POLICY PENNINGS

By Daryll E. Ray

U.S. could lose significant wheat and sugar acreage under trade liberalization

Under the trade rules proposed in the World Bank report, *2003 Global Economic Prospects: Realizing the Development Promise of the Doha Agenda*, the numbers in that report suggest that China will move from virtual self-sufficiency in most crops to becoming a major importer for at least 20% of its demand for seeds and grains. Likewise under the “pro-poor” scenario, the European Union will return to the immediate post-WWII situation of importing most of its oilseeds, wheat and other grains.

All of this is part of the World Banks proposal to increase global trade by $500 billion by 2015. It suggests that most of this gain will benefit the developing countries of the world.

Just how big is $500 billion as a portion of the world’s economy? The answer is that $500 billion is significant but far from gargantuan. It amounts to about 1% of total world Gross Domestic Product. In the case of developing countries, the portion of the increase in income going to them represent about 2% of their GDP. Neither increase, measured against baseline numbers in 2015, would represent a giant leap in the world’s standard of living.

So what does all this mean for the U.S. farmer? Will they be hit as hard as the Europeans and the Chinese? The numbers we see suggest that, in response to this trade liberalization plan, U.S. wheat production could be down by as much as 20% by 2015. During that same period economic modelers assume an increase in yield. When one factors the yield gain into the picture, the results suggest that wheat ACREAGE could be down by as much as 34%.

Thirty-four percent! That is the equivalent of all the wheat acreage in the winter wheat state of Kansas and the spring wheat state of North Dakota put together. While the actual impact of such a scenario on wheat acreage would not be concentrated in just those two states, North Dakota would feel a large share of a reduction in sugar acreage.

Sugar beet growers in the rich Lake Aggasiz bottom ground of the Red River valley would receive a severe hit. Total U.S. sugar production (cane and beet) could drop by as much as 50% from current production levels with much of the reduction absorbed by beets.

A little over a year ago U.S. Trade Representative Robert Zoellick, in introducing the trade liberalizing U.S. proposal for the WTO Agriculture negotiations, said, “This plan is a win for America’s farmers, ranchers and consumers, a win for the world’s poor nations, and it’s a win for the global economy.” Later in that same press conference he continued, “Across all markets free trade has spurred global prosperity for the past 5 decades, but high barriers in farm products have prevented agriculture from being a full participant in growth.”

Under the World Bank “pro-poor” trade liberalization scenario U.S. total agricultural output is projected to drop 1% by 2015, and at the same time wheat acreage will be down by 34% and sugar production will decline by 50%.

In any negotiations there will be winners and losers. And, theoretically it is possible to compensate those, like sugar and wheat growers, that lose from trade liberalization and all be better off, however slightly.

Rather than being exclusively promotional about trade liberalization, it is important to be up-front about which sectors will be negatively impacted. Not only does that allow for transparency and meaningful debate, it sets the stage for simultaneous discussions to address negative economic consequences. Farmers, consumers, all of us, have a right to know the specifics.

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