INTERNATIONAL AGRICULTURAL TRADE AND THE U. S. BALANCE OF PAYMENTS

Agricultural commodities have figured importantly in U. S. foreign trade since colonial times. Foreign markets have always been important to U. S. farmers and appear likely to be of increasing importance in the future. Currently, they provide an outlet for about 15 percent of total U. S. farm output. Trade in agricultural commodities is, of course, a two-way street and the U. S. is also a major market for many agricultural products produced abroad. In 1972,[1] for example, agricultural commodities accounted for about 12 percent of total U. S. imports. But at the same time, they accounted for approximately 18 percent of total exports, leaving this country with a sizable balance of trade surplus in agricultural products. Prospects that this surplus may be enlarged in the near future are a major reason to hope that the unsatisfactory balance in this country's trade with the rest of the world can be corrected soon.

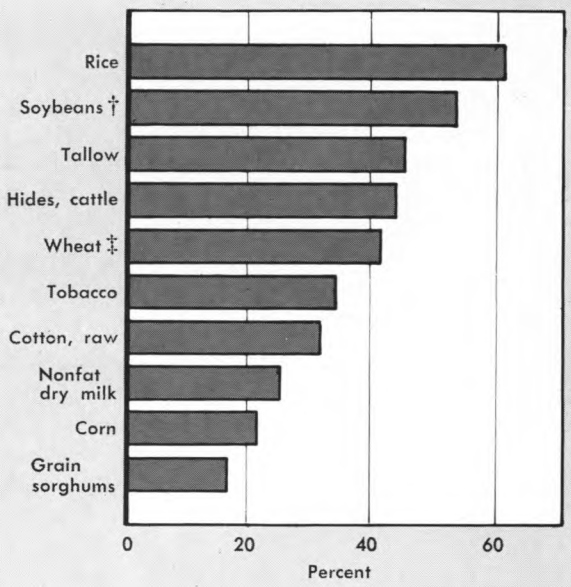
Importance of Agricultural Exports U. S. farmers in 1972 supplied about one-sixth of the agricultural commodities entering free world trade, with U. S. agricultural exports reaching a high of $8.05 billion. This was an increase of more than 57 percent since 1960. The output of 1 of every 5 harvested acres was exported in 1972 and foreign sales accounted for 15 percent of the total cash receipts from farm marketings. In that year, export sales accounted for more than one-half of the U. S. production of soybeans and rice, more than two-fifths of the cattle hides and tallow, and over one-third of the wheat and tobacco. Details of U. S. agricultural exports, by commodity groups, are given in Chart 1 and Table I. In terms of value, oilseeds and products was the most important export item in 1972, followed by feed grains and wheat and wheat flour. Soybeans and soybean products accounted for a large fraction of the value of oilseeds and products. Aggressive marketing in the face of strong foreign demand for high-protein feed, coupled with the sharply increasing U. S. harvest, has made soybeans the leading dollar earner in foreign markets. Soybeans now account for more than one-fourth of the total value of U. S. agricultural exports. This country's share of world soybean exports has risen from 2 percent in 1934-38 to approximately 90 percent in 1972. Production from more than one-half of U. S. soybean acreage is exported, and more than nine-tenths of all soybean and soybean product exports are commercial sales for dollars.

Fifth District tobacco producers also have a large stake in the export market. The United States is the world's largest exporter of unmanufactured tobacco, accounting for about one-fourth of world exports of this commodity. In recent years between 55 and 60 percent of this tobacco has been produced in Fifth District states.

Chart 1

10 LEADING U. S. AGRICULTURAL EXPORTS

AS PERCENTAGE OF FARM SALES, 1972*



*Year ended June 30.

†Including oil and meal.

‡Including products.

Note: Exports compared with farm sales, except with production for rice, cattle hides, tallow, cotton, tobacco, and nonfat dry milk.

Source: U. S. Department of Agriculture.

[1] Except where otherwise noted all data are for fiscal year 1972.

Table I

U. S. AGRICULTURAL EXPORTS

Fiscal Year 1972

Commodity	Exports Under Government Financed Programs	Commercial Sales for Dollars	Total
	(millions of dollars)		
Wheat and wheat flour	371.7	675.3	1,047.0
Feed grains, excluding products	78.1	1,040.0	1,118.1
Rice	198.3	108.4	306.7
Cotton	96.2	433.3	529.5
Tobacco, unmanufactured	22.5	547.4	569.9
Oilseeds and products	135.9	2,086.5	2,222.4
Dairy products	96.0	99.1	195.1
Animal and animal products except dairy products	29.7	786.4	816.1
Fruits and preparations	.....	381.3	381.3
Vegetables and preparations	.....	229.9	229.9
Other	93.2	542.3	635.5
Total exports	1,121.6	6,929.9	8,051.5

Source: U. S. Department of Agriculture, **Foreign Agricultural Trade of the United States**, November 1972.

Financing of Agricultural Exports Agricultural exports are made through normal commercial channels resulting in dollar payments or through Government-financed programs. In recent years commercial sales for dollars have accounted for a rising proportion of total agricultural exports. Between 1960 and 1972 commercial exports increased from 72 percent to 86 percent of the total. Most Government-financed programs for farm exports are under the authorization of the Agricultural Trade Development and Assistance Act, popularly known as Public Law 480, or the Food for Peace Program. Exports under this program include sales for foreign currency, long-term credit sales, and donations. More than $21 billion worth of agricultural commodities have been exported under the authority of PL 480 since its inception in 1954. Government-financed exports are also made under authority of the mutual security (AID) programs.

Major Export Customers American farm products were shipped to 165 countries in 1972 but 15 countries received 60 percent of the total. The 50 largest markets accounted for 98 percent of total exports. Developed countries, such as Japan, Canada, Spain, and members of the European Economic Community, are the largest markets for U. S. agricultural exports. Nevertheless, shipments to developing countries are sizable.

Japan is the number one foreign customer for U. S. agriculture, and the United States is placing increasing emphasis on exports of food and agricultural raw materials to Japan to help alleviate its overall trade imbalance with that country. In 1972 the United States shipped approximately 14 percent of its total agricultural exports to Japan. Japan is the major foreign market for U. S. soybeans, feed grains, wheat, cotton, cattle hides, tallow, lemons, alfalfa meal, and raisins. Japan also takes sizable shipments of tobacco, poultry, nuts, fruits, and meats.

Rising incomes and living standards in Japan hold out the promise of a steady expansion in Japanese purchases of a growing variety of U. S. farm products. This important market would also be enlarged further if existing barriers to U. S. goods could be eliminated or liberalized. In any case, it appears likely that Japan will continue as a major customer for U. S. farm exports.

Agricultural Exports by States The value of agricultural exports as a proportion of cash receipts from farm marketings is one way to measure the importance of farm exports to individual states. On this basis the five leading agricultural exporting states in 1972 were Illinois, Iowa, California, Texas, and North Carolina. Rankings of other Fifth Dis-

Table II

VALUE OF U. S. AGRICULTURAL EXPORTS TO 15 MAJOR MARKETS

Fiscal Year 1972

Country	1972
	(millions of dollars)
Japan	1,163.0
Canada	804.7
Netherlands	616.4
West Germany	607.3
United Kingdom	429.9
Korea, Republic of	316.9
Italy	305.6
France	214.1
Spain	200.8
India	193.0
Taiwan	169.0
Belgium-Luxembourg	147.8
USSR	136.0
Mexico	130.8
Indonesia	120.4
15 Major Markets	5,555.7
Other	2,495.8
Total	8,051.5

Source: U. S. Department of Agriculture, **Foreign Agricultural Trade of the United States**, November 1972, p. 39.

trict states were South Carolina, 20th; Virginia, 29th; Maryland, 35th; and West Virginia, 46th. Approximately 9 percent of U. S. farm exports in 1972 were produced in Fifth District states. The value of these exports represented more than one-fifth of District cash farm marketings. In both North and South Carolina the value of farm exports accounted for more than one-fourth of total cash farm receipts. Nearly three-fourths of U. S. tobacco exports and 15 percent of the poultry exports were produced in the Fifth District. In terms of value, tobacco was the most important export item for the District followed by feed grains, soybeans, and cotton in that order.

Agricultural Imports Imports of agricultural products into this country rose from around $3.7 billion in 1962 to about $6 billion in 1972. They come chiefly from developing countries and from such established agricultural suppliers as Australia, Canada, Denmark, and the Netherlands. Ten countries listed in Table III supplied 59 percent of our agricultural imports in 1972. Agricultural imports can be divided into two categories: those that compete directly with commodities produced in the United States and those that do not. The former class includes such items as animal, grain, cotton, and tobacco products. Some foreign goods, such as bananas, coffee, tea, and rubber, are noncompetitive because they either are not produced in this country or are produced in small quantities.

Sixty-five percent of the agricultural commodities imported in 1972 were competitive, compared to 55 percent in 1962. The three leading competitive imports are meat and meat products, sugar, and fruits, nuts and vegetables. Imports of meat and meat products in 1972 totaled 1.9 billion pounds. Boneless fresh or frozen beef accounted for roughly three-fifths of total imports of meat and meat products. Similar to U. S. cow beef, it is used primarily for hamburger or other meat products and is imported primarily from Australia, New Zealand, and Central America.

The Meat Import Law, enacted in 1964, provided for restrictions on imports of fresh, chilled, and frozen beef, veal, mutton, and goat. In response to increased demand and higher meat prices, however, quantitative restrictions imposed under this law were suspended in June 1972.

The Agricultural Trade Balance Exports of agricultural commodities exceed imports by a substantial margin and, consequently, provide one of the major bright spots in an otherwise negative U. S. balance of payments situation. The role of agricultural exports in helping curb the flow of dollars from the U. S. may be measured by their contribution to our balance of trade and the balance of payments. The balance of trade is the difference between the value of total merchandise exports and total merchandise imports. The balance of payments, on the other hand, records all types of economic transactions involving the exchange of goods, services, and financial assets between U. S. residents and residents of the rest of the world.

Table III

U. S. AGRICULTURAL IMPORTS BY COUNTRY OF ORIGIN

Fiscal Year 1972

Country	Value in Millions of Dollars
Brazil	$ 617
Mexico	536
Australia	409
Philippines	369
Canada	322
New Zealand	222
Colombia	195
Denmark	166
Dominican Republic	161
Netherlands	152

Source: U. S. Department of Agriculture, **U. S. Foreign Agricultural Trade Statistical Report, Fiscal Year 1972.**

Although the U. S. has experienced deficits in its balance of payments in most years since the early 1950's, 1971[2] was the first year since 1935 that a trade deficit occurred. Agricultural, nonagricultural, and total balance of trade data since 1962 are shown in Chart 2. In agricultural trade, the U. S. balance with the rest of the world has been in surplus in every year of this period. This surplus amounted to $1.9 billion in 1971, only slightly below the peak for the period reached in the middle 1960's. Without this surplus, the overall U. S. trade deficit of $6.4 billion in 1972 would have been $9.4 billion.

Balance of Payments The USDA estimates the gross contribution of agriculture to the balance of payments in the following manner. Realized dollar returns and savings on noncommercial exports are added to the dollar value of commercial sales. These realized dollar returns and savings are in the form of (1) the dollar value of foreign currencies generated under PL 480 and used overseas by the Government to pay such bills as embassy expenses, mili-

[2] In the remainder of the paper data are on a calendar year basis unless otherwise noted.

tary outlays, and costs of market development operations and (2) repayments for exports made under Government credit to foreign nations. Agricultural imports are then subtracted from this figure to determine the net contribution to the balance of payments (Table IV). In 1971 agriculture's net contribution to the balance of payments was $1.13 billion, the second largest net contribution since 1960. Agriculture has had a positive net influence on the U. S. balance of payments every year since 1961. The peak year in agriculture's net contribution was 1966 when it totaled $1.17 million.

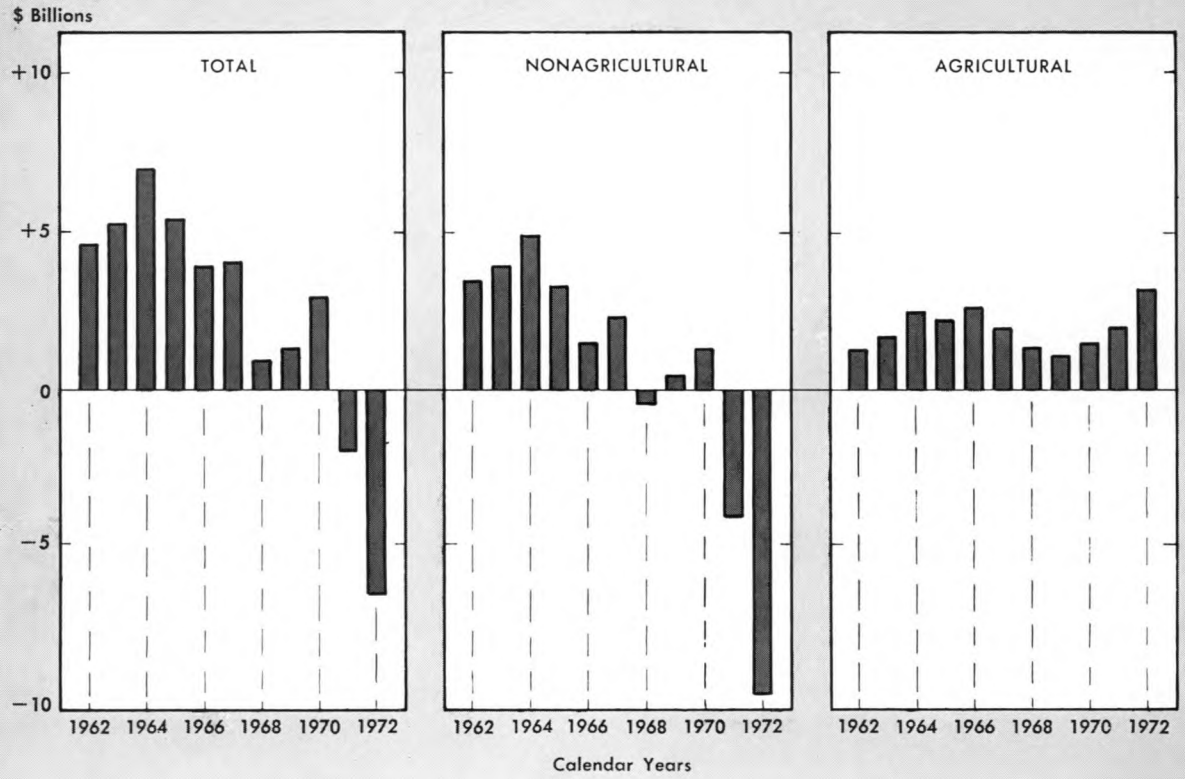
Factors Affecting Export Prospects Estimates for fiscal year 1973 place agricultural exports at about $11 billion, almost $3 billion above 1972's record high. Most of the increase will be in grains and soybeans. While exports of these commodities to most customers will be up over last year, the large purchases by the Soviet Union are the single most important item. As of January 1973, Russia had purchased over 400 million bushels of wheat, around 250 million bushels of corn, and 40 million bushels of soybeans.

While agriculture's net contribution to the U. S. trade position is growing, agricultural trade as a share of total trade has declined recently. Since 1960 agricultural exports have declined from 24 to 18 percent of total exports. Recent large sales to communist bloc nations and improved prospects for additional sales to these countries notwithstanding, potential growth of farm exports faces several restricting factors. Foremost among these are (1) increased agricultural production in the less developed nations, which is diminishing the need for our aid exports; (2) numerous tariff and nontariff barriers on agricultural commodities; and (3) expansion of the European Economic Community to include the United Kingdom, Ireland, and Denmark[3] in the area under the Community's Common Agricultural Policy (CAP).

[3] Other members are France, Italy, Germany, Brussels, the Netherlands, and Luxembourg.

Chart 2

U. S. TRADE BALANCE



Source: U. S. Department of Agriculture.

Table IV

THE CONTRIBUTION OF AGRICULTURE TO THE U. S. BALANCE OF PAYMENTS

Item	1961	1971
	(millions of U.S. dollars)	
Commercial agricultural exports	$3,569	$6,556
Plus: Realized dollar returns and savings on noncommercial agricultural exports		
PL 480	155	322
Mutual Security (AID) foreign currencies used by U. S. agencies	15	.....
Export-Import Bank principal and interest dollar repayments	31	80
Gross contribution	3,770	6,958
Less: Agricultural imports	3,756	5,826
Net contribution of agriculture to U. S. balance of payments	14	1,132

..... less than $500,000

Source: U. S. Department of Agriculture, **World Monetary Conditions In Relation to Agricultural Trade,** May, 1972, p. 29.

Common Market countries account for nearly two-fifths of the world's total imports and, in fiscal 1972, these nine nations took nearly a third of total U. S. farm exports. The United Kingdom alone bought $430 million worth of our farm products in fiscal 1972.

Exports to the Common Market are restricted by the Community's Common Agricultural Policy, and the recent expansion of the Common Market area is certain to have an unfavorable impact on U. S. exports of agricultural commodities. The CAP is a series of agreements among members designed to establish free agricultural trade within the Community and to protect domestic agriculture from imports. The CAP protects agricultural producers in member countries through variable levies and other devices that force final import prices above domestic prices. The biggest impact of Common Market expansion to include nations with previously less restrictive agricultural import policies will be on tobacco, grains, rice, and fresh and canned fruits and juices. Soybeans have been entering the Common Market countries without duties or other restrictions and will continue to do so in the expanded market.

While a record year for agricultural exports in fiscal 1973 seems assured, the factors listed above serve to make long-term forecasts difficult if not impossible. Nevertheless, it seems reasonable to assume that U. S. agricultural exports will continue to make significant contributions to the nation's balance of trade and balance of payments positions.

Thomas E. Snider

1972 ANNUAL REPORT

The *1972 Annual Report* of the Federal Reserve Bank of Richmond features an article entitled "The Check Payments System and the Fifth District Regional Clearing Plan." The article reviews the historical development of the payments mechanism and describes the proposed Fifth District regional clearing system. The *Report* also includes highlights of the Bank's operations during 1972, comparative financial statements, and current lists of officers and directors of our Richmond, Baltimore, and Charlotte offices.

Copies of the *1972 Annual Report* are available upon request from the Bank and Public Relations Department, Federal Reserve Bank of Richmond, P. O. Box 27622, Richmond, Virginia 23261.

NOTE

Corrected figures for year-to-year increases in cash receipts from farm marketings, which appeared on page 17 of the April 1973 *Monthly Review*, are as follows: 18 percent in West Virginia, 13 percent in South Carolina, 8 percent in North Carolina and Virginia, and 5 percent in Maryland.