

THE COMPETITIVE POSITION OF SOUTHERN COMMODITIES IN INTERNATIONAL MARKETS: A SYNOPSIS

Leo C. Polopolus

HISTORICAL PERSPECTIVE

International markets have been important to Southern agriculture since the 17th century. During that early period, the colonization of the South was primarily oriented to the production of such crops as rice, tobacco, forest products, and cotton for export to Europe (McPherson and Langham). In more recent times, the South has also been an important source of exports of wheat, corn, and soybeans.

For the basic commodities (cotton, tobacco, peanuts, corn, rice, and wheat), the domestic farm policies have insulated producers from the realities of international markets since the 1930s. However, the South contributed its fair share of United States exports of wheat, rice, feed grains, and soybeans to a hungry world market in the 1970s. As is well known, the decline in international sales of agricultural commodities in the 1980s has been caused by several factors, particularly the relatively high value of the United States dollar and the protective nature of United States price support programs.

The important point about reviewing the historical pattern of the South is that dramatic adjustments in output levels and commodity mix have occurred. For example, cotton and tobacco have been replaced by cattle, soybeans, and broilers as the major commodities in terms of cash farm receipts in the South (Sumner). Adjustments have occurred because of responses to competitive import problems (with other regions of the United States and other nations), as well as competitive situations in exports (from the region to other regions of the United States and other countries).

MARKETING INSTITUTIONS

The paper by Professor Schmitz presents a revealing portrait of an important aspect of international trade and competition not commonly discussed by professional agricultural economists, i.e., how marketing institutions function and perform in the context of international commodity marketing (Schmitz). What we find is a quite complex world of public traders, private traders, domestic policies, and international policies. In some situations, private traders may be the most important actors in carrying out the details of international transactions even where trading was initiated between state traders in both the exporting and importing countries, eg., wheat. On the other hand, international trade may involve various combinations of multinational trading firms, brokers, and government trading agencies. The existence of broadly recognized futures markets usually results in international markets with lower transactions costs, when compared with transactions costs in international markets where futures markets are not established. Political factors and political affiliations can also have a major impact upon trading patterns.

Professor Schmitz concludes that international marketing institutions are reasonably efficient. But by being so efficient, exporting nations, such as the United States, may suffer from increased competition and lower producer prices. He argues that more cooperation among exporters would be desirable. One can seriously question, however, the probable effectiveness of a grain or other agricultural commodity cartel in light of the recent OPEC experience. Even if there is

Leo C. Polopolus is a Professor, Department of Food and Resource Economics, University of Florida.

Invited paper presented at the annual meeting of the Southern Agricultural Economics Association, Orlando, Florida, February 2-5, 1986. Invited papers are routinely published in the July *SJAE* without editorial council review but with review of the copy editor (as per Executive Committee action June 25, 1982).

Copyright 1986, Southern Agricultural Economics Association.

some inefficiency in international marketing due to private and public institutions, the distortions created by marketing institutions pale to the impact of government policies, such as price support mechanisms, upon international trade and competition.

INTERNATIONAL POLICIES

The paper by Dr. Chambers represents a useful analytical attempt to develop a framework for identifying interfaces between domestic and international agricultural policies (Chambers). The analysis is constrained alternatively for food security (self sufficiency), revenues (taxes) from trade, and income redistribution. While the model framework is developed for "small" countries, it appears to make sense for larger countries as well, particularly with the food security constraint.

On a more general basis, agricultural exports are sagging and imports of competitive agricultural products are increasing. There is a serious need to reevaluate international trade policies of the United States in the context of the trade policies of other nations and common markets. Is the problem of our worsening competitive position in international markets due to policy matters or to fundamental changes in relative efficiency in food and fiber production and marketing?

It is commonly known that multilateral trade negotiations within the framework of the general agreements on tariffs and trade have produced some trade liberalization for non-labor intensive manufactured products, but only poor progress for agricultural products. And while the Kennedy and Tokyo rounds have succeeded in lowering some tariff rates, much less progress has occurred in reducing non-tariff barriers, such as import quotas, variable levies, state trading, artificial health and safety standards, export subsidies, and direct payments to producers.

The dilemma of international trade policy is one of balance between trade liberalization and domestic industry protection. On the one hand, the United States promotes free trade with the recent passage of the Caribbean Basin Initiative (CBI). The CBI provides one-way free trade for potentially 28 countries (Polopolus). On the other hand, the 1985 Farm Bill provides for export subsidies and other programs to support and protect domestic producers from international competition.

Focus of many commodity groups in the South has been upon lessening the protective and trade restrictive practices of the European Economic Community (EEC) and Japan. The EEC's variable levies and other tactics have hampered export opportunities in grains, soybeans, and citrus, among other products. While there is some easing of restrictive practices, Japan has limited the free flow of beef, citrus, tobacco, and other products of the Southern region through import quotas, licensing arrangements, and environmental regulations.

The problem of competitive imports is deemed a serious problem for many agricultural producer groups in the Southern region. The region's production of flowers has been lost to Central and South America. Brazil now accounts for roughly one-half of the American consumer's consumption of orange juice, beef imported from Latin America and Australia has displaced a sizeable portion of the South's beef market, winter fresh vegetables from Mexico account for a major portion of the national supply, foliage materials from the Caribbean region and Central America are becoming increasingly competitive in United States markets, and Canadian forest product imports are threatening the Southern pine industry.

The policy vehicles for dealing with unreasonable dumping of foreign products into United States markets are available through the United States International Tariff Commission and Section 22 of the Agricultural Adjustment Act. The United States International Tariff Commission has the authority to impose "antidumping" duties in cases where the United States Treasury Department finds that import sales are made at less than fair value and the United States Tariff Commission finds that injury to the domestic industry has occurred. Under Section 22, the Secretary of Agriculture may impose quotas or fees on imported products likely to adversely affect our price support program.

TERMINATION OF DOMESTIC FARM POLICIES

The analysis by Professor Tweeten suggests that the South now has a diminished comparative advantage for traditional crops, such as cotton and sugar as well as probably rice and tobacco. That is, cotton, tobacco, rice,

and sugar would be disadvantaged in the South by a dismantling of government price support mechanisms. On the other hand, a free trade environment would improve the South's comparative advantage in wheat, soybeans, broilers, and cattle and calves (Tweeten).

In terms of impact upon farm size, Professor Tweeten's analysis reveals that a termination of domestic farm policies would favor large and small farmers, as opposed to medium sized farmers. This would simply speed up the current process of the development of a bimodal distribution of large and small, part-time farms in the South.

An important point made by Professor Tweeten is that macroeconomic policy variables, such as the value of the United States dollar, the budget deficit, and interest rates, have more impact upon relative profitability and competitiveness of southern agriculture than the level of protection afforded farmers via the Farm Bill.

THE UNDERLYING COMPETITIVE FACTORS

Professor Sumner's paper provides a thinking man's discussion of the competitive position of "southern" commodities (Sumner). There is a baffling question as to what are "southern" commodities. None of the papers discussed turnip greens, okra, and southern peas. Seriously, the boundaries of the South are not uniquely defined and commonly agreed upon by all analysts. There is such heterogeneity of resources and climate within the region that few commodities are produced evenly across the region.

The term "comparative advantage," when defined in a multiple factor, multiple country world, becomes so ambiguous that Professor Sumner avoided using it in his analysis.

Data on the Southern region's market shares, costs of production, and labor productivity

are provided by Professor Sumner. There are, however, problems with all these measures as proxies for evaluating the competitive position of "southern" commodities, as noted by Professor Sumner. What is needed is a more detailed analysis of each commodity to determine regional effects of technological and economic changes.

CONCLUDING REMARKS

The South's future competitive position in international markets will hinge upon productivity growth in agricultural production, as well as continued improvement in transportation and marketing efficiency. With the farm value of food and fiber products continually declining as a percent of retail value of finished consumer products, the key to future viability in traditional markets will likely be linked with cost reduction and demand creating innovation via transportation, processing, packaging, distribution, and merchandising. Improvements in quality control through better grading and standardization may become more important.

The concern with international competition will become increasingly diffused between export maintenance and import retaliation strategies. It is unlikely that a world of free trade will exist anytime soon, but United States gates will become increasingly open to foreign suppliers, as evidenced by the United States-Israeli trade accord and the CBI program.

Finally, the Deep South is a region exposed to higher biological risk because of a warmer, moist climate which is attractive to pests. Except for the Mississippi Delta, its soils are also older and leached. Moreover, population migration to the Sun Belt leads to urban-rural competition for resources. Water, noise, space, and nonpoint pollution problems could seriously and negatively affect agriculture's competitive position in the future.

REFERENCES

- Chambers, Robert. "Domestic and International Agricultural Policy Interfaces." Paper presented at the Southern Agricultural Economics Association meetings; Orlando, Florida; February 2-6, 1986.
- McPherson, W. W. and Max R. Langham. "Commercial Agriculture in Historical Perspective." *Amer. J. Agr. Econ.*, 63,5(1981): 894-901.
- Polopolus, Leo C. *The Caribbean Basin Initiative and Its Potential Impact Upon Agriculture in South Florida*, Staff Paper 285, Food and Resource Economics Department, University of Florida; August, 1985.

- Schmitz, Andrew. "Marketing Institutions in International Commodity Markets." Paper presented at the Southern Agricultural Economics Association meetings; Orlando, Florida; February 2-6, 1986.
- Sumner, Daniel A. "The Competitive Position of Southern Commodities: Some Trends and Underlying Forces." Paper presented at the Southern Agricultural Economics Association meetings; Orlando, Florida; February 2-6, 1986.
- Tweeten, Luther. "Impact of Domestic Policy on Comparative Advantage of Agriculture in the South." Paper presented at the Southern Agricultural Economics Association meetings; Orlando, Florida; February 2-6, 1986.