

The importance of international supply growth

Much of crop agriculture's price/income problems of recent years can be attributed to rapid growth in worldwide production of major crops. For instance, world corn production increased from 19 billion bushels in 1990 to 23 billion bushels in 2000. Likewise, soybean production went from 3.8 billion bushels in 1990 to 6.3 billion bushels in 2000. As a result, total world ending year carryovers were 10 to 25 percent larger in 2000 than in 1990.

When looking at data like these, one always has to ask whether such supply growth is a long-term trend or a short-term aberration. In a recent column, we said opportunities to increase crop yields in many countries by the application of known production practices and through further development of alkaline or saline tolerate seed varieties will likely ensure ample growth on the supply side of the supply and demand equation.

In this column we want to look at two additional factors that have the potential to increase production rates faster than increases in demand. The common expectation that increasing incomes in developing countries will spur increased demand for imports from the United States needs to be tempered by an understanding of the route many countries take in their quest for economic development. Also, when fundamental political changes occur in a nation, such as the break-up of the Soviet Union, agricultural production is often greatly reduced early-on but could come back like gangbusters a few years down road.

Economic Development Tool

For many nations, it is enhanced agricultural production/productivity that is used to kick-start a country's economic development. Once agriculture is put on a solid footing, technological innovations and increased use of capital inputs allow release of resources from the production of food, an essential for life, to the production of products and delivery of services that improve the quality of life. In fact, this is the approach we used right here in good old US of A.

Brazil and Argentina are using a version of the develop-agriculture-first model that also involves opening up new lands and expanding the quantity of food staples to the populace, especially soybean-based cooking oil in the case of Brazil. By placing emphasis on agricultural production, Brazil was able to improve the standard of living of its citizens by increasing the supply and reducing the cost of an important (and formerly imported) food component.

Taking an historical view, it is usually enhanced agricultural production that provides the foundation upon which a country improves the well being of its citizens. There are examples of countries for which enhanced agricultural production was not the first step in their economic development. City-states, such as Singapore, and countries with a large endowment of a natural resource, such as Saudi Arabia, come to mind. But in general, agriculture tends to be the economic development catalyst. As a country's agricultural productivity accelerates, additional workers become available to work in other sectors.

Since many of our export competitors are less-developed countries, we should not be surprised if these countries pursue policies to further expand their agricultural base through expanded acreages (such as in India, Vietnam, Argentina, and Brazil) and to make their agricultural sectors increasingly more productive.

Abandoned Area

Since the breakup of the Soviet Union, harvested area for total grains and total seeds in Russia and Kazakhstan has dropped from 220 million acres to 151 million acres. That is a drop of nearly 70 million acres. Much of that has been brought about by difficulties in the conversion from a planned economy to a market economy.

Recently multinational agribusinesses have begun to make substantial investments in the republics of the former Soviet Union. This would suggest that they believe that there is growth potential in that region of the world. With the help of these agribusiness firms it is not inconceivable that the 70 million acres will be brought back into production and probably at production levels that exceed those of the Soviet era.

Will all of this take place in the next five, ten, thirty or fifty years? Who knows? But, certainly some of the new and abandoned acreage will come into production and put upward pressure on the supply side of the crop supply and demand equation.

The bottom line for me is this: When someone provides a rosy U.S. export picture for major crops based on an optimistic forecast of increased international demand, be somewhat leery if their analysis also minimizes or assumes little increase in international supply.

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