The internationalization of U.S. agriculture

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Agricultural trade is a major component in the international trade account of the United States. The agricultural community can take pride in the important contribution of American farms and ranches toward feeding the peoples of the world. Assisted by its natural attributes of abundant and rich farmland and a generally temperate climate in combination with unsurpassed warehousing facilities, this country serves as the world's food storehouse. The United States is the primary supplier of numerous agricultural commodities to many countries, and it is also a major but marginal supplier to many others, including a number of the world's leading importers. Foreign buyers are heavily dependent on the reliability of supplies from the United States.

An equally important fact that often goes unrecognized is the profound dependence of American agriculture on its freedom of access to foreign markets. The internationalization of American agriculture has been a major contributor to the economic health of the industry. But, it has also opened the industry to the vagaries of international political gamesmanship and trade protectionist sentiment. The potential rewards of internationalization are considerable, but the associated risks of greater dependence on foreign markets have also increased.

Agriculture and the U.S. trade balance

Trade in agricultural commodities has been one of the few continuously bright spots in the U.S. merchandise trade account during the past decade. The dollar value of domestically produced agricultural exports increased nearly sixfold from $7.7 billion in calendar 1971 to $41.2 billion in 1980 and is expected to total about $45 billion in 1981. Imports of agricultural commodities also grew substantially during the decade but at only one-half the export rate, increasing threefold from $5.8 billion to $17.4 billion in 1980. The agricultural trade surplus rose from $1.9 billion in 1971 to $23.9 billion in 1980. As a result, agricultural trade has contributed in an increasing and positive manner to the overall merchandise trade balance.

Agriculture has not always been a net positive contributor to the U.S. trade balance. Prior to World War II, agricultural imports typically surpassed the value of farm commodity exports. During the war and the following years, the United States was the world's largest buyer of agricultural imports, and the trade surplus in agricultural commodities was small or even negative. However, after World War II, the United States became a major agricultural exporter, and the trade surplus in agricultural commodities has been a significant contributor to the overall trade surplus.

Indeed, until fairly recently agricultural commodities dominated the value of total U.S. imports. In 1940, agricultural imports accounted for an average of more than two-fifths of the value of all imports. By 1970 the share had dropped to 15 percent and in 1980 it was 7 percent.

Agricultural exports under government financed programs decline

*Includes exports under PL 480, the Mutual Security Act, and the Agency for International Development. Not included are shipments financed through Commodity Credit Corporation credits, Eximbank loans or guarantees, or the sale of government-owned inventories at less than domestic market prices.
Rapid growth in U.S. agricultural trade—a recent phenomenon

At least three major factors contributed to this phenomenon: increasingly market-oriented prices for farm commodities, which made U.S. commodities more competitive in the world market; the opening of the Soviet and Chinese markets as political tensions eased during the decade; and rapidly increasing incomes abroad, which contributed to a shift in consumption patterns and a marked increase in the dietary demand for meats and high protein foods. The last factor in particular contributed to a large increase in foreign demand for U.S. feed grains, especially corn, and soybeans as foreigners increased their livestock production in order to improve the protein content of their diets.

Japan continued as the largest single-country foreign market for U.S. farm products in 1980, as it was throughout the 1970s and much of the 1960s. Its dominance as a U.S. export market is maintained on the strength of its demand for feed grains, soybeans, and wheat. In 1980 Japan took $2.1 billion of U.S. feed grains, more than double the value of such shipments to any other country. Japan imported $1.1 billion of U.S. soybeans and $596 million of wheat. In total, U.S. agricultural shipments to Japan were valued at $6.3 billion in 1980, 15 percent of all U.S. farm commodity exports.

The nine-member European Common Market (EC) was the largest consolidated market for U.S. farm commodities—accounting for $9.3 billion, or 22 percent of the total. Four of the 12 leading foreign markets are contained within the borders of the EC—the Netherlands, West Germany, Italy, and the United Kingdom. These four countries accounted for 80 percent of the value of U.S. shipments to the EC. Agricultural shipments to the EC have been heavily in the animal feed category. Feed grains and oilseeds and oil-

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New markets in the 1970s

In the 1970s U.S. agricultural exports virtually exploded—in value as well as in quantity. At least three major factors contributed to this phenomenon: increasingly market-oriented prices for farm commodities, which made U.S. commodities more competitive in the world market; the opening of the Soviet and Chinese markets as political tensions eased during the decade; and rapidly increasing incomes abroad, which contributed to a shift in consumption patterns and a marked increase in the dietary demand for meats and high protein foods. The last factor in particular contributed to a large increase in foreign demand for U.S. feed grains, especially corn, and soybeans as foreigners increased their livestock production in order to improve the protein content of their diets.

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2 Greece became the tenth member on January 1, 1981. In 1980 the United States exported $307 million in agricultural products to Greece. Among EC members only Denmark and Ireland are smaller markets (Belgium and Luxembourg are considered as a single market). The other nine EC members are: Belgium, Denmark, France, West Germany, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom.
seed products accounted for over 60 percent of U.S. agricultural exports to the EC in 1980.

Apart from the continuing importance of the EC, Japan, and Canada—Canada has traditionally been a large market for U.S.-produced animals, fruits, and vegetables—the relative importance of other foreign markets has varied substantially over the years. To some degree this reflects the fact that the United States is a marginal supplier of agricultural commodities on the world market. Its large productive capacity and typically substantial stocks, made possible by a large storage capacity for grains, have made it a ready source to fill gaps in supplies resulting from poor crops elsewhere.

In 1971, for example, the USSR purchased only $45 million of U.S. farm commodities. But in 1973, following the Soviet crop disaster of 1972, U.S. agricultural exports to the USSR surged to $1 billion. By 1979 the figure had reached $4 billion, making the USSR the second largest single-country foreign market for U.S. farm commodities. The rapid development of the USSR as a market for U.S. grain was cut short following the Soviet invasion of Afghanistan in December 1979 and the subsequent partial embargo imposed by the United States on exports to the USSR. U.S. agricultural exports to the USSR declined to $1.1 billion in 1980. Nonetheless, the USSR still ranked as the tenth largest foreign market for U.S. agricultural products, ahead of such traditional major markets as the United Kingdom and Taiwan.

Mexico and China provide other examples of how the market has changed during the past decade. Agricultural exports to Mexico in 1971 were $128 million, less than 2 percent of the U.S. foreign market. By 1980 they had risen to $2.5 billion, or more than 6 percent of U.S. exports, making Mexico the third largest single-country market for U.S. farm products. China imported no U.S. agricultural commodities in 1971, but as political relations between the two countries improved in the mid-1970s so did the volume of trade. By 1980 China was the fourth largest foreign market for U.S. agricultural products, accounting for $2.3 billion or 5.5 percent of the value of U.S. exports of agricultural products.

In an attempt to stabilize fluctuations in demand for U.S. products, the U.S. govern-

\[^{3}\text{Some observers have suggested that in fact the causal relationship may have been reversed; that is, China's need for U.S. grains initially helped contribute to a relaxation in political tensions. The same phenomenon may have contributed to the opening of the Soviet market.}\]

Economic Perspectives
ment in recent years has entered into bilateral trade agreements with the countries that constitute the major nontraditional markets—the USSR, China, and Mexico. The intent of these agreements has been to guarantee simultaneously that U.S. exporters as marginal suppliers will be able to sell a specified minimum quantity of agricultural products in these foreign markets and that foreign buyers will be able to buy a specified minimum quantity from the United States.

In some cases, these agreements may be used to set a ceiling on the volume of U.S. commodities that may be purchased by the foreign parties to the agreements in a given year. Such restrictions would be imposed to maintain "acceptable" supply/price relationships in the U.S. domestic market, as well as in the traditional foreign markets, in the event of a short U.S. crop or exceptional demand from the foreign markets.

Impact on U.S. agriculture

Agricultural exports have had a dramatic impact on U.S. agriculture. American farmers, especially those in the primary grain and soybean growing areas, have become progressively more dependent on foreign markets for their livelihood. In 1950, the value of total agricultural exports was about 10 percent of farmers' cash receipts from sales of farm commodities. During the next 20 years, exports as a proportion of cash receipts increased gradually, reaching 15 percent by 1971.

A marked acceleration in the dependence of U.S. farmers on foreign markets occurred during the 1970s, and by 1979 agricultural exports accounted for 24 percent of cash receipts from commodity marketings. In the agricultural heartland of the corn belt and lake states, the shift was even more dramatic, with exports increasing from 16 percent of cash receipts in 1971 to 30 percent in 1979.¹

Today, though it is not widely recognized, American agriculture relies on the export market for its vitality to a greater degree than any other major industry group. As a result, the maintenance of a strong world economy, amicable and stable political relationships, and steadfast resistance to pressures for trade restrictions that could adversely influence its foreign markets, are of vital importance to the prosperity of the industry.

As American agriculture has become an international industry, its vulnerability to the vagaries of international economic and political developments has increased correspondingly.

The internationalization of the industry has clearly affected the structure of the industry. During a time when technological developments have contributed to a sharp reduction in the number, and a significant increase in the average size of U.S. farms, the increased foreign demand for agricultural products may have helped keep afloat some farming operations that would otherwise have disappeared. It may also have kept other farms operating at a higher level of capacity utilization than would otherwise be the case. Concurrently, the increased production associated with supplying rapidly expanding foreign markets has heightened concern within the industry over the impact of recent changes in cultural practices on the industry's long-term productivity.

Biological scientists, in particular, have pointed out that these rapid increases in production have contributed to an intensification in cultural practices that has accelerated soil erosion and the depletion of this nonrenewable resource. Thus, while the internationalization of American agriculture has contributed greatly to the industry's growth and short-run prosperity, it has not occurred without cost. The magnitude of that cost has yet to be determined.

¹In the U.S.-USSR grain agreement, for example, the USSR agreed to purchase 6 million metric tons of grain annually (roughly equal proportions of wheat and corn) and the United States agreed to supply up to 8 million tons annually without special authorization. Purchases in excess of 8 million tons required U.S. government approval. The original agreement with the USSR went into effect in 1976 and expired this year. With the lifting of the embargo in late April, discussions between representatives of the U.S. and USSR began in August and concluded with an agreement to extend the provisions of the original accord for one year—through September 30, 1982.

¹These eight states are: Illinois, Indiana, Iowa, Michigan, Minnesota, Missouri, Ohio, and Wisconsin.