the phase of developing agricultural exports to that of developing agroindustry, the problem of tariff scaling must be given due consideration by all the interested parties.

A final point that should be highlighted is that of the possible effects of the liberalization of agricultural markets on food aid flows. So far, the existence of big surpluses in the North has been an important prior condition for the food aid plans designed to help many developing countries. If trade liberalization not only puts an end to the tendencies of agriculture in the developed countries to produce surpluses but also leads to the cessation of food aid, this could result in famine in a number of areas of the world. It is therefore important to strengthen and suitably modify the bilateral and multilateral food aid mechanisms, in order to avoid emergencies that will be difficult or impossible to cope with when the effects of the liberalization begin to be felt.

²⁵ In the early 1980s, for example, five big firms controlled around 90% of the wheat and maize exports from the European Community, almost 90% of the exports of Argentine wheat, and 90% of exports of Australian sorghum. At the same time, four enterprises controlled between 60% and 65% of the world sugar market and three enterprises controlled 60% of the cocoa market. For more details on these points, see Davies (1986) and Cramer and Heid (1983).

²⁶ Although there is no agreed definition of tropical products, the negotiations of this group have covered the following product groups: tropical beverages (coffee and coffee products, cocoa and cocoa products, tea and instant tea); spices and essential oils, cut flowers, plants, vegetable materials, lacs, etc., and products thereof; certain vegetable oils, oilseeds and oilcake; tobacco and tobacco products; rice, cassava and other roots of tropical plants, and products thereof; bananas and banana products, and other tropical fruits and nuts and products thereof, including fruit juices; tropical timber and products thereof; natural rubber and rubber products; and jute and hard fibres.

V

Conclusions

The second half of the 1980s was a difficult period for agriculture in the developing countries. The deterioration of the terms of trade, the weakness of the markets for their commodity exports, the external debt burden and inflationary tensions all combined in a number of regions of the world to depress income and wages and bring down the standard of living of broad sectors of the population. These were years in which many countries asked too much of agriculture. On the one hand, it was asked to feed a growing population, and on the other it was asked to provide the resources needed for financing the debt and imports.

Although the growth rate of the value of the agricultural exports of many developing countries has been going down and, in any case, has been below the growth rate of the agricultural exports of the OECD countries and some Asian countries, in a number of cases – particularly in developing countries which do not have mineral resources – agriculture has become the main source of foreign exchange.

Whatever the outcome of the Uruguay Round, the 1990s will be a period of intensive competition on international agricultural markets. If the OECD import markets are liberalized, it may be expected that initially there will be a rise in the prices of many temperate zone products, including basic grains for human consumption. It is foreseeable, however, that in the long term prices will go down once again unless there are profound structural changes in the composition of world agricultural demand.

There is a key point which is of fundamental importance in all this: the basic problem of world agricultural trade, and the factor which severely limits its development possibilities, lies in the gulf between potential demand and the resources needed to turn that potential demand into effective demand. As long as the markets of the developing countries are not in a position to purchase the agricultural products they need to feed their growing populations, the development possibilities of world agricultural trade will always be limited.

The new markets which are opening up for renewable natural resources undoubtedly offer big opportunities for innovative countries or enter-

prises which – through new products, new transport technologies or new trade strategies – are able to incorporate themselves successfully into this trade and take advantage of unexploited market segments or niches. Regional and world experience shows, however, that with the passage of time other competing countries enter international markets, giving rise to crises of over-supply and falling prices. The industrialized countries have limited markets for new renewable primary commodities, and the cycles of expansion and saturation are currently quite short. It may therefore be very important to study these spaces and cycles when preparing national development strategies.

It would be desirable to initiate, expand or consolidate some agricultural export chains, promoting their efficiency and competitiveness by various means, provided that these options are not at variance with the essence of a growth and development strategy. Except in some very special situations, diversifying primary production for the purpose of domestic or export supply does not seem to be a sufficient basis for a long-term development strategy, no matter how promising some agricultural export chains may seem.

It is obvious that the various agricultural exporting countries must pursue agroindustrial development in order to progress to a more complex level of production and increase the diversification of their exports. Agroindustrial development also favours the internal linkages of the economy, speeds up the process of social and production modernization in rural areas, and leads to the production of goods which can readily be sold on domestic markets. Even when conceived in the broadest terms and oriented to both the domestic and the international market, however, agroindustrial development alone cannot radically change the situation of the agricultural exporting developing countries.

Latin America and the Caribbean must follow up with the greatest attention the changes which are taking shape in the world markets for agricultural products, including the evolution of the agricultural sector of the Eastern European countries and the Republics which made up the former Soviet Union; the changes in the Asian economies, which are

making decided progress towards greater food self-sufficiency and even towards the conversion of their agricultural sector into an important source of exports; the evolution of the tensions between the leading countries which export temperate-zone agricultural products, as reflected in the Uruguay Round; and the relatively rapid saturation which is taking place in the markets for new products, especially tropical and subtropical products, into which various African and Asian countries are trying to penetrate.

Consequently, processes of economic openness based mainly on incorporation into international trade through agricultural or agroindustrial products call for close and cautious attention.

In conclusion, it may be noted that, within the economic trends predominating today, greater economic openness, together with the simultaneous reduction of the regulatory capacity of the State, may be leading in some countries to the creation of new forces tending to concentrate renewable natural resources. The trend towards greater concentration could be channeled through the exchange of external debt for resources and through the transnationalization of the ownership or use of renewable resources. This phenomenon would be strengthened by the tendency to rediscover comparative advantages with regard to the enhancement of such resources by processing.

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