

FOREIGN AGRICULTURAL POLICY AND FAR EAST FARM MARKETS

Far East Extension Team¹

This report consists of the team's observations and findings on the problems of expanding Far East markets for U. S. agricultural production.

ASIA — ITS PEOPLE, POVERTY, AND PROGRESS

Most People in the Area Are Poor

Conditions found in the countries visited on this "traveling seminar" represent the problems of about half of the people in the world. Americans living in the richest nation in the world, with over \$2,000 a year income per person, can hardly realize how people live with only \$50 to \$70 income per person in Pakistan and India. Thailand is a little better off with about \$125 per person. In Malaya and the Philippines, the average is about \$200 to \$250 a year. In many places the people are resourceful and good craftsmen, but lack opportunity, training, and organization.

We need to remember that these nations are mostly agricultural. About 75 to 80 percent of the population in India, Pakistan, and Thailand and 60 to 70 percent in Malaya and the Philippines are engaged in farming although the proportion is only 13 percent in Australia and 35 percent in Japan. Thus, except for some larger cities, economic life is centered around the rural village, much as in the feudal days.

Great contrasts exist in the ratio of people to resources. Countries like Australia abound with natural resources, except for water, while others like Pakistan have few resources other than human labor, still largely unskilled and unorganized.

Cultures, creeds, and backgrounds vary widely. For example, religions, all with different customs, vary from Moslem in Pakistan to Hindu in India to Buddhist in Thailand to Christian in Australia, etc. Religious differences were responsible for the separation of India and Pakistan.

India's and Pakistan's main economic problems are "how to get full stomachs." Other countries (Thailand, Malaya, and the

¹Team members were: John O. Dunbar, Purdue University; Rupert B. Johnston, Mississippi State University; John Mamer, University of Connecticut; Arthur Mauch, Michigan State University; Everett E. Peterson, University of Nebraska; Luther Pickrel, University of Minnesota; Raymond C. Scott, Federal Extension Service; Quentin M. West, Foreign Agricultural Service; and Robert W. Wilcox, University of Idaho.

Philippines) have enough food and are ready for economic development and foreign trade. In contrast to both these groups, Japan, Hong Kong, and Australia are highly industrialized nations.

Progress Is More Rapid Than Most People Realize

Building upon their own cultural heritage and upon political, social, and economic institutions adopted from the West, the peoples of Asia are now striving for national identity and economic development. To do this, many cultural patterns and institutions have had to be modified. For example:

1. *India.* Bulls are being castrated quite freely. Desiccating plants are being set up for fallen cattle. Marriage laws have been changed to legalize divorce and abolish the dowry requirement. The social security system is being changed from the old family type to the Western style. Education is beginning and as fast as people become literate, changes will take place. The result is that in many villages we now see a bicycle or a nice house or a couple of kids swinging school books. This was not so five years ago. According to Mr. Winthrop Brown, Deputy Ambassador to India, productivity is rising about 4 percent per year. With population reportedly increasing about 2 percent, this means output per man is increasing.

2. *Pakistan.* One of the major objectives of Pakistan has been to form a stable government, which appears a virtual certainty under General Ayub Khan. It is moving toward a democratic, constitutional form of government. Land reclamation, irrigation, and drainage projects are underway. Education is spreading. Industrial production, still meager by our standards, increased fourfold from 1950 to 1956. Fertilizer production is increasing.

3. *Thailand.* With incomes of \$100 per person per year and adequate food, the people are happy and energetic. They are up to the "take-off point" for industrialization. A sound base for industrialization and economic progress is being built in the form of roads, schools everywhere, waterways, power and utilities. Sufficient reserves of gold and foreign exchange are kept for protection against crop failures. The problem here is one of increasing the standard of living based on individual desires. When factories for making tapioca and producing sugar were built near enough for farmers to sell their raw products to the factories, the farmers increased production on their own, even bringing new land into production. Progress is being made toward increasing rice yields, improving rubber plantings, and doubling corn yields.

4. *Malaya*. Producing one-third of the world's tin and about one-sixth of its rubber, Malaya can earn foreign exchange with which to buy needed food and industrial products. The main objective of the Ministry of Agriculture is to increase food production. The cooperative movement started in the 1920's with credit. At that time, 70 percent of the Malayan farmers were indebted to money lenders. By World War II, usury was eradicated. Fishermen now get 80 percent of what they produce compared with 20 percent before the co-ops, and farmers get 40 percent of what they produce compared with 20 percent. One-third of the rubber trees have been replaced with better varieties since World War II; yields have been doubled. The transfer from British rule to independence was smooth. Communists are under effective control.

5. *Philippine Islands*. The rate of saving is very high—10 to 15 percent. Some results of their progress are: (a) 1,200 rural health units composed of a doctor, nurse, midwife, and sanitary technician; (b) a community development program with 1,260 multi-purpose workers trained to go into barrios and use information and credit intelligently (results are 12,000 projects in 6,400 barrios involving over 3 million Filipinos); and (c) self-decision by barrios instead of the barrio council, barrio lieutenants, etc., as before. People formerly had someone looking over their shoulders when they voted. This is no longer so.

6. *Japan*. Here is a country of Asian people which has risen above the underdeveloped status still prevailing in much of Asia. At the end of World War II, Japanese industry was nearly paralyzed. With the 1935-36 period as a base of 100, industrial production at the end of 1948 stood at 55. In 1957 the index reached 257. Greatest increases have been made in machinery, chemicals, and durable manufactures. Along with Great Britain and Germany, Japan ranks as one of the top shipbuilding nations. In 1957 Japan was the world leader, launching 433 ships.

7. *Australia*. This country is unique as the only "white" nation in Asia. Economic and political ties have been completely re-oriented since 1945 from Europe to the United States and Asia. Australians now recognize their situation and responsibilities in Asia. The rapid industrial growth since 1945 is expected to continue. The prospects for trade and investments are favorable. Scarcity of water is a major limiting factor. Reservoirs are being built and more are planned for power and irrigation.

Thus, the free people of Asia, under self-rule for the first time, are creating an environment in which the people can be more

productive and can also share in the fruits of progress. By using modern technology of transportation, communication, production, and distribution, they are struggling to reduce poverty, misery, malnutrition, disease, filth, and early death as the lot of their teeming millions.

Progress to date has resulted only after political, social, and economic institutions have been modified—form of government, education, religious attitude, family customs, social security, land tenure, credit, etc. However, many barriers to progress still stand deeply rooted in the cultures of the people in the area. As we were told by the Pakistani, "For many of these people, tradition is a religion."

BATTLE FOR THE MINDS OF MEN IN ASIA

The sleeping giant of Asia is now awake! The goal of Asians is to telescope a hundred years of progress into a generation. Most of them have established reasonably stable governments since the end of World War II. A social consciousness is also apparent. Their new constitutions have bills of rights and other provisions similar to our own or to those of Great Britain. This is a big step toward freedom from tyranny and want.

Leaders in these countries recognize the urgency of this situation. For example, Mr. Patil, India's Minister of Food and Agriculture, told the team, "Our great need is to increase the productivity of our people." Mr. Trinidad, Philippine Secretary of Agriculture, said, "Give us assistance. Then we will increase our productivity and our imports. We have the desire and the need." He also said, "Prosperous people are better customers than those with low incomes."

The leadership of these new countries is highly nationalistic. They had to be to win their freedom. In Malaya, the people voted not to include Singapore in the Federation because it would give the Chinese a majority. To deal with these young nations in international relations and trade is often frustrating, tedious, and time consuming. Nevertheless, this desire to develop is one of our biggest allies in keeping them in the camp of the Western world.

The key country in this struggle is India, with large quantities of good quality iron ore, and 43 billion tons of coal. If she were to go Communist and if her 400 million skillful people were exploited to build a potential war machine, the result could be the biggest shift in the balance of world power since the Communists took over in China.

The Demand for Rapid Progress

If the leaders who won the people of Asia their freedom do not deliver observable, measurable, real progress under this freedom, the people may demand a strong centralized, forced draft economic system such as the Communist one.

The Chinese Communist system is to restrict consumption in order to generate capital for the development of a heavy industry sector. What happens in effect is ruthless exploitation of the masses for the glory, benefit, and power of the ruling elite. This method is used: (1) to produce industrial might in order to become a world power and possibly to take over all of Asia and (2) to demonstrate that the Communist system is better than the democratic system.

The people of Asia, as well as those in Africa, and other underdeveloped areas of the world are carefully observing the results accomplished by this sinister system. If it appears to produce more results than are produced in India in the next decade or so, these people may decide to choose the Communist system—and set humanity back several hundred years.

The Direct Challenge of Communism

In the last two generations, Communism has engulfed one out of three people in the world. The epitome of this ideology is still Russia, but Communist China is rapidly developing as a second focal point.

Russia furnishes aid to India to build steel mills and at the same time supports Communist activity in Calcutta and Kerala. It also encourages Afghanistan to continue its demand that Pakistan free Poonjistan, which is presently a province of Pakistan.

Pressures from Communist China have been more direct. Its population of over 600 million people is only slightly less than the total of Pakistan, India, and all the small countries of Southeast Asia. The countries of Southeast Asia would be useful to China as a population outlet and to balance its economy—and it has vowed to take them over if and when possible.

The Chinese Communists' attitude toward the United States is one of complete hostility which looks to our national destruction if they are ever able to accomplish it. Their attitude toward Asian countries varies depending upon the relationship of these countries to the United States. In general, since the Bandung Conference in 1955, the Chinese Communists' policies have been directed

toward developing friendly relations with all "neutralist" countries (Burma, India, Indonesia, Cambodia), with varying degrees of coolness toward Pakistan and Japan, reaching open hostility toward the latter under the Kishi administration, and clear hostility toward members of SEATO, particularly the Philippines. Their "friendliness" has been manifested by mutual visits, loans, grants, and public expressions of friendship. Their hostility has been exhibited in trade embargoes and a running propaganda attack.

India's "Nonalignment" Position

India has maintained a policy of nonalignment rather than of neutrality in the conflict between the free nations of the world and the Communist bloc. We were told that, in the event of war or "near-war," India would stand squarely beside the Western nations. Between India and China are some three thousand miles of common border. China has a relatively well-developed military machine, while India has relatively little military power and few developed resources for providing more. In view of this situation, India cannot afford to enter any agreements or make any commitments which would give Communist China an excuse to invade India. India knows also that as long as no such agreements are made, world opinion would be against any aggressive moves China might take against India and gambles that U. S. deterrent power and policies will be effective.

In analyzing the "neutral" position of India we need to realize the unusual manner in which a major part of India's business and industry is carried on today. In thousands of villages and cities the vast majority of "shops" are very small. If we were to step through the back door of one of these shops, we would likely see a larger room which is used as the factory for producing the items found in the shop. This represents a perfect example of a private enterprise system and is basically opposed to the Communistic way of life even though Communist oppression probably is not much of a worry to people like the street residents of Calcutta, whose main concern is food.

Japan—Industrious Ally and Trade Partner

Japan stands as an example to other nations of the Far East that totalitarianism is not the only road to economic development and industrialization. Her economic growth rate during the 1950's was the highest in the world. She expects to double her national income in the next ten years. This makes Japan an important ally of the United States.

Many countries in the Far East still retain bitter memories of military occupation by Japan during World War II. Consequently, she has difficulty establishing friendly relations with them.

To help reduce its dependence on the U. S., Japan has embarked on programs to develop larger markets for Japanese capital goods. Teams of Japanese technical people have made studies of ways in which resources in some Asian countries can be developed. Japanese are helping to build fertilizer factories and other plants in Burma, Pakistan, and the Philippines. India is a special area of interest because it has iron ore and other resources Japan needs. Japan also sees India as a natural market for her heavy goods and machinery. India has been granted a yen credit amounting to 50 million dollars, which will be used to buy Japanese railway equipment, ships, mining machinery, etc. Repayment provisions meet India's needs for long-term credit. For some time Japan has looked with favor upon the union of Asian resources with Japanese industrial skills.

The U. S. Stake

Nearly half the people of the world live in South Asia and the Far East. The possible loss of so many people and the physical resources of the area to the Communist bloc is a frightening prospect to contemplate.

The outcome of this struggle, the Cold War, will determine, as Mr. Winthrop Brown, Deputy Ambassador to India, said, "Whether government is going to be the servant of man, or man is going to be the servant of the government" in the Far East of the future. Thus, our real stake in Asia is humanitarian as well as political and selfish. The outcome of this Cold War could well determine the survival or defeat of democracy and the freedom of man for centuries.

AID AND THE RESULTS OF AID TO THE AREA

Encouraged by the success of postwar recovery programs in deterring Communism, the free world has shifted emphasis of its aid programs to these underdeveloped countries. About one billion dollars in U. S. aid was used for economic programs in the Far East and South Asia in fiscal 1959. During the past decade, we have given Pakistan about a billion dollars in aid and India nearly two billion. Australia is giving as much on a per capita basis as we are.

In addition, Canada, Japan, West Germany, the United Kingdom,

and New Zealand have been contributors under the Colombo plan during the past decade.

Communist bloc nations are also providing aid in substantial quantities.

Examples of U. S. Aid Observed

1. *Pakistan.* The Pakistan institute of cotton research and technology illustrates the contribution that modern industrial technology can make in an underdeveloped country. Facilities of the institute represent some of the best from the U. S., the U. K., and Switzerland. Scientists there have been trained in cotton textile centers of the world such as North Carolina and Manchester, England. As a result, during the last three years Pakistan's cotton mill production is up 40 percent.

The Korangi Township Project consists of a 45 square mile township set aside at the edge of Karachi for resettlement of refugees. Eventually, people in this area will be living in about 150 thousand modern (for Pakistan) homes. Two-thirds of the total cost of the project will come from counterpart funds provided by the U. S. from sale of P. L. 480 wheat for local currency. Each of these homes consists of a living room about 10 by 12 feet plus a 3 by 3 feet cooking area, and bathroom and toilet areas each about the size of the kitchen. These homes, each of which will house a family averaging about five people, can be purchased by the Pakistani people for the equivalent of about \$200 to \$300 each. In addition to homes, mosques, schools, and shopping areas are being constructed. Compulsory education to the sixth grade is required in the area.

2. *Philippine Islands.* In a barrio a few miles from Los Banos the team observed results of university conducted rural development work. The team barrio workers demonstrated how, through getting farmers to change their crop production system, they had doubled the net income; also, how poultry production has been increased. In one case they explained how a farmer had had to overcome a social custom in order to increase his poultry production. A Filipino who has a house full of chickens is expected to furnish one or two or three for a fiesta or a wedding, thus reducing incentive to get ahead. To overcome this custom the farmer was forced to explain to his family and friends that he had to keep the chickens to pay off the loan which he had obtained in order to raise them.

3. *India.* Modern grain storage facilities were observed in Hapur

about 50 miles from New Delhi. Some people have estimated that due to improper storage facilities on farms, rats, mice, and other pests eat about 25 percent of the grain in India. One area was having a "rat famine" while we were there, and rice was being flown into the area to feed the people. In Calcutta, additional modern storage facilities have been constructed.

Public Law 480 Shipments to India and Pakistan

Total quantities authorized and agreements signed from 1954 through 1959 for these two countries were: wheat, 474 million bushels; rice, 18 million cwt.; feed grains, 15 million bushels; cotton, 523 thousand bales; tobacco, 13 million pounds; dairy products, 52 million pounds; fats and oils, 92 million pounds.

These P. L. 480 sales are welcome because they provide needed food, free scarce foreign exchange for other uses, and help further economic development programs. They also tend to lend stability to the economy and make possible long-range commitment of foreign exchange earnings to industrial development.

Criticism of P. L. 480 Sales Program by Competitors

Most of the friendly nations in the Far East recognize the need for assistance to countries like India and Pakistan. Indications are that considerable progress is being made in clearing up past misunderstandings and improving the machinery of consultation with other exporting nations.

Members of the Australian Departments of Primary Industry and Trade had this to say about our P. L. 480 programs and their trade situation:

1. Commodities have gone into the hands of people who really needed them.
2. Australia appreciates U. S. consultation concerning usual marketings, etc., and is grateful for our adhering to our agreements.
3. At the end of World War II, Australian wheat exports to India were 36 million bushels, and now they are 15. The situation is similar to this in Indonesia and Ceylon. Australia recognizes the need for providing food for hungry people but markets are shrinking.
4. If Australia protests too much about U. S. aid, its relations with recipient countries becomes strained. Due to its geographic location in Asia, Australia cannot afford to jeopardize its friendly relations with these countries.

5. When Australia cannot export wheat at a good price (to, say, Japan) it cannot buy as many industrial products to develop the country. This tends to reduce Australia's strength as a U. S. ally.

6. U. S. programs in Japan have helped increase consumption--so Australia plans to emulate them.

7. Underdeveloped countries may become too dependent on the U. S.

8. Uncertainty regarding U. S. farm policy is a problem. Australians say, "We wish you'd make up your minds."

Attitude Toward Usual Marketing Agreements

The Australians consider that these agreements fall in the category of "consolation prize." However, they recognize that these agreements are arbitrary and have to be and that the U. S. has been reasonably fair concerning them.

In Bombay, the following point was made: Under its agreement with the U. S., India must keep dollar imports from the U. S. at the same percent of its total imports as for the last several years. Then, as the result of this provision, the U. S. gets into trouble with friendly countries such as Uganda, which feels that if it has a good crop year or it increases production over a longer period, it cannot get its cotton into the Indian market.

Concern Over Intermittent Supply of Farm Surpluses for Aid

Our attention was called to the fact that U. S. delegates to an international food meeting were criticized for leading 40,000 mothers to believe that milk supplies would be available for their children, then threatening to cut off the supply when surplus stocks of nonfat dry milk ran out. This type of criticism was heard in several places, enough to evidence a great deal of concern in the whole Far East.

Tendency of Foreign Currencies from P. L. 480 Sales to Accumulate

In India, for example, rupees deposited to the account of the U. S. tend to accumulate quite rapidly. Some concern has been expressed that these may interfere with future trade. Some clarification of the policy with respect to their future use is needed and desirable. Eventually, they will either have to be classified as a grant, or they will have to be isolated from use in trade, or the people of India will have to repay the loans out of future

production. If the last alternative is chosen, India will be able to sell less for dollars until the claims are repaid.

P. L. 480 Programs as a Powerful Force in Building Markets

Not only do P. L. 480 programs help people learn to use U. S. products such as wheat, milk, and feed grains but they also increase capital facilities and know-how for handling U. S. type commodities. For example, during recovery years, U. S. furnished aid wheat to the Japanese and taught them how to use it. Today they have modern baking techniques and facilities, and rolls and bread fit into the consumption pattern of a richer people.

But at present, Australia and Canada appear to be the main beneficiaries of this program while U. S. sales are declining.

We know that many people in the U. S. feel that if we help nations develop, they will no longer buy things from us. Therefore, in India, Doug Ensminger of the Ford Foundation, who has been in India eight and a half years, was asked, "If we make India more productive through our aid programs, will it continue to buy our products?" His answer very forcibly was, "If India is not developed and the Communists push the Iron Curtain further out, U. S. markets will be cut back severely. On the other hand, if India is developed, it will be a better market. Look at Japan!"

Need for Long-Range Economic Aid Programs

A most important problem is failure of the U. S. to develop a foreign aid program that includes farm surpluses as an integral, continuing part of the program. Long-term commitments are necessary if India, Pakistan, Indonesia, the Philippines, and others are to feel secure enough against possible food shortages to proceed with plans for economic development.

PRESENT AND FUTURE MARKET FOR U. S. FARM PRODUCTS IN THE AREA

About one out of every four or five dollars of U. S. farm exports goes into this area, mostly wheat, rice, cotton, tobacco, oils, and oilseeds. In addition, this area receives much of our farm exports under aid programs. Japan and India take about two-thirds. Leading agricultural exports of the area are rubber, tea, jute, sugar, and copra of which the U. S. needs substantial amounts. Other exports of the area include cotton, tobacco, vegetable oils, and oilseeds. The area is also an important supplier to the free

world of tin, tungsten, chrome, graphite, manganese, bauxite, and petroleum.

U. S. Share of the Dollar Market Gaining for Some Commodities, Losing for Others

For some items such as soybeans and soybean oil and feed grains, the U. S. share of the dollar market in this area is increasing. The only other substantial soybean competitor is Communist China. Feed grain competitors in Japan are: Argentina, Union of South Africa, and Thailand, none of which seriously challenge the U. S. position. The Philippines may be a competitor for the Japanese corn market if yield improvement continues.

The U. S. is apparently maintaining its share of the cotton market in the area as a whole; however, in Japan the relative share of the U. S. was below normal in 1959.

Rice exports into the area in 1958 were over one-third below the 1950-54 average, even though total U. S. exports held up well. Japan, the usual big consumer, bought practically none the last two years. Japan's aim is to import no rice.

Tobacco is in trouble. Although demand is increasing, U. S. exports are barely holding their own. India, Indonesia, and the Philippines within the area have increased exports and Rhodesia, Canada, Greece, Turkey, and Cuba outside the area have also increased exports. Thus, the U. S. share of the market is falling.

U. S. dollar sales of wheat are also meeting with competition from outside the area. In Japan, for example, total wheat imports were up about 50 percent in 1959 over 1952; however, the U. S. share had dropped from nearly two-thirds to about one-half. Competing countries which are getting the market are Canada, Australia, and Soviet Russia.

Trade with Communists Is Small, Erratic

Generally speaking, Communist agricultural exports are a very small part of the imports of these countries. However, some trade is taking place. It is mostly sporadic, and apparently designed to disrupt the market and place economic pressure on smaller nations. Nevertheless, Russia's exportable wheat and China's soybeans cannot be ignored.

For example, dumping in the cotton textile market by the Chinese hurt both Japan and India in 1958 when they announced that they would sell cotton cheaper than anyone else. People

who contracted with them did not get shipment for six months and were left holding the bag.

During the last two years, Pakistan has bartered some surplus cotton to Russia and other Communist satellites for machinery, etc. About 7 or 8 percent of Malayan agricultural imports are from China—paid for with sales of rubber. Singapore buys soybeans cheaper from China than from the U. S. The Soviet bloc supplies less than 1 percent of Australia's imports and buys less than 4 percent of its exports.

Philippine trade with the bloc countries is negligible.

Japanese agricultural imports from Communist China have almost ceased. This has meant a big boost in demand for U. S. soybeans. But imports from Russia have been increasing—mostly soybean meal and hard wheat.

Hong Kong bought about 35 percent of its total agricultural imports from mainland China in 1957.

FACTORS AFFECTING THE MARKET FOR U. S. FARM EXPORTS

Far East Markets Are Becoming More Competitive

The market for U. S. farm products in South Asia and the Far East is becoming more competitive. In the late 1940's and early 1950's, many farmers there were unable to produce to capacity. Communist activity was disrupting rural areas in Malaya, Thailand, and the Philippines. Fertilizer and supplies were not available in Japan. Because civil strife in Pakistan and India made landlords uncertain about their future, they let irrigation and drainage facilities deteriorate. These conditions created a greater than usual demand for U. S. wheat, flour, rice, and cotton on both a grant and market basis.

In the mid-1960's with agricultural surpluses accumulating in the U. S., and with the shift in the emphasis of aid programs from repairing war damages to aiding underdeveloped countries, sales of U. S. farm products in the area were stimulated by P. L. 480 and other programs. Recently, however, the trend has been toward a general tightening of the market situation for U. S. farm products in this area. Local production is increasing, and trade channels are becoming better developed.

Buyers Are Extremely Price and Quality Conscious

Buyers of U. S. farm products are extremely price and quality

conscious. Price in a particular market depends upon quality. Bargaining is the accepted practice in the Asian countries. Therefore, many complaints about price and quality must be "taken with a grain of salt." This may just be part of the usual attempt to force down the price.

Some of the places where we found U. S. products priced out of the market, either wholly or in part, were:

1. Bombay, India, where the customary cotton supplier for textile manufacturers is Egypt. There we were told: "In India, U. S. cotton never goes much below 1,200 rupees per bale. Currently (February 1960), Sudan and Egyptian cotton is selling for 800 or 900 rupees per bale. If the U. S. wants to sell more, it could get the price down."

2. In Singapore, where transportation charges make U. S. soybeans too high priced to compete with local area supplies. In February 1959, soybeans would have had to be delivered to Singapore for around \$2 a bushel (the Indiana farm price at that time) to make it competitive. However, in less distant markets, such as Japan, U. S. beans are very competitive.

3. In Hong Kong, where Rhodesian tobacco is outcompeting U. S. leaf.

4. In Japan, where Canada and Australia are getting a larger share of the Japanese wheat market.

Most Importing Countries Are Subsidizing Their Own Production

Every country visited has an aid or support program designed to expand its own production of one or more agricultural items. The purpose of these programs is either: (1) to try to feed and clothe the rapidly increasing population, thus saving valuable foreign exchange, (2) to increase exports in order to increase foreign exchange earnings, (3) to provide raw materials for the increasing industry, or (4) to become more self-sufficient in basic food items. Some notable examples of these efforts were observed.

1. Pakistan pays a bonus of 20 percent on exports of all agricultural products except cotton, jute, wool, and tea and 40 percent on manufactured items except jute and cotton items, on which the bonus is 20 percent. Government procurement prices on wheat and rice act as supports to encourage production.

2. India is placing primary emphasis on food production in

its third five-year plan through every means possible—credit, co-operatives, a 50 percent subsidy on fertilizer, village aid programs, etc.

3. Australia subsidizes cotton, tobacco, linseed, and butter and cheese and indirectly supports wheat prices. For many years, cotton production was about 3,000 bales. Last year it was about 15,000.

4. The Philippine Islands are encouraging more farm production on all fronts through education, research, extension, credit, co-operatives, and the marketing system. Led by the Rural Development Program and the Institute for Cooperatives and Credit at Los Banos, it has boosted rice and corn, which constitute 40 or 50 percent of the diet, to self-sufficiency levels since 1958.

5. Japan has gone all out in its efforts to increase production by: (a) supporting prices of rice, wheat, barley, soybeans, rape-seed, potatoes; (b) supplying cheap feed; (c) providing technical extension; and (d) financing crop, meat, and egg production.

Trade Barriers of All Kinds Are Used in the Area

Every country visited controls foreign trade by one means or another. Following are examples:

1. *Exchange Controls.* In the Philippine Islands, exchange controls administered by the Central Bank are the principal factor influencing the conduct and direction of foreign trade. Restrictions of foreign exchange allocations have been kept under tight control because of low dollar reserves.

2. *State Trading.* The Pakistan government has a monopoly on the import of wheat, rice, and white sugar. It loses money on its wheat transactions because it sells to the consumer for less than the cost to the government. It makes a profit on rice purchases and sales.

3. *Quotas.* India uses quotas on fruits and certain nuts, milk food for infants, malted milk food, and spices.

4. *Licenses.* Practically every country in the area prohibits imports of many commodities by people without a license. Licensing varies from the automatic approval system for countries who are interested in increasing trade to issuance of very few licenses in countries having foreign exchange difficulties.

5. *Embargoes.* India, for example, prohibits imports of tobacco manufactures, butter, cheese, ghee, condensed or preserved milk,

canned or bottled ham or bacon, vegetables, coconuts, and a number of nonagricultural items.

6. *Bilateral Trading and Payment Agreements.* A trade agreement between Indonesia and Australia, signed December 17, 1959, provides for export by Indonesia rubber, oil, tea, coffee, and bauxite to Australia in return for Australian wheat, flour, structural steel, construction material, medicines, motor vehicles, spare parts, machines, and telecommunications and electronic equipment.

Currently, Japan is using these trade agreements to insure markets for her industrial commodities. Some of these agreements include purchase of food grains and cotton from non-U. S. suppliers.

7. *Preferences.* Many countries in the British Commonwealth give lower tariff rates to other countries in the Commonwealth than to countries outside the Commonwealth. Until recently, the U. S. has enjoyed lower tariff rates in the Philippines than other countries. However, under the 1956 Philippine-U. S. revised trade agreement, tariffs on imports of U. S. products were set at 50 percent of full duty on January 1, 1959, and will rise to 100 percent by 1974.

8. *Clearing Unions.* These are organized like a bank clearing house to settle payments among countries. A good example is the Sterling bloc. Malaya in recent years has sold rubber for dollars, but bought relatively less things for dollars. It traded its dollars to other countries in the Sterling bloc for their products, then the other countries spent the dollars in the U. S.

9. *Mixing Regulations.* In Australia U. S. tobacco can come in free so long as it is mixed with a minimum percentage of Australian tobacco in cigarette manufacturing, for example.

These controls on foreign trade are used:

1. To direct the use of foreign currency, e.g., dollars, for things of greatest benefit to the country.

2. To protect domestic producers.

3. To encourage the development of new industries.

4. To maintain a reserve of foreign currency for use in case of bad crops, as in Thailand.

5. As weapons of economic warfare; for example, the U. S. embargo on all Communist China produced items, which incidentally is working very effectively in Hong Kong.

6. To provide revenue for the operation of the government.

Relaxation of Trade Barriers Is Improving U. S. Export Possibilities

As a general rule, trade barriers are being relaxed somewhat in this area. This is due to: (1) the improved dollar position mostly of exporting countries such as Thailand, Malaya, Australia, and Japan, (2) general improvement in the economies of nations in the area, and (3) economic development of the area. Examples are:

1. Malaya has increased rubber exports recently, giving it unspent dollar reserves. Consequently, it has removed restrictions on purchases from the U. S. and is now purchasing direct instead of buying through Hong Kong and paying a 5 percent handling charge.

2. Australia, on August 1, 1959, made more dollars available for imports. U. S. nonagricultural industries are likely to benefit more than agricultural products from freer trade with Australia.

Quality Problems of U. S. Farm Exports

Several facets to this problem were discovered, including:

1. The term quality is used to refer to a multitude of things—type, variety, grade, condition, etc. This leads to confusion. In soybeans, for example, “quality” is often used when comparing U. S. beans with Manchurian beans. This comparison is not valid because U. S. beans are higher in oil and better for extraction, while Manchurian beans are higher in protein and better for direct human consumption. They may both be of the same grade, yet one can be more suitable for crushing and the other for eating in some form such as bean curd.

2. New importers apparently lack knowledge concerning characteristics of various U. S. grades. This can be a serious deterrent to market expansion. For example, we received complaints that corn shipped from New Orleans was too wet to keep until it got to Japan. Inquiry revealed that the grade ordered was shipped, but that maximum moisture had been specified at 17.5 percent. Everyone in the corn trade here knows that 17.5 percent moisture shelled corn is too wet to keep. This may be evidence that importers who are new at buying corn do not know what to order. If so, exporters may need to take a longer-run view and explain keeping qualities of wet corn. Or it may also be evidence that some importers are simply willing to buy lower quality for a lower price, and to complain in the hope of getting redress.

3. Some importers have no recourse when the commodity they receive is not actually what they ordered. However, for the most

part, reports were that the actual quality or grade of merchandise ordered was also the quality received and that it arrived in satisfactory condition. For example, although the balance between types of wheat received was not always that most desired by Calcutta millers, we were told that the condition in which it arrived was mostly quite satisfactory. By the time the team reached Japan it concluded that importers get mostly the grades and qualities they order. If Japanese importers order beans with 2 percent foreign matter, that is exactly what they get—2 percent, no more, no less. U. S. exporters have facilities to deliver about any grade of product ordered.

4. Some lack of uniformity of quality results from variations in production and marketing practices in the U. S. This was brought out clearly in the case of cotton in Bombay. One cotton importer there registered the complaint that the grade varies more widely within shipments from the U. S. than from other countries. However, a European importer said, "That is due to the marketing system in the U. S. Cotton is sold from each farm and put in warehouses in bulk. It does not pay to keep the grades completely uniform. Because Indian buyers do not specify tolerance, exporters take advantage of them." He suggested the European system of buying on a reject basis might be tried. To this, the Indian importer retaliated, "To increase U. S. exports, the exporter must deliver what he agrees to deliver." Individually, however, the importers we visited said they had not had any basic trouble with our suppliers in getting the quality they order.

Attitude Toward U. S. Surpluses

Many countries are counting on U. S. food surpluses as the food storage stocks of the world. For example, Pakistan's plans call for supplies of food from the U. S. for the next ten to fifteen years.

Some small exporting countries, however, look upon these surpluses as a potential danger. They fear that if the U. S. were to decide to dump these supplies, they might wreck the market. For example, a bushel of wheat sold in the Far East displaces a bushel of rice, on which countries like Thailand depend for their income.

Competitors of the U. S. in the world market for wheat, cotton, etc., would much prefer that the U. S. hold these supplies rather than dump them on the world market in free competition. For example, Ambassador Sebald in Australia pointed out that when the Australians complained to him about the large stocks being

held in the U. S., he put the question squarely to them whether they would rather have us hold them or dump them—and their answer is always, “We would rather you hold them.”

OBSERVATIONS ON MARKET EXPANSION ACTIVITIES

Technical Representatives Are Very Useful in Ironing Out Use Problems

In several places where U. S. technical representatives either are now or have been working to: (1) help foreign importers iron out technical use and marketing problems and (2) help government or industry groups learn how to use U. S. products, sales of U. S. products seem to be going much more smoothly than where they have not. In the opinion of the team, this type of activity should be given a quite high priority, even at the expense of promotion activity, if necessary.

Here are some examples of where this type of activity appears to have been successful.

1. A team of a technician and a marketing man helped the All Japan Soap Association work out problems with tallow. Since this action, not a single complaint has been registered against U. S. tallow manufacturers. In his reports prepared for the House of Representatives Agriculture Subcommittee of the Appropriations Committee, the Agricultural Attache in Japan said, “Once again it is emphasized that one of the greatest advantages occurring under the market development program has been the exchange of people between the two countries, which has resulted in a better understanding between our producers and the Japanese producers.”

2. Western Wheat Associates representatives in Pakistan and India are busy helping people there work out problems in the use of U. S. wheat. When a problem comes up, they are on the spot to deal with it. Whether they are responsible or not, the team heard no major complaints about U. S. wheat supplied to those countries under P. L. 480.

3. A Tobacco Associates, Inc. representative was in Bangkok at the same time as the team. Again, whether it was due to his work or not, there is no complaint about technical difficulties with low quality U. S. tobacco.

On the other hand, in some places technical problems did exist due apparently to lack of “servicing” of the U. S. market by someone. Examples are:

1. Pakistan imported considerable cotton in 1956 and 1957.

Reports to the team were that it contained grass, was shorter staple than ordered, contained too many “neps,” and consequently some of it is still unused. The team was unable to determine exactly why this situation existed—and it may not be important to remedy the situation since Pakistan now uses very little U. S. cotton. If this had been a dollar sale, it would have seriously impaired trade relations.

2. In Singapore, the Asia Tobacco Company, a new firm, going after the “100 percent American” prestige market for cigarettes, had to recall all its cigarettes from the market when spots appeared on them after two or three days. The management was in a dilemma, not able to get help from the U. S. supplier. This company will very likely shift to some other tobacco, depriving the U. S. of some potential tobacco market.

The problem of servicing markets came up in several other places. Some concrete action to remedy this situation would appear to be needed if we are seriously interested in expanding our Far East markets as they develop.

Market Analysis Needs to Precede Promotion

Outlook analysis needs to be applied to help determine where substantial markets exist or may develop in the next few years. This will make long-run promotion projects more productive in selling commodities for dollars where expanded markets are developing. Examples are:

1. Opportunities appear to be good for selling more feed grains to Japan during the next few years as its people shift to a higher quality diet. A quick comprehensive study of how to help get U. S. feed grains into that market would be helpful.

2. The possibilities for sale of reconstituted milk in Thailand may be fairly good among the high-income families of Bangkok; however, a mass market for fresh milk will not develop for a long time because of: (a) lack of home refrigeration and (b) the price of reconstituted milk, which now is about 35 cents a quart, nearly half a day's wages.

A Principle: “Hard Sell” Is Required to Sell to Brand-Conscious Asiatics

One of the characteristics of the Asian and Far East market, mentioned almost everywhere U. S. products are sold for dollars, is extreme “brand consciousness.” One reason for this is that since many buyers cannot read, they look for the three roses pictured

on cans of condensed milk, or FAB on a box of soap. In Hong Kong, Carnation canned milk sells for more than other brands. This being true, once a market is established, it is hard to divert customers. Therefore, in dollar markets like Malaya, the "hard sell" can be used to get some U. S. products into use.

Japanese Bakers' Warning: "We Don't Want 'Left-Over' Wheat!"

At the Japanese Bakers Institute we were told: (1) Since the U. S. is supplying soft wheat to Japan and Canada is supplying hard wheat, the two are not basically competitive; (2) Japanese soft wheat is becoming increasingly competitive with U. S. soft wheat; therefore, the U. S. should consider selling hard wheat to Japan. But, the miller warned, "The U. S. should be reminded that if U. S. exporters or farmers have any conception that Japan may do well with the wheat 'left over' in the U. S., the idea should be corrected." Japan is not interested in inferior quality wheat. High grade wheat will be required to expand the market in Japan.

THE POLICY ISSUES

To What Extent Are We Going to Trade with Friendly Countries Like Japan and Hong Kong?

We are faced with the alternatives of protection and isolation versus trade with these countries. Consider Japan, for example.

Japan's economy is expanding rapidly. Her population will continue to expand. Although her agriculture is highly efficient, she will not be able to produce enough food for her own needs except at a very low level. In short, Japan must export more in order to eat better. Since it has a limited supply of raw materials, its main export is the product of its intelligent, energetic, well-organized people; its industrial genius; and its electrical power. This means that it is a nation of workers processing raw material into consumer goods.

In Japan, considerable attention was being given to complaints by U. S. cotton textile manufacturers that the U. S. was subsidizing cotton exports to Japan at the rate of 8 cents per pound and that Japanese textile exports were hurting the U. S. textile manufacturers' market. Japanese manufacturers, alert to the fact that this might cause them trouble, voluntarily restricted textile exports to the U. S.

Before imports such as Japanese or Hong Kong cotton textiles are restricted, consequences of the action should be considered carefully. One consequence would be that the Japanese would

need less U. S. raw cotton. Another would be that they would have less dollars to buy either wheat or soybeans or feed grains. Also, people in the U. S. would have to be kept in the cotton textile industry instead of perhaps going to another industry which would produce television sets, air conditioners, etc.

If the result of restricting imports is to drive these countries to trade with Canada, Australia, West Germany, and other non-Communist nations, we lose a market but at least the economies of our friends are strengthened. However, if the result is to drive them to trade with China and Russia, we not only lose a good market but enable the Communist nations to strengthen their economies and gain a foothold in an area important to our defense in the Far East.

In the list of "items available for export from the Soviet Union to Japan" in 1959 were such things as wheat, barley, and raw cotton. In late 1959, Japan and Russia were negotiating for increased trade. If such trade between Japan and the Communist countries increases, it means that electronic equipment, etc., will probably be sent to Russia in return for wheat. This will tend to strengthen Russia and weaken us.

China suspended trade relations with Japan in early 1958. As a result Japan began buying more soybeans from the U. S. If trade between China and Japan were resumed, U. S. soybean producers might expect to lose about 300,000 tons of sales to the Japanese annually. Not only this, American consumers would be deprived of many cameras, transistors, binoculars, etc.

What Kind of Aid Should Be Provided to Underdeveloped Countries Like India?

If the people of the U. S. better understood the tremendous pressures of international Communism in the Far East, they would see the necessity for developing the economy of India as rapidly as possible under a democratic system. They would have less question in their minds concerning the amount of aid being given to India and other nations. One issue, however, which seemed to the team to be very urgent was, "In what form should aid be provided to help build the economy of India as fast as possible through democratic institutions?" Alternative forms are: (1) food, (2) fertilizer, (3) fertilizer plants, (4) steel mills, (5) technical help, and (6) basic education. Obviously, the answer is "some combination" of these alternatives, not simply more food nor more steel plants.

The team asked Indian leaders, "Which would you rather have, a dollar's worth of food or a dollar's worth of fertilizer"? The answer it received, without hesitation, was "A dollar's worth of fertilizer. With it, we can make five dollars worth of food." Even though the current diet level is only about 14 ounces of cereal plus 2 ounces of pulses a day Dr. Lokanathan, National Council of Applied Economic Research, said, "India's problem is not merely one of fertilizer and food alone but of getting farmers to produce the food. The food subsidy is a temporary program. It should not be necessary after 1965. It must, however, provide for the unfavorable years. It is normal for India to have two years of drought followed by two years of average weather and one year of good weather." (This quotation is used as an indication of an attitude not as an appraisal of India's food needs.) Thus, India's total need, not just its food need, should be taken into account when considering future aid programs.

When we are spending U. S. tax dollars for aid, we should consider very carefully, from a selfish viewpoint, whether or not the form of aid we are giving is the one which will help develop India the fastest possible in light of the urgency of the situation.

What Will Be the U. S. Share in the Expanding Far East Farm Market?

Population is increasing in the area at about 2 percent per year, ranging from 1 percent in Japan (where the birth rate is reduced by late marriage and legalized abortion) to 3 percent in Malaya and the Philippines. Better medical care and facilities and improved diets have lengthened life expectancy. In India life expectancy is now 32 years compared with 26 in 1930.

Thus, demand for farm products for both food and clothing is increasing, but production has been rising, too. In 1959, the index of per capita production of agriculture in the Far East and South Asia stood at 108 compared with 100 for 1952-54, 104 for 1957, and 106 for 1958. The annual rise in over-all productivity per worker (estimates range from 2 percent in India to 8 to 10 percent in Japan) is also accompanied by an increase in demand (income elasticity of demand for food in India was about .6 to .7).

Japan's diet is shifting to more meat and milk with less fish, potatoes, and rice. More women are beginning to smoke. In Thailand, people's incomes have improved, and they are eating better and smoking more cigarettes.

In underdeveloped countries like India, the income elasticity of demand for clothing may be quite high. Since most people in the Far East wear cotton clothing (17 or 18 yards a year per capita in India), the area could very well be an important source of demand for cotton in the next decade. Expanding cotton textile industries in practically every country visited by the team may be evidence of this growing demand.

Matched against the increasing demand is the increasing competition from local supplies. Most of the nations in the area are still agricultural. Every country's plan for economic development puts strong emphasis on increasing farm output.

Price-support incentives and protection against foreign imports are given local producers by deficit countries like India, Pakistan, Japan, and Malaya in an attempt to become self-sufficient, and by exporting countries like Thailand to increase exports.

Two other factors are likely to affect supplies sold in this market in competition with the U. S.: export subsidies by other foreign suppliers and bilateral trade agreements used by such countries as Japan for agricultural products to guarantee markets for its industrial products.

The biggest factor determining the expansion of the U. S. market for farm products in this area will be the amount of dollars we spend in those countries for things they produce as they become more productive, e.g., Japan. Other factors will be price and quality of U. S. farm exports.

Thus, we cannot say for sure that the demand for U. S. farm exports in the area is either going to slacken or to increase in the next decade. We can be certain, however, that competition is going to be keen. If the U. S. share is to be maintained or increased, careful attention will have to be given to trade policies, and markets will have to be pursued aggressively—or someone else will get them. Salesmen from other countries are everywhere in the Far East, and buyers insist on the best bargain possible. Other nations are "moving in" on the U. S. steel and machinery market and if we are not active and aggressive, they will move in on our farm markets the same way.

Conclusion

Coming home the 10,000 miles from Tokyo to Washington, D. C., in about 15 hours flying time reminded the team again that modern technology of transportation and communication is making

the world smaller and smaller. The Far East has now truly become the "Near West"!

Economic and social change is taking place more rapidly than ever before and is spreading to every area of the world. Just as the number of social and group problems in the United States increased as we became a more interdependent society, the problems of international relations and trade have increased in number and complexity as social and economic development takes place throughout the world.

The free world looks to the United States for protection as well as for world economic development. The decisions we make on aid for underdeveloped areas and on trade with all nations may well mean life or death for us as well as for our friends.