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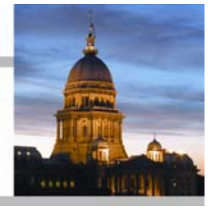

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THE WTO TRADE NEGOTIATIONS: WHY THE EMPHASIS ON DEVELOPMENT?

The current round of WTO trade negotiations is officially dubbed the “Doha Development Agenda.” Many Midwestern producers ask why all the fuss about development? The reality is that they need this to be a successful development round because trade liberalization is the key to faster economic growth in the only places where there is market growth potential for their products, the presently low income countries. Since American agriculture sells 28 percent (by value) of everything it produces overseas, strong export performance is critical to its profitability.

A lot of political capital is being expended in the current WTO trade negotiations to increase market access in high income markets which have no growth potential. The Population Reference Bureau projects that Europe will have 10 percent fewer people in the middle of this century than it has today, and that Japan’s and Russia’s populations will fall by 21 and 23 percent, respectively, in the same period.[1] These are markets of the past, not markets of the future.

The world’s total population is projected to grow from six to about nine billion people in the first half of the 21st century, with virtually all of that growth in presently low income countries. But population growth alone creates need, not market demand for agricultural products. Only when low income people gain purchasing power can their need be translated into effective market demand.

Today 1.25 billion of the 6.3 billion people on the face of the earth live on less than one dollar per day. Three-quarters of these cannot even afford to obtain enough calories per day, and they suffer under-nutrition during at least part of each year. Three billion people, almost half of the world’s population, live on less than two dollars per day. They generally get enough calories, but they cannot afford to upgrade their diets with additions of fruits, vegetables, animal protein, or edible oils.

After people’s incomes exceed about ten dollars per day, further increments in income add little to demand for raw agricultural products. After that, people buy more convenience, processing, packaging, and luxury forms, but not more raw farm products.

World demand for agricultural products could easily double in the first half of the 21st century as a result of the projected 50 percent growth in population and another 50 percent increase in food consumption if broad-based economic growth gives poor people the wherewithal to consume a more balanced diet, including fruits, vegetables, milk, eggs, meat and edible oils.

Most of the low income countries, especially those in Asia, have much more of the world’s population than of its arable land. Growth in their food demand quickly outpaces their agricultural production capacity, and they become larger importers of farm products. Since World War II, this pattern has been repeated over and over again, first in Japan, South Korea, and Taiwan, and more recently in Southeast Asia and the coastal region of China. As these countries have demonstrated, economic growth is all about reducing poverty, i.e. bidding up the wages of low income people to give them more purchasing power, not dragging wages in high income countries down to their level.

International trade is a powerful engine of economic growth, far more powerful than foreign aid. However, the presently low income countries confront the greatest barriers to their exports in exactly those products in which they have the greatest comparative advantage, labor intensive manufactures and certain agricultural products that thrive in the Tropics, such as sugar, rice, and cotton. The latter agricultural products are particularly important since 70 percent of the people who live on less than one dollar per day live in rural areas, and most are farmers.

The economic growth that is necessary to reduce poverty in low income countries is impeded when they cannot sell abroad the products in which they have a comparative advantage. Without poverty reduction, the large potential markets for products in which the U.S. has a comparative advantage, such as feed grains and soybeans, will remain just that – *potential* markets.

Trade liberalization alone will not solve all the problems of poverty in presently low income countries. There is a lot that their own governments have to do if they are to take advantage of export opportunities that might open up from trade liberalization, including reducing corruption, increasing macroeconomic stability, ensuring property rights and contract sanctity, and investing in education, research, roads, telecommunications and port facilities. But if they cannot sell overseas the products in which they have a comparative advantage, no amount of investment in these areas will solve their poverty problems.

Midwestern producers have a great deal to gain from trade liberalization as demand in low income countries for products in which they have a comparative advantage, particularly corn and soybeans, outstrips those countries' own productive capacity. It is the acceleration of economic growth in presently low income countries that has the greatest potential benefits for internationally competitive producers.

All of the growth in consumption of raw agricultural products occurs in the income range from about two to ten dollars per day. The three billion people living on less than two dollars per day and the three billion more yet to be born into this poverty represent a huge potential market – if their home countries experience broad-based economic growth. This potential will remain potential, not realized, growth as long as those countries cannot sell abroad what they can produce relatively more efficiently.

U.S. farm exports can grow either by increasing our market share or by growing the total size of the market. The former has severe limits and requires dog-eat-dog competition for shrinking markets. Growing the total size of the market has much more potential to increase demand for Midwestern farm products as presently low income people gain the wherewithal to upgrade their diets.

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[1] Population Reference Bureau. "2005 World Population Data Sheet," Washington, DC, 2005. (http://www.prb.org/pdf05/05WorldDataSheet_Eng.pdf)