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FREE INTERNATIONAL TRADE

**IMPACT ON DEVELOPING
COUNTRIES**

**FREE INTERNATIONAL TRADE: IMPACT ON
DEVELOPING COUNTRIES**

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FREE INTERNATIONAL TRADE: IMPACT ON DEVELOPING COUNTRIES

Market share and the long-run competitiveness of any country on the world market is influenced by many factors. These factors may be classified into five major groups: 1) Marketing Institutions, 2) Government policies (trade barriers), 3) Exchange rates, 4) Natural resource endowments, and 5) technological development. Government policies or trade barriers and exchange rates are major determinants of a Country's competitiveness in the international market in the short-run. In the long-run, productivity and cost efficiency will become more dominant factors.

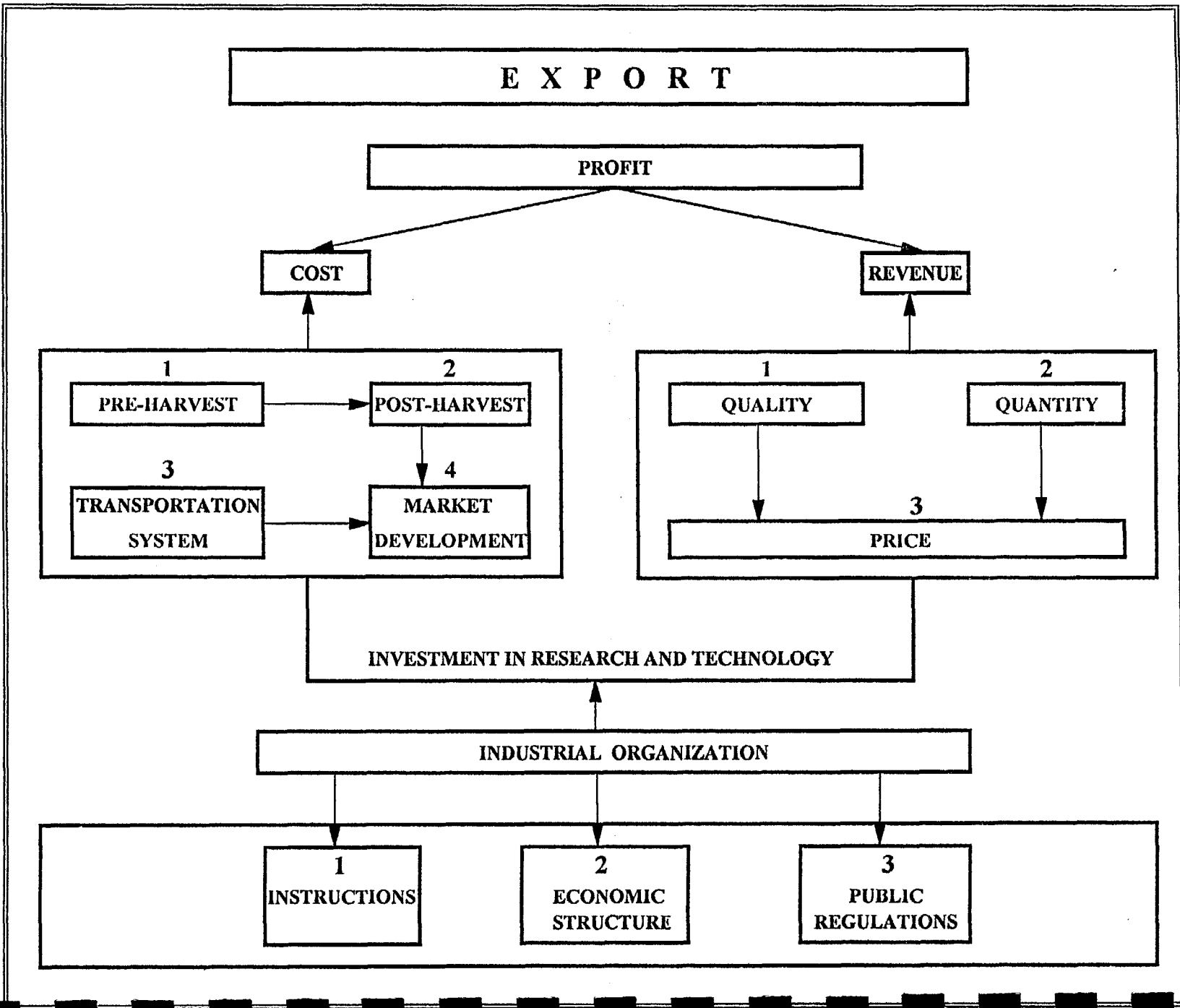
The rapidly emerging global economy will change the prevailing international trade relationships among nations. The recent successful negotiation and implementation of the North American Free Trade agreement (NAFTA) and the General Agreement on Tariff and Trade (GATT) have changed government policies and reduced international trade barriers. The provisions under the GATT will supersede provisions under all regional trade agreements. The GATT will reduce export subsidies, import tariffs, and domestic support, and will increase market access for all agricultural products. Artificial currency and exchange rates control imposed by some governments, will also be reduced. This new emerging trade improvement will enhance competition and will provide the private sector a larger role in international trade.

With trade liberalization in regional and global markets, the comparative advantage of any country in the international market for a particular product will largely depend upon efficiency in the production, marketing and export of the product. Efficiency is the primary factor in determining profitability. Profit is the key to the survival of any firm in the industry and is the barometer for industrial growth and performance. Figure 1 illustrates the conceptual framework for profit determination and thus export of agricultural product.

Profit is a function of production and marketing efficiency. The utilization of any country's natural resource endowments in the production and marketing of any product, under free international trade, will depend exclusively on two factors: 1) technological development, and 2) industrial organization. Compared to the developed regions, the developing regions of the world are significantly lacking in technological development. The developing regions industrial organization base is generally primitive and not compatible with today's export requirements.

Technological development requires a well organized and developed scientific system. Practically all developing countries do not have the scientific institutions required to develop the research information and the infrastructure necessary to utilize the information in the development of new technology. The development of a scientific system is expensive, slow, and beyond the means of most developing countries in the short-run. However, free access to information and technology

FIGURE 1 : THE EXPORT ECONOMIC - PLANNING MODEL



transfer are inherent in the GATT. Free access to technology, under the free trade agreement, will provide the developing regions of the world with the technological base necessary for efficient utilization of the natural resource endowments. In general, the developed regions agriculture is capital intensive and "high technology" enterprise. In contrast, the developing regions agriculture is labor intensive and "low technology" enterprise. The lower labor costs in the developing regions will compensate for the technological advantage and thus the cost efficiency of the developing nations in the short run. Furthermore, the free trade agreement make technology a freely exchangeable service and will enable the developing regions to adjust their agriculture to a "high technology enterprise" in the long-run.

The industrial organization base, however, will remain the principle obstacle affecting the competitive position of the developing nations in the world market in the immediate future. A country's industrial organization effectiveness is influenced by its institutions, the market structures of its industries, and public policies and regulations. The impact of these factors on international trade is briefly discussed in the following section.

1. Institutions

The domestic public and private institutions that affect a country's competitiveness in the international market may be grouped into: a) banking and finance, b) legal, c) communication, d) scientific, and e) regulatory. The development of these institutions is essential for the development of the infrastructure, and the organizations necessary for efficient production, processing, and marketing of agricultural products. These institutions are long established in the developed regions of the world and have contributed significantly to the development of their industrial base. Some developing countries, however, lack these institutions. Most, suffer from stagnation, out dated or chronically ill institutions that hinder instead of promoting efficiency and competitiveness.

In order for the developing regions of the world to become a viable member of the free trade international community, the institutional base needs to be analyzed and a new set of institutions need to be developed and established.

2. Market Structures

Market structure refers to the number and size distribution of firms in the industry that are involved in the production and marketing of products. This also includes the production and marketing organization of these firms as individual operating units, vertically integrated, horizontally integrated, cooperatives, joint ventures, and other legal commercial structures.

The market structure of the agricultural industry in the developed regions of the world consist of privately owned, efficient sized economic units with sound financial base. Inter-industry competition will dictate the survival of any firm or group of firms. Efficiency, influenced by organization structure and management, is key to a firm's survival and growth. In contrast, the market structure of the agricultural industry in the developing regions is generally dominated by small and inefficient units or large and inefficient government operated units. Structural re-

organization is needed to create an efficient production and marketing economic units. The structural re-organization must consider the legal, financial and management aspects of modern operations.

3. Public Policies and Regulations

All developed countries have well established public policies that regulate inter-industry and intra-industries relationships. Anti-trust regulations have instituted the legal framework to regulate business conduct and promote domestic and international competition. In contrast, the developing regions of the world are dominated by policies and regulations that are unrealistic to implement and for the most part are out-dated and hinder competition.

THE ROLE OF THE PRIVATE SECTOR

In all democratic and developed countries of the world, the private sector has taken the initiative in trying to develop and promote its own interests. The democratically elected governments in the developed countries have encouraged and facilitated the development of strong private sector organizations. The development of strong private organizations in the developed countries have significantly contributed to the legislation of appropriate laws and regulations to develop the institutions necessary for the growth of the various sectors of the economy. The starting and most important stage in the development of the nation's industrial organizational base is the development of financially and politically independent private organizations.

In the following section, the experience of developed and developing countries in the development of agricultural organizations is discussed.

1. California

California is the leading state in agricultural production in the United States. Individual crop growers and processors of such products as strawberries, table grapes, pistachio, etc.. have established their own private sector associations and commissions to promote the profitability of the commodities they produce.

California table grapes, for example, are effectively represented by the California Table Grape Commission. A Board of Directors to represent the industry is chosen in regular elections. Finances are obtained by exacting a toll on production (13 cents per 10 kilogram box of grapes marketed). A staff is employed to carry out various interests of the clients such as needed research on both production and marketing, market development and promotion and the formulation of policies to promote their respective sectors.

As a result, California's table grape industry has developed to a multi-million dollar segment of the California economy with annual exports exceeding \$110 million to various countries in the world.

The California table grape example is one of many private organizations in the U.S. Most other developed countries have encouraged the development of private organizations with similar purpose.

2. Honduras

At least two major efforts to create private sector institutions related to the fresh produce sector were initiated in the 1980's. The United States Agency for International Development (USAID) created the Federation of Honduran Exporters and Producers (FEPROEXAH) to enhance linkages between production and export marketing. USAID also created the Honduran Foundation for Agricultural Research (FHIA) to focus production research on export oriented fresh produce.

FEPROEXAH is governed by a Board of Directors representing private sector representatives of participating groups. FHIA is also governed by a Board of Directors. The head of that Board, in the formative stages, was the Minister of Agriculture, but the rest of the Board Members represented the private sector, including FEPROEXAH.

FHIA is receiving some of its support through interest generated by an endowment from a USAID supported PL 480 import program..

3. Ecuador

USAID initiated the development of the Ecuadoran Producer and Exporter Association (PROEXANT) and the Foundation for Agricultural Research (FUNDAGRO) in Ecuador in the 1980's. PROEXANT was designed to work with the development of production and marketing linkages of "non-traditional" exports, and FUNDAGRO was developed to provide private sector led research on fresh produce crops destined for export. Both organizations are governed by representatives of Ecuadoran agriculture's private sector.

FUNDAGRO in Ecuador benefits from a USAID supported endowment developed through PL 480 programs.

4. Uganda

Recently, Uganda was able to increase its non-traditional exports through policy changes on key problems that included cumbersome trade rules and regulations; restrictive air cargo export procedures, and inadequate facilities; lack of imports needed by exporters; and inadequate measures to give nontraditional exporters higher effective foreign exchange earnings.

The key factors that appeared to have affected program performance, in addition to continued macroeconomic reforms, can be grouped into two categories: economic policy and physical and

institutional infrastructure. The role of the private sector became more prominent, influenced, at least in part, by the weakened monopoly control of the key state-owned enterprises and a concomitant increase in business confidence.¹

5. Morocco

Several private sector organizations in support of Morocco's private sector exist. These include the Atlas Fruit Board for pre-purchase of shipping space; joint cooperatives spanning French and Moroccan coop members; a new fruit and vegetable exporters association; and, the flower growers association (AMPEXFLEURS).²

6. Thailand

Several private sector firms and organizations have contributed to expansion of fresh fruit and vegetable exports. Some of these include: Association of Fresh Fruit and Vegetable Growers; Chain Air Service; East Asiatic Company; Klong Siam; Krung Thai International; Pisitachai International; Prapat Farm; Siam Canadian Trading Company; Talat Fresh; Tang Hak Kee; TMT; and Twins and Friends Co.

The majority of these organizations are exporters, brokers, and transportation companies which have been active in the fresh produce trade. They range from small firms specializing in fruit and vegetables to large, diversified multinational companies with fresh fruit and vegetable trading comprising only part of their business.

The Association of Fresh Fruit and Vegetable Exporters has made efforts to promote the industry and facilitate trade. Some individuals interviewed said that the association was more effective in promoting the interest of certain exporters and does not truly represent the industry.³

In the following section the case of Jordan is discussed in detail.

¹ The A.I.D. Economic Policy Reform Program in Uganda. Joan Atherton; Edward Costello; Thomas J. Herley & Joseph M. Lieberman. A.I.D. Impact Evaluation Report No. 79. December 1991.

² Based on a personal communication from Don Humpal, DAI-Morocco, who is working with Agribusiness Marketing Investissement (AMI) in Morocco. January 3, 1995.

³ Draft of "A Case Study of Successful Innovations in Thailand's Fresh Fruit and Vegetable Export Industry". AgriSource Co. Ltd. Bangkok, Thailand. August 1990. Study financed by USAID through the Agricultural Marketing Improvements Strategies Project; The Postharvest Institute for Perishables, University of Idaho; and, Abt Associates.

THE DEVELOPMENT OF PRIVATE AGRICULTURAL ORGANIZATIONS IN JORDAN

Agriculture is a major industry in Jordan. During the 1990-93 period, the value of agricultural production exceeded 523 million JD. This has represented 17.2 percent of the Nation's Gross Domestic Product (GDP). The value of agricultural production has increased from 439 million JD in 1990 to 575 million JD in 1993. However, the contribution of agricultural production to Jordan's GDP has declined from 18.07 percent in 1990 to 15.40 percent in 1993 (Table 1).

Jordan, however, has the potential to increase agricultural production. This is especially true in the fruit and vegetable sectors. Exports account for over 20 percent of Jordan's GDP. The Fruit and Vegetable sectors depend to a large extent on the export market. Jordan's potential in the production and export of fruit and vegetables needs to be developed in order to improve the Nation's deteriorating balance of payments. The important question is who should initiate and take the responsibility for developing this sector of the economy?

FRUIT AND VEGETABLE PRODUCTION AND EXPORTS

The fruit and vegetable sector is the principle part of the agricultural industry. During the 1990-93 period the value of fruit and vegetable production represented 28.78 percent of the value of agricultural production. However, the value of fruit and vegetable production as a percentage of the value of agricultural production has shown a continuous decline during this period. In 1990, the value of fruit and vegetable production represented 32.33 percent of the total value of agricultural production. In 1993, however, the value of fruit and vegetable production as a percentage of agricultural production declined to 23.30 percent.

The contribution of fruit and vegetable production to GDP has also shown a continuous decline during this period. In 1990, fruit and vegetables represented 5.85 percent of Jordan's GDP. In 1993, however, the contribution of the fruit and vegetable sector to GDP declined to 3.59 percent (Table 2).

The decline in the contribution of agriculture to GDP, in general, and the decline in the contribution of fruit and vegetables to GDP in particular is alarming indeed. Fruit and vegetables are one of the major foreign exchange earning sectors of the economy, with the potential for further development. The continuous decline in the relative share of this sector to GDP, however, will have far reaching consequences to the economic growth of a Nation with a significant balance of payment deficit.

TABLE 1

GROSS DEMOSTIC PRODUCT (GDP) and VALUE
of AGRICULTURAL PRODUCTION (VAP)
in JORDAN

YEAR	GDP BILLION J.D.	VAP BILLION J.D.	PERCENT
1990	2.429	0.439	18.07
1991	2.634	0.485	18.41
1992	3.307	0.593	17.93
1993	3.733	0.575	15.40
TOTAL	12.103	2.092	
AVERAGE	3.026	0.523	17.455

AART1.XLS

TABLE 2

**GROSS DEMOSTIC PRODUCT (GDP) and VALUE
of FRUITand VEGETABLES (VFV)
in JORDAN**

YEAR	GDP BILLION J.D.	VFV BILLION J.D.	PERCENT OF	
			AGR.	GDP
1990	2.429	0.142	30.35	5.85
1991	2.634	0.152	31.40	5.77
1992	3.307	0.172	29.00	5.20
1993	3.733	0.134	23.30	3.59
TOTAL	12.103	0.600		
AVERAGE	3.026	0.150	28.78	4.93

AART2.XLS

EXPORT OF FRUIT AND VEGETABLES

During the 1990-93 period, an average of 27.18 percent of Jordan's fruit and vegetable production was exported. However, the export of fruit and vegetables during this period has declined both in absolute terms and as a percentage of total production. In 1990, Jordan exported 567,103 metric tons of fruit and vegetables. This declined to 344,522 metric tons in 1993. In 1990, Jordan exported 43.38 percent of its fruit and vegetable production. In 1993, however, only 19.93 percent of the nation's fruit and vegetables were exported (Table 3).

The relative share of agricultural exports of the Nation's total exports has been showing a continuous increase. In 1990, agricultural exports represented 10.47 percent of Jordan's total exports of goods and services. In 1993, agricultural exports accounted for 21.11 percent of total exports from Jordan. This increase, however, is primarily due to a significant increase in the production and export of phosphate and potash fertilizers. During the 1990-93 period, fruit and vegetable exports accounted for 67.6 percent of total agricultural exports. But since then, it has experienced a continuous decline. In 1993, the export of fruit and vegetables represented only 40 percent of Jordan's agricultural exports, a decline of over 20 percent in this sector's share of agricultural exports. Fruit and vegetable exports share of the total country exports has been fairly stable during the 1990-93 period (Table 4).

CONCEPTUAL FRAMEWORK FOR THE DEVELOPMENT OF THE FRUIT AND VEGETABLE SECTOR

The production and export of fruit and vegetables are influenced by many technical, economical and organizational variables. The growth and development of fruit and vegetable production and export will ultimately depend upon profitability. Profit is a function of revenue and cost which are influenced by management, technological application, and appropriate organizations and institutions (Figure 1). An active, well-organized private sector is needed to help develop the institutions required to improve profitability.

Production and export of fruit and vegetables is influenced by management skill and the application of modern pre-harvest technologies. Appropriate and well funded research institutions are needed to develop and help producers and exporters to apply modern technologies. An effective organization is also needed to raise the management skill of producers and exporters, provide adequate funding for research and technological development, and develop the domestic and international markets.

Jordan has the technical know-how and the public research institutions that are capable of developing and helping implement modern technologies. However, the public sector lacks the

TABLE 3

**JORDANIAN VEGETABLES and FRUIT PRODUCTION,
MARKETING and EXPORTS**

YEARS	PRODUCTIO (TONS)	<u>CENTRAL MARKETS</u>		<u>EXPORTS</u>		
		(TONS)	% of PRODUCTION	(TONS)	% of PRODUCTION	% of MARKETING
1990	1,307,250	686,749	52.53	567,103	43.38	82.58
1991	1,190,940	694,938	58.35	334,640	28.10	48.15
1992	1,783,300	795,718	44.62	387,596	21.73	48.71
1993	1,728,600	794,792	45.98	344,522	19.93	43.35
AVE.	1,502,522	743,649	49.45	408,465	27.18	54.47

AART3.XLS

TABLE 4

VALUE of EXPORTS from JORDAN
in MILLION J.D.

YEARS	TOTAL EXPORTS	PERCENT of GDP	<u>AGRICULTURAL EXPORTS</u>		<u>VEG. & FRUIT EXPORTS</u>		
			TOTAL	PERCENT	TOTAL	PERCENT OF AGR.	PERCENT OF GDP
1990	612.25	25.20	64.13	10.47	43.33	67.6	7.0
1991	598.63	22.73	92.37	15.43	49.09	53.1	8.2
1992	633.71	19.16	96.96	15.30	48.56	50.0	7.6
1993	691.28	18.52	145.70	21.11	58.98	40.5	8.5
AVE.	633.97	21.40	99.79	15.58	49.99	52.80	7.83

AART4.XLS

financial resources to adequately support the various research programs needed to develop the production of quality fruit and vegetables demanded by the international markets. The public sector in Jordan, as well as in other countries of the world, is not capable of developing the domestic and the international markets or to deal with real problems that face the producers and exporters of fruit and vegetables. The developed countries of the world have developed the private institutions and the private organizations that have effectively provided the services demanded by their members at least cost.

In order to effectively utilize the nation's potential and fully benefit from the increasing international demand for fruit and vegetables under free trade systems, Jordan must institute and implement a policy to encourage the development of the private sector, and give it the responsibility to identify and solve its problems with minimum government interference.

THE DEVELOPMENT OF PRIVATE ORGANIZATIONS

The fruit and vegetable sector, in cooperation with the Agricultural Marketing Organization (AMO), and assistance provided by AMDP was able to establish the Jordan Exporters Association for Fresh Fruit(s) and Vegetables" in 1994. The Association's primary source of income is membership fees. This income is not close to covering office expenses. The Association is presently, and temporarily, being supported by the AMDP to cover a portion of the operating expenses. The Association does not have the resources necessary to initiate, and implement much needed development programs or provide the basic services required by the producers and exporters of fruit and vegetables. With its present financial structure, and without the assistance of AMDP, the Association is doomed to failure or will remain as another functionless, bureaucratic structure like many others that dominate the developing countries.

The founders of the Jordan Exporters Association for Fresh Fruit and Vegetables in their foresight and wisdom, have included in the Association's by-laws the right of membership for producers and manufacturers in addition to exporters. This unique membership structure will help the Association to initiate and implement programs that are in the mutual interests of all components of the fruit and vegetable sector. However, in order for the Association to accomplish the mission for which it was established, a new organizational and financial structure needs to be developed and implemented. A financially independent and program oriented Association must emerge to serve the needs of its members.

In comparison to the public sector, the private sector is more efficient in solving its problems. It is, therefore, in the national interest of Jordan to help and encourage the development of private sector fruit and vegetable organizations to provide the services demanded by its members and to meet the challenges of a dynamic international market. The first step in the formation of an effective private organization is the development of the financial base. The organizational structure necessary to develop the financial base for the association is illustrated and discussed in

the following section.

ORGANIZATIONAL STRUCTURE

The form of organizational structure adopted by associations, with sound financial base, in the developed countries is recommended for the Jordan Exporter Association of Fresh Fruit and Vegetables. The organizational structure outlined in this section should enhance the Association's chances to obtain the legal status needed to provide the necessary financial resources.

A. BOARD OF DIRECTORS

1. VOTING MEMBER

The general membership of the Jordan Exporter Association for Fresh Fruit and Vegetables shall select by secret ballot seven (7) voting members representing the several components of the export sector as follows:

- a. Two (2) exporters
- b. Two (2) producers
- c. One (1) food processing
- d. One (1) manufacturer
- e. One (1) transportation

The Board Members shall be selected for five year terms. Members of the Board of Directors shall select a Chairman for the Board for a two (2) year term. The Chairman term may be renewed by the Board of Directors for only one more two year term and by 3/4 majority.

2. NON-VOTING MEMBER

Four non-voting members will be appointed to the Board of Directors from agencies that are closely related to the Fruit and Vegetable sector. The non-voting members will serve as experts and consultants to the Board on policy, regulations, and technical issues. They will also provide the link and the interaction necessary between the private and the public sectors. The non-voting members are:

- a. Director General of AMO
- b. Policy and Planning Director-Ministry of Agriculture
- c. Export Promotion Director-Ministry of Trade
- d. Dean, College of Agriculture, Jordan University

The Board of Directors shall appoint other temporary committees to deal with specific problems or issues.

The first major task of the Board of Directors will be the formulation of the Association's legal structure, within the provisions of Jordan's constitution, to enhance its ability to develop a sound financial structure.