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HEMISPHERIC CONFERENCE ON AGRIBUSINESS IN THE AMERICAS

AGRIBUSINESS IN THE AMERICAS: AN AGENDA FOR ACTION

A Working Document
on Trade, Investment and Growth

Miami, Florida
December 1994





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AGRIBUSINESS IN THE AMERICAS: AN AGENDA FOR ACTION

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PREFACE

This White Paper was prepared against a backdrop of events of extreme importance to agribusiness development in the Americas.

The most notable event is the Summit of the Americas, to be held in Miami from December 9-11, which will bring all the Heads of State of the Americas together for the first time since 1967. Since regional integration in general, and accession to NAFTA in particular, is the single most important issue surrounding the Summit, over time this event is likely to have a major impact on agribusiness in the Americas.

The Miami Conference on the Caribbean and Latin America will occur immediately after the Summit, from December 12-15th. Since this conference has brought together policy-makers and business people from throughout the region on an annual basis for the past decade, this year it is likely to serve the additional purpose of helping to interpret agreements made at the Summit for a broader audience, and, hopefully, to begin operationalizing them.

The Hemispheric Conference on Agribusiness in the Americas, to be held concurrently with the Miami Conference, will formalize the establishment of the first trade information network aimed exclusively at the promotion of agribusiness development throughout the hemisphere. The event is being organized by AgroAmericas, Inc. and the Inter-American Institute for Cooperation on Agriculture (IICA).

Events in other regions of the world that have been occurring at virtually the same time are certain to affect agribusiness development and trade in the Americas as well. For example, four member states (the United States, Canada, Mexico and Chile) from this hemisphere were among the countries that signed the Bogor Accord in mid-November at the Asia-Pacific Economic Cooperation Summit. That accord committed 18 Pacific Rim nations to the long-term goal of free and open trade and investment, within a region that already accounts for about half the world economy and 40% of world trade.

Meanwhile, for the world economy in general and for agribusiness in particular, perhaps the most crucial event of this decade will be the November 29th final vote by the U.S. Congress on the Uruguay Round Provisions of the General Agreement on Tariffs and Trade. The United States Department of Agriculture has argued that the Final Act will substantially improve access to foreign markets for U.S. agricultural exports, enabling annual increases of \$1.6 to \$4.7 billion by the year 2000, and between \$4.7 billion and \$8.7 billion by the year 2005. If historical trends continue to hold, more than one-third of the GATT-induced increase in U.S. agricultural exports is likely to stay within this region.

In sum, this is an exciting time for agribusiness in the Americas, full of promise.

SECTION I

INTRODUCTION

Purpose of the White Paper

From the private sector perspective, this White Paper seeks to describe the opportunities and problems currently facing agribusiness enterprises operating in the Americas, and then to suggest an agenda for action designed to accelerate agribusiness investment, growth and trade.

It is intended to serve as a discussion document for policy- and decision-makers attending the Summit of the Americas, the Miami Conference on the Caribbean and Latin America, and the Hemispheric Conference on Agribusiness in the Americas.

The Role of Agribusiness

Agribusiness has great economic, social and political importance throughout the world. This subsector represents one of humankind's main sources of food, as well as an important source of raw material for industry. It creates substantial numbers of direct and indirect jobs. It produces significant income and capital appreciation, thereby adding to wealth, not just for owners of farms and processing plants, but also for employees, for governments and, indeed, for entire nations. It generates

considerable foreign exchange, precious to many developing countries. In sum, agribusiness enhances human welfare in many different ways.

Yet, at the same time, agribusiness faces many challenges. Environmentalists demand that production and processing operations have little or no adverse impact on soils, air, water or wildlife. Labor advocates seek to eliminate all risks to the safety of workers from agribusiness. Development planners expect agribusiness to help ensure food security and be sustainable. Nutritionists ask it to improve caloric intake as well as the quality of nutrients consumed by the populace. Consumer advocates want to make sure that agribusiness protects and enhances food safety. The consumers themselves request high quality, nutritious, safe food whenever they desire it, and at a price they can afford. Governments and international donors expect agribusiness to make a major contribution to economic growth, while trying to make sure that the benefits of growth be spread as widely as possible. Meanwhile, entrepreneurs and financiers strive to maximize profitability, minimize uncertainty, reduce variability and contain risks. Clearly the expectations are many, high and often contradictory.

Objectives

While agribusiness has generally prospered throughout the Americas, and future prospects are good, many problems must be resolved before the full potential of this subsector can be realized.

Through this White Paper, we hope to: 1) increase the awareness of progress, constraints and opportunities among as many "interested publics" as possible; 2) set the stage for further dialogue on shared problems; and 3) point toward changes in policy, laws, regulations, and practices that will stimulate agribusiness growth throughout the region.

SECTION II

OVERVIEW OF AGRIBUSINESS IN THE HEMISPHERE

The Importance of Agriculture to the Americas

While agriculture is important to the vast majority of countries around the world, it is especially critical to most Latin American and Caribbean (LAC) nations. In some cases, agriculture occupies as much as 50% of the land in use, contributes more than 30% of GDP, or generates as much as 75% of annual foreign exchange earnings.

Throughout LAC, agriculture typically provides jobs to at least 20% of the economically active population. When both direct and indirect employment are taken into account, agriculture creates almost half the total employment opportunities in some LAC countries, even large and relatively well-developed countries such as Mexico.

Agribusiness enterprises can generate relatively high-paying jobs. Daily wages in packing houses and processing plants that handle fruits and vegetables destined for export are always substantially above the minimum rural wage. Skilled workers in greenhouses used for cut-flower production are sometimes paid double the minimum wage for agricultural labor.

Moreover, export-oriented agro-enterprises tend to generate more employment for women than men, thanks to the industry's conviction that women can produce higher-quality products on a more consistent basis than men.

The Agribusiness Subsector

Although subsistence agriculture remains a legitimate area of concern for policy-makers throughout the Americas, our focus in this paper is on commercial agriculture, i.e., goods and services that are bought and sold in the marketplace. Agribusiness is the most significant subsector within agriculture, often comprising three-quarters or more of total sector output and (as we define agribusiness) virtually all agricultural trade.

For our purposes, "agribusiness" comprises all economic activity concerned with the production, handling, processing, transport, distribution, sale and consumption of food, feed, fiber and natural raw materials. It includes not just those activities that directly generate, store, transform or market products, but also any input or service that makes an indirect contribution to the commodity system that links farms to factories or to the consumer's fork.

The scope of agribusiness activity in the Americas is vast. It includes livestock, crop production, forestry, and, in the eyes of some observers, fishery enterprises. Agribusiness also subsumes agricultural inputs, equipment, machinery and ancillary services such as financing, packing, assembly, storage, cooling, handling, processing, transport and distribution.

The range of products is also broad. Livestock items produced and traded in significant volumes in the Americas include live animals, meat, animal fats, hides, and skins. Crop groups include: traditional food crops (mainly grains, legumes, roots and tubers);

non-traditional food crops (especially fruits and vegetables); crops used for beverages (coffee, tea and cocoa); sugar; tobacco; value-added processed foods; specialty items (herbs, spices, nuts); industrial crops (colorants, fragrances, medicinals); fiber crops (mainly cotton and sisal); ornamentals (cut flowers, foliage, potted plants, landscaping plants); feed grains; oilseed crops; and planting materials for all of the above. Forest products include logs, lumber, plywood, and wood products. Fishery items range from wild-capture seafood items to cultivated shrimp, salmon, catfish, and tilapia.

Since an estimation of the total size of the agribusiness subsector in the Western Hemisphere is beyond the scope of this paper, and our main concern is with the promotion of trade, in the section that follows we will focus on agricultural trade as a proxy indicator of agribusiness development in general.

Agricultural Trade Growth

Nearly all the countries of the Western Hemisphere are net exporters of agricultural products, so agricultural trade is critical to the Americas as a whole. In terms of value, most of the countries export almost twice as much agricultural products as they import. Moreover, as a general rule they ship more than a quarter of their agricultural exports to each other, while obtaining nearly half of their agricultural imports from each other.

According to the USDA, total agricultural trade between the United States and the other Western Hemisphere countries amounted to about \$25 billion in 1993, equivalent to about 37% of U.S. agricultural trade worldwide.

The total value of agricultural products exported by the United States to the rest of the Hemisphere was about \$12 billion in 1993, i.e., about 29% of all U.S. agricultural exports. More than half the

\$12 billion (\$6.794 billion, to be exact) was destined to Latin America and the Caribbean.

Although the average annual rate of growth in exports to the rest of this hemisphere dropped from a high of 16% during the 1970s to just 4% per year in the 1980s, the rate of increase has been rising again since 1991.

While Japan is still the largest single-country market for U.S. agricultural products, Canada and Mexico occupy second and third place, respectively. Once NAFTA takes full effect, Mexico is expected to import about \$10 billion per year in U.S. agricultural products, which could make it the principal single-country market for the U.S.

LAC now represents the second largest marketing region for U.S. agriculture, and U.S. exports to this region have been rising consistently for the past five years, increasing about 3% between FY1993 and FY1994.

Yet agricultural imports into the United States from LAC have been increasing as well. As a result, the United States has had a negative agricultural trade balance with Latin America and the Caribbean over each of the last ten years. This is in marked contrast to the trade surplus in agricultural products that the United States has enjoyed for decades with the world as a whole.

In 1993, U.S. agricultural imports from within the Western Hemisphere amounted to some \$13 billion in 1993, a figure that represents more than half of all such imports from abroad. While U.S. imports from this area grew at a rate of 11% per year during the 1970s, the rate of increase fell to about 4% during the 1980s. More recently, however, the pace of import growth has risen much faster for certain commodity groups, especially those horticultural items commonly referred to as non-traditional agricultural export crops or products.

Trends in the Composition of Agricultural Trade

The composition of U.S. agricultural trade with the Western Hemisphere in general, and with LAC in particular, has been changing over time.

While grains (especially wheat and coarse grains) continue to lead exports to the LAC region in terms of both volume and value, animal product exports (cattle, beef, veal, poultry and dairy) have had the most rapid rise in recent years, reaching 23% of total value in 1993. Oilseed crops were the third biggest category in 1993, at 17%. Fruit products, especially fresh deciduous fruits, have also fared very well, comprising 11% of U.S. exports to LAC in 1993. The remainder of U.S. fresh agricultural exports to Latin America have consisted mainly of sugar, nuts, seeds and vegetables, with the latter category experiencing rapid growth as well. Among the processed foods, tomato paste, fruit juices and beer stand out.

As is true with U.S. agricultural exports to the rest of the world, in the case of the Western Hemisphere in general and LAC in particular, a clear movement away from bulk agricultural commodities and toward both intermediate processed and consumer-oriented finished goods is evident. High-value products, which comprised 55% of total agricultural exports in FY1993, and will probably reach 57% this year, are expected to represent almost 68% of all U.S. agricultural exports by the year 2000. For each of the past eight years, consumer-oriented foods have set new record highs and now represent the fastest growing segment of U.S. agricultural exports.

These trends have resulted from a combination of factors, among them: stronger promotional efforts by producer associations; increases in disposable income by certain segments of target market economies; and a lowering of tariffs.

Significant shifts have also been occurring on the import side. The main categories of products imported by the U.S. from the rest of the Western Hemisphere have been: cattle, cut flowers, coffee, bananas, horticultural and tropical crops, and fresh non-citrus fruits. Of these, cattle, produce and grains have showed the greatest gains in recent years, while coffee and sugar imports have slowed. Non-traditional products represented 53% of the \$8.19 billion worth of U.S. agricultural imports from Latin America in 1993, followed by animal products and coffee at about 15% each, bananas at about 13% and cocoa at about 4%.

The growth in two-way trade in high-value products has in fact outstripped the growth in overall agricultural trade. For the 12-year period ending in 1992, for example, imports of competitive (or similar) products such as meat, fruits, and vegetables rose 7% per year, as compared with a 3% growth rate for agricultural imports as a whole.

Regional Trading Patterns

The United States typically runs a trade surplus in agricultural products with its trading partners in NAFTA, while running a trade deficit with the CBI countries as a whole, with MERCOSUR, with the Andean Group and with the rest of the Hemisphere. These patterns are not likely to change in the near future, because the overall upward trend in agricultural trade that has been occurring in response to liberalization measures and to rapid rates of economic growth has not tended to upset the balance between rising imports and rising exports.

Although recent statistics are difficult to obtain, it does appear that regional and subregional trade not directly involving the United States is also increasing substantially throughout the Americas, spurred on by the formation of regional trade blocs

and/or their fortification through the creation of common external tariffs, harmonization of regulations, and streamlining of procedures. It should be noted, however, that a large share of the resulting increases in intra-regional trade may represent trade diversion in response to preferential tariffs, as opposed to incremental trade.

SECTION III

CONSTRAINTS

Notwithstanding the substantial progress in agribusiness development evidenced by the trade trends described above, further growth is subject to numerous constraints, some related to the supply of agricultural products, others to demand.

Constraints Related to Supply

Natural Endowments

For the smaller countries in LAC, especially many of the Caribbean island nations, the limited availability of arable land represents the most serious constraint to further agribusiness development. Where unused arable land is still available, it is sometimes poorly suited for commercial agriculture because of steep slopes, poor soils, or lack of water. In other cases, even where flat land, good soils and abundant water are present, other constraints come into play. For example, the lowland topography of potential planting areas may prevent a given country from producing the off-season crops that target markets most desire; the geographic location of the country or production area may be too distant for products to reach target markets in acceptable condition and at a reasonable cost; or the extent of the production area is too small to achieve competitive economies of scale.

Factor Costs

While most of the LAC countries are characterized by low wages in comparison with target markets such as the United States or Canada, it is not always possible for agricultural entrepreneurs to take full advantage of that fact because low labor costs are often offset by lower productivity, higher transport costs, more expensive inputs, higher costs of capital, and many other hidden costs of doing business in LAC.

Human Capital

Throughout Latin America and the Caribbean, the problem of lower labor productivity is closely connected to the problem of scarce human capital, whether in technical fields such as post-harvest physiology, in work areas such as quality control, or in business specialties such as farm management.

Technology Development, Adaptation and Transfer

Great progress was made in many LAC countries in the 1970s and early 1980s in the areas of applied research and extension, but in more recent years the absence of new agricultural technology has become a major constraint to development of agribusiness and trade.

The situation within LAC is, in fact, part of a worldwide problem caused largely by the reduction of external assistance to agriculture in the low-income developing countries from a 1980 high of \$12 billion to a 1990 level of \$10 billion, in real terms. The decline in agricultural research is at least 20%, and probably much higher.

Budgetary reductions have manifested themselves in many ways: a shortage of qualified researchers, a lack of operating funds

to pay direct costs, an unwillingness to work on minor crops, an inability to do fieldwork, and so on.

At the same time, the formal infrastructure for research in LAC has largely missed the structural change that has occurred within the agricultural sector as a whole. While research station-based work has continued (albeit with diminishing returns) on basic grains and other foodstuffs, a vibrant and entirely independent export industry has emerged, based mainly on non-traditional horticultural crops with which the research establishment has little experience or expertise. In the absence of new mechanisms for setting priorities and supervising research projects, the gap between commercial needs and scientific direction will continue to widen.

As far as adaptation and transfer of technology are concerned, related problems are evident: inadequate field testing under real conditions, an absence of extension personnel trained in non-traditional crops and products, uneven access to foreign technologies, and imperfect information flow.

Physical and Institutional Infrastructure

The main infrastructure constraints commonly found in LAC countries include poor farm-to-market and farm-to-port roads, and inadequate maritime port and airport facilities. These continue to hold back agribusiness development and agricultural trade in many countries within the region.

Inputs, Machinery and Equipment

The absolute availability of inputs, machinery and equipment is not generally a major constraint in this hemisphere. However, cost is often a major problem, for a variety of reasons. Some countries still apply high import tariffs on intermediate goods.

Entrepreneurs sometimes lack the required capital, yet have limited access to financing. In other cases, costs are high because local markets for equipment or inputs are thin, or else the production areas are too distant from the factories of origin.

Financing

Financing still represents a serious impediment to agribusiness development in many LAC countries. In some instances, there is an absolute lack of availability, especially for medium- or long-term loans, or for dollars rather than local currency. In other instances, it is possible to obtain financing, but only against exorbitant collateral, at very high real interest rates or for terms that do not match the nature of the intended applications of the funds. And even where appropriate financing is theoretically available, it is common to encounter delays in disbursement that interfere with the orderly conduct of business.

Ancillary Services

Many of the third-party services readily available to farmers, processors or handlers in the United States and Canada are deficient or entirely absent in most LAC countries. Prominent examples include private technical consulting, cold storage services, and specialized freight forwarding services.

Transport

For perishable horticultural products, the scarcity of refrigerated trucks, reefer containers, and both maritime and air transport often limits export potential, because all are required to preserve the cold chain from farm to supermarket. Even where equipment is available, infrequent service (i.e., less than once per week during the high season) and limited ports of entry often constrain the growth of the export deal. Finally, many LAC countries face extremely high unit costs per mile, which lower their competitiveness compared with alternative supply areas.

Laws and Regulations

Although substantial progress has been achieved throughout the region in recent years in removing or reducing unnecessary regulatory hurdles all along the chain from farm to final consumer, problems and inefficiencies remain.

For example, the re-registration process for pesticides mandated by the U.S. Congress, interpreted and executed by the U.S. Environmental Protection Agency and enforced by the Food and Drug Administration, has significantly impeded agricultural trade because it caused many manufacturers to withdraw from the market some very important "minor use" agrochemicals, the total sales of which did not (in their view) justify the cost of the re-registration process. This has affected the supply of high-value horticultural crops throughout the Americas, and the situation is likely to worsen unless relief is obtained.

In the past, U.S. exports to many LAC countries were also impeded by tariffs much higher than those applied in the United States or Canada. Fortunately, however, even before GATT is ratified, decisions taken by many governments in the region to open their borders, reduce protectionism, join together into regional trade blocs, and get ready for accession to NAFTA, an "enhanced NAFTA" or a possible Americas Free Trade Area have already lowered tariffs, and it appears that the process has developed its own momentum.

For producers and exporters of certain horticultural crops within the CBI area, the loss of preferential tariff treatment by the United States as compared to Mexico remains a serious regulatory issue as well. The fresh crops from Central America most affected are likely to be melons, pineapples, onions and mangoes, while the most sensitive frozen products include broccoli, cauliflower, Brussels sprouts, strawberries and specialty vegetables. To a lesser

extent, fresh tomatoes and tropical fruits from the Caribbean islands may also be affected.

Transaction Costs

Transaction costs dampen the supply of agricultural products and impede trade because they lower the profitability of agricultural ventures and increase risk.

The United Nations reports that the cost of paperwork and bureaucratic procedures related to trade averages 10% of the final value of the goods. These costs are unpredictable because of errors and delays.

Paperwork is only part of the cost. Indirect costs such as fines, demurrage, delayed payments and loss of business because of inadequate documentation can be far more significant. By the year 2000, it is estimated that, worldwide, as much as \$200-\$400 billion will be absorbed by trade formalities.

The LAC region suffers from high transaction costs that result not just from the many inefficiencies described above, but also from a generally imperfect flow of information required to achieve truly efficient markets.

Investment Climate

Finally, for any potential investor (local or foreign) deficiencies in the investment climate in a given country can impede the creation or execution of agribusiness projects. Again, while substantial progress has been made throughout the Americas at establishing favorable investment regimes, further improvement is both possible and necessary.

For some countries, the problems are relatively obvious and, in principle, rectifiable because they concern such basic issues as

permitting foreign ownership of a majority share in local enterprises, ensuring free convertibility to hard currency, permitting the repatriation of earnings, reducing overvalued exchange rates, or eliminating tariffs on intermediate goods used to generate exports.

Some investment climates are less easily fixed, however. That is the situation currently facing those countries in the Americas that still lack long-term political, economic or social stability.

Constraints Related to Demand

Market Access

Some U.S. producers, processors and exporters interested in shipping to other countries in the Americas have encountered absolute or seasonal prohibitions against the entry of their products. While accords reached under the Uruguay Round discussions would help ameliorate the situation by eliminating some of the barriers altogether, reducing others, converting still others to tariff rates, and in general making the trade system throughout the Hemisphere both more uniform and more transparent, continued efforts by agribusiness interests to rectify specific problems will be needed even if the U.S. Congress approves the Final Act.

Looking at the general issue of market access, one finds that companies of all sizes, especially small to medium, have faced much difficulty in gaining market access because of the time and cost involved in obtaining trade information and learning how to use it effectively. There is no single affordable, easily-accessible source of information for agribusiness development, trade and investment.

There are also significant cultural and language barriers to potential business partners among the countries of the Americas. These need to be addressed if cross-border trade and investment are to flourish.

Sanitary and Phytosanitary Regulations

For producers and exporters in the LAC countries, the most significant barrier to accessing the U.S. market is almost certainly the plant quarantine system as applied by USDA's Animal Plant Health and Inspection Service. At the present time, new crops and products are not allowed into the United States until a laborious process called a "pest risk assessment" has been carried out, even when there is absolutely no evidence that they might serve as hosts for "quarantine action pests." The approval process for import permits is excessively long, the Agricultural Research Service lacks the resources or commitment to help design and execute the required research, and APHIS lacks the resources and stimulus to accelerate the assessment and approval process. Moreover, since all parties concerned are hamstrung by a strict interpretation of the Administrative Procedures Act, a backlog exists, not just for new requests, but for longstanding requests that have made their way through the gauntlet. The admissibility problem continues to be the single largest non-tariff trade barrier to horticultural imports into the U.S.

Another important regulatory problem affecting market access is the post-1994 freeze on increases in methyl bromide production and importation, a policy originally agreed to as part of the Montreal Protocol and then written into the Clean Air Act. Since methyl bromide is one of the only post-harvest fumigants available for use on imported produce in which quarantine action pests are found, its elimination by 2001 will seriously impact horticultural imports from the LAC. (At the same time, since methyl bromide is also widely used as a soil fumigant within the United States, its

phaseout within the U.S. directly affects domestic producers, and could place them at a competitive disadvantage vis-a-vis foreign producers.)

Distribution and Logistics

In highly developed markets such as the United States and Canada, distribution and logistics represent a marketing constraint only to the extent that flows of imported products tend to concentrate on a few ports of entry to which a limited number of commercial carriers provide transport service. That remains the case, for example, with winter melons shipped from Central America, which tend to encounter channel blockages in South Florida when seasonal peaks in supply appear.

On the other hand, distribution and logistics can be a major problem within many LAC countries, both for agricultural exports and imports. Physical infrastructure for loading and loading trucks or containers, the availability of reefer containers and reefer plugs, and cold storage facilities are deficient in various countries in this hemisphere. And even where the required infrastructure is in place, costs are often very high by world standards because of limited economies of scale, inefficient operation, or inappropriate labor agreements.

Grades and Standards

Although substantial progress has been made over the past decade to harmonize of nomenclature used to describe agricultural products for tariff purposes, the absence of official or commercial grades and standards throughout the Americas continues to constrain the orderly marketing of many agricultural products. This is especially true for horticultural commodities. Where the only way to determine quality is through physical inspection of the product, as opposed to uniform description, transaction costs tend

to be higher, which in turn depresses effective demand and inhibits trade.

Purchasing Power

The Inter-American Development Bank estimates GDP growth within Latin America and the Caribbean as a whole to have been 3.8% in 1991, 3.9% in 1992 and 3.2% in 1993. According to a leading economist at the World Bank, GDP growth may reach 3.5% in 1994. Moreover, the Bank believes that the LAC region is capable, under the most favorable conditions, of achieving a 7% annual growth rate for the rest of this decade. Overall growth rates of this magnitude are good for agribusiness in general, and especially good for agricultural trade development.

Nevertheless, not all LAC countries have enjoyed such rapid expansion, and throughout the region a highly skewed distribution of wealth and income continues to prevent many millions of people from sharing in the benefits of economic growth.

This is an important demand-side constraint to agribusiness development because both the absolute consumption of agricultural products and the nature of the products consumed varies greatly by level of disposable income. In a recent USDA research report entitled "Factor Intensity and the Changing Commodity Composition of U.S. Agricultural Trade," analysts Lee and Robinson summarize it well:

"Trade in agricultural goods is primarily in food and feed products. Among agricultural commodities, income elasticities are lowest for roots and tubers, higher for coarse grains (such as corn) for human consumption, and higher still for fruits, vegetables and animal products. At low-income levels, a country is likely to spend a large share of its income on direct consumption of grains,

such as wheat, rice and corn. *A priori*, a low-income country would have higher income elasticities for food grains than would higher income nations. In contrast, high-income countries spend a small share of their food budget on direct grain consumption and have low-income elasticities for these goods. Elasticities for meat and animal products are higher (though still less than one), which indirectly causes feed grains and oil crops used for animal feed to have higher income elasticities as well. The net result of these income elasticities is that, over time, the commodity composition of food consumption changes."

The implications of this analysis for the future of agribusiness in the Americas are many. Although per capita food supply has increased in all but three of the IDB's 25 LAC member countries since 1970, seven countries (among them countries normally viewed as well off, such as Venezuela and Uruguay) still exhibit deficit levels of per capita caloric availability. In those cases, a basic challenge facing agribusiness is to make available greater quantities of roots, tubers and grains to more people, at prices they can afford.

In the case of wealthier countries such as Argentina, Barbados, the Netherlands Antilles, Mexico and Chile, agribusiness faces a different challenge: taking advantage of high levels of disposable income among upper income groups by further increasing their consumption of fruits, vegetables, meat and consumer food products.

SECTION IV

OPPORTUNITIES

Consistent with the saying "one person's problem is another person's opportunity," most of the opportunities that will be available to hemispheric agribusiness in the future will flow directly from the alleviation of the supply and demand-side constraints described above.

Opportunities common to all the Western Hemisphere countries and most product groups include:

For the Private Sector

1. Encourage and assist public officials in both source and target countries to identify strategic investments needed in the areas of applied research, scientific and technical education, agricultural extension and physical infrastructure, in order to stimulate agribusiness development and trade in crops of interest to their particular businesses.
2. Wherever possible, assist governmental agencies and associations of producers, importers or exporters to identify and relieve both general defects in the macroeconomic policy environment (such as over-valued exchange rates) and specific impediments to investment and trade caused by deficiencies in the legal and regulatory environment.

3. Ensure a continued opening and liberalization of all potential markets in the Americas through active support for ratification of the GATT, for the establishment of regional trading blocs with lower tariffs and freer access, for accession by as many countries as possible to an enhanced NAFTA and/or AFTA, and for greater harmonization of grades and standards as well as sanitary and phytosanitary regulations that govern agricultural trade.
4. Broaden market penetration in target countries by anticipating and then responding as fast as possible to the phased reductions in tariff levels and the tariffication of non-tariff barriers, which have already begun and will be further stimulated by ratification of the Final Act of GATT.
5. For those markets in which a presence has already been established, foster greater penetration through increased segmentation, new product development and adaptation, education of consumers and distribution channels, and increased promotion.
6. Recognize the fact that telecommunications and information technology ("the information superhighway") are rapidly emerging as one of the most powerful resources for economic growth in world history. Tap them to achieve higher productivity, greater efficiency and lower costs in all agribusiness activities, especially those related to trade. Work constructively with the public agricultural sector to encourage supportive action.

For the Public Sector

1. Engage in ongoing dialogue with leading producers, processors and exporters aimed at identifying any or all constraints to trade, and defining appropriate measures to relieve them.

2. Continue to work toward improving the country's competitive position by "getting prices right" through well-crafted monetary and fiscal policy, by clarifying the proper role of government, and by removing or lowering tariffs and non-tariff barriers on intermediate goods needed for export production.
3. Continue to pave the way for increased exports to target countries by identifying and resolving those impediments to accessing markets that require government-to-government negotiations.
4. In general, strive to achieve greater transparency in investment and trade-related regulations, as well as more consistent enforcement of regulations and procedures once promulgated.
5. Seek creative ways to spread the benefits derived from agribusiness development, while recognizing the need to keep agribusiness ventures profitable and competitive in the world arena.
6. Provide cost-effective and efficient services for trade. This includes technical infrastructure; good access to international telecommunications and good quality services, creation of a modern transportation infrastructure; adoption of modern trade-related finance, payment and risk management criteria, assistance in the creation of data banks, and the promotion of a free flow of business information and equal access to it by enterprises of all sizes.
7. Along with the private sector, promote the application of new telecommunications and information technologies for reducing the costs of transaction and procedural costs of trade, e.g., through automated customs. The goal should be simplification of procedures and standardization of documentation wherever possible.

SECTION V

PRIORITIES FOR ACTION

The Western Hemisphere is an enormous market, offering a combined GDP of \$7.2 trillion, which represents an estimated 31 percent of global wealth. Moreover, its 740 million inhabitants represent 14 percent of the world's population. Latin America and the Caribbean are large markets in their own right, comprising more than 30 countries with a combined population of 449 million persons and a combined GDP of more than \$1 trillion.

Western Hemisphere agriculture is important to the world as well, because it generates almost 25% of the world's food supply. Agribusiness is a very diverse subsector within that larger sector, comprising a multitude of economic activities, product groups and specific crops.

Given that complex reality, it is very difficult to set priorities that will be of equal interest to policy-makers in the public sector and decision-makers in the private sector.

Nevertheless, beyond a doubt, regional integration does represent a priority shared by all. Therefore, rapid expansion of NAFTA as it now stands, or the creation of an enhanced "super-NAFTA," or even the design of a hemisphere-wide Americas Free Trade Area (AFTA) should certainly be the ultimate goal. It is to

be hoped that a resolution toward that end, with a target date agreed upon by all, will result from the Summit of the Americas. As soon as possible thereafter, Fast Track Authority must be restored to the U.S. President; without it, decisive movement toward AFTA will be impossible.

An immediate priority, however, should be the ratification of the Final Act of the Uruguay Round of GATT, not only by the U.S. Congress but by all other signatories that still have to ratify it within their own governments or legislatures.

Next in line should be a collective commitment on the part of all GATT signatories to the full implementation and enforcement of the Uruguay Round accords, followed by careful monitoring within and between countries.

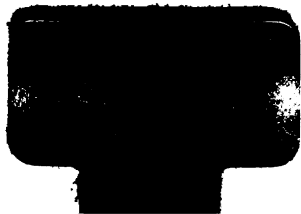
Beyond these cross-cutting issues, priorities will inevitably have to be set by those who have the most direct interest in resolving the issues. In some cases, that will mean an establishment of priorities within trading blocks, in other cases on a bilateral basis between two countries, and in still others, at the national or subnational levels. Similarly, sets of priorities must be established at the industry level (e.g., horticultural products) at the segment level (fresh fruit), or at the crop level (melons). An altogether different set of priorities for agribusiness development might emerge from agrochemical manufacturers versus transport-providers.

For the agricultural sector to take full advantage of the growth potential emerging from trade liberalization and economic integration, it will be necessary for government, labor and agribusiness to work together as never before. For each country to be fully competitive, these groups will have to make major adjustments. These will have a greater chance for success if there

is constructive dialogue and cooperative development of a strong hemispheric network of communications and information sharing.

The purpose of this paper was not to define specific priorities for each of these interest groups, but rather to lay the groundwork for them to establish their own priorities. We hope that the overview presented here will achieve that purpose.

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