Agricultural Trade Liberalization-- Impacts on Producers

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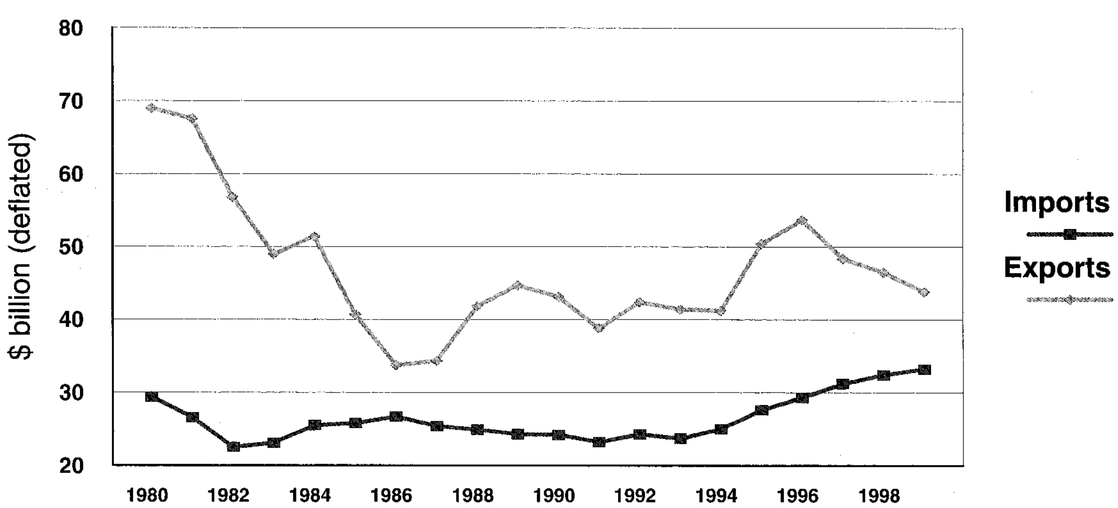
Conventional wisdom has been that the United States has set the pace for global trade liberalization for much of the last 50 years, and that since the mid-1960s, the agricultural sector has been strongly committed to such liberalization because of its belief in its superior competitiveness. However, both the actual and perceived impacts of trade liberalization have been disappointing and frustrating for agricultural producers. As a result, their commitment to trade liberalization and to specific initiatives such as presidential "fast track" authority, expansion of the North American Free Trade Agreement (NAFTA), or extension of the General Agreement on Tariffs and Trade-World Trade Organization (GATT-WTO) process is wavering.

Actual Versus Perceived Impacts

It is important to recognize that producers' perceptions of the impacts of trade liberalization may be just as vital to their acceptance of trade policy initiatives as the actual impacts. Economists often see the world differently than does the typical producer. They build multivariate, multidimensional models of the real world. They weigh offsetting impacts on producers, consumers and societies. They alter constraints and conditions to simulate alternative outcomes. In contrast, producers view the world selectively. They focus on the factors likely to affect them. It gives them little solace that their loss is the consumer's gain. They view effects of a trade policy in absolute terms, e.g. whether

Figure 1. U.S. Agricultural Trade, 1980-1999F in deflated U.S. dollars



Source: USDA/ERS. FATUS, various

it had a positive or negative effect on their prices or incomes.

The actual impacts of trade liberalization on U.S. agricultural producers have been unimpressive, to say the least. For example, when one adjusts U.S. agricultural exports and imports for inflation, U.S. exports in fiscal year 1999 are likely to be 36.5 percent below those for FY 1980, whereas U.S. agricultural imports are expected to be 13 percent higher (Figure 1). The net balance of trade in agricultural products will have shrunk from almost $40 billion in FY 1980 to about $10.6 billion in FY 1999, a decline of 77 percent. This is not what U.S. agriculture expected from trade liberalization.

For many commodities, the expansion of exports has not brought commensurate improvements. For example, Washington State apple exports have moved steadily upwards since the early 1970s. However, the real free on board[1] (FOB) shipping point price of Washington apples in the 1990s is dramatically below what it was in the 1970s (Figure 2). For the latest five seasons, 1993-97, the average FOB price in real terms was $8.86 per box, compared to $13.65 in the 1975-79 period, a decline of 35 percent.

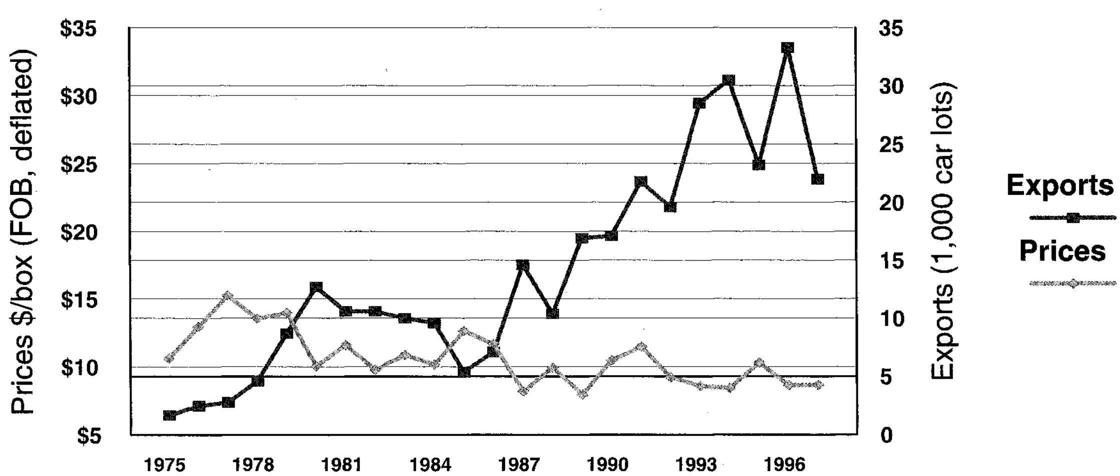
To economists using their holistic models, such a decline is explicable by a number of factors—a change in macroeconomic conditions, a change in the balance of supply and demand, or a shift in the nature or magnitude of trade barriers. However, producers and their representatives usually see the world in more simplistic terms. U.S. wheat producers saw Canadian wheat and barley imports surge after the Canada-United States Free Trade Agreement (CUSTA) came into force and blamed the agreement. As a result, they opposed its extension into NAFTA. Canadian apple producers saw their apple prices decline after CUSTA came into force, blamed dumping of U.S. apples and got a minimum price trade barrier established.

Producer Perceptions Influential

Producers have deep-seated beliefs, attitudes and perceptions about trade that make them endemically

[1] Free on board is the price offered without delivery charges.

Figure 2. Washington Apples--Exports and Prices: 1975-1997



Sources:
Prices- Washington Grower's Clearing House Association, Inc. Annual Apple Price Summary, Wenatchee, WA (annual)
Exports- Wenatchee Valley Traffic Association. Wenatchee-Yakima Apple Export Report (unpublished, bi-monthly)

hostile to trade liberalization. Those perceptions can be easily intensified by temporary incidents. They are very difficult to change. However, if they are not dealt with, they make rational trade policy more difficult.

For example, most producers view exports as good. Exports are a signal that they are competitive in yield, price or quality on the world market. They are a reward for excellence. In contrast, imports are usually viewed as bad. If other countries are selling successfully in U.S. markets, it can only be because they are cheating. The usual culprit is government subsidies.

In many cases, what exporters and importers consider to be normal trade practices, producers consider to be unpatriotic. For example, Cargill's attempt to import Argentinian wheat into the U.S. was denounced by the U.S. grain industry even though U.S. grain is sold in many countries that have domestic grain production. Many fruit and vegetable producers are unhappy with their neighbors who supply the U.S. from subsidiary farms in Mexico, Peru or Chile. Pacific Northwest farmers resent Canadian wheat using U.S. road, rail or port facilities for export to third countries. Cattle producers are irritated by Canadian cattle trucks ferrying animals to U.S. packing plants. Arguments about efficiency, economies of scale or locational factors do not lessen the natural resentment.

Producer Disappointments

Producers can also legitimately complain that while they have accepted freedom to farm as delineated in the Federal Agricultural Improvement and Reform Act of 1996 (FAIR) (P.L. 104-127), they have been denied the complementary freedoms needed to make freedom to farm work. Their freedom to trade, freedom to use their farm resources and freedom to market their products has been increasingly curtailed.

The Uruguay Round of GATT delivered only a fraction of the reduced tariffs and increased market access that was originally promised. In many cases, tariffs have been replaced by outrageous tariff rate quotas, phytosanitary barriers or new and ingenious obstacles. Farmers naively believed that the FAIR Act would "get government out of agriculture." However, as traditional farm programs have been phased out, producers are facing increasing restrictions on their use of land, air, water, chemicals and labor and on many traditional farm practices. In marketing farm products, the food safety bandwagon has brought with it a whole new set of intrusive restrictions on farm practices, most involving additional costs to producers.

Many producers of specific commodities feel betrayed as they watch the outcomes of past agricultural trade liberalization efforts. U.S. grain farms see continued lack of access to many major markets. Florida winter vegetable growers are unhappy with the inroads made by Mexican suppliers. Pacific Northwest fruit producers are irritated by Mexican trade constraints. California avocado producers are angered by market access concessions to Mexico. In commodity after commodity, there is a litany of complaints.

On the other hand, trade liberalization that might benefit U.S. farmers has been painfully slow. The opening of the Japanese market has been a classic example. After ten years of "liberalization," import duties on beef entering Japan are still a prohibitive 50 percent, while import duties on Japanese beef entering the U.S. are 4 percent. After 20 years of negotiating access for U.S. apples to Japan, exports last season were zero because of an expensive and inflexible quarantine protocol. China and South Korea, the next two largest markets in Asia, are equally recalcitrant. The Uruguay Round of GATT moved in the right direction, but there has been no progress since. Trade liberalization of agriculture within the Asia-Pacific Economic Cooperation[2] (APEC) is so far just talk. There is fear that current global economic crises and the leadership crisis in many countries may make agricultural trade liberalization even more slow in the next decade.

Conclusion

Producers have many reasons to believe that the agricultural trade liberalization process has not been beneficial to them. Not all of those reasons are valid. Many are based on deep-rooted biases or on a partial, selective analysis of events. However, producers perceive that agricultural trade liberalization has brought much pain and frustration and insufficient compensating gains. It is suspected that the U.S. is in danger of losing the slim majority among its producers that helped to promote the Uruguay Round of GATT, NAFTA and APEC.

In turn, if U.S. agriculture was to slip back into traditional subsidy programs and increased protectionism, it would lead many other countries to slip back into a protectionist mode. Policy makers need to be aware of the risk they are running if they do not address both the real and the perceived concerns of producers. It will be difficult to keep the support of producers and producer organizations for new initiatives under GATT-WTO, APEC or the Free Trade Area of the Americas, unless those concerns are addressed.

[2] APEC was established in 1989 as an informal dialogue group. It has since become the primary regional vehicle for promoting open trade and practical economic cooperation among its 18 member economies.

Consequences of Devolution