PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Impacts of trade agreements with Colombia, Panama and Korea plus the China situation

With this column we conclude our series of articles examining the impact of trade agreements on US agriculture as well as the US economy as a whole. In 2012, trade agreements with Colombia, Panama, and Korea went into effect. By far, the volume of trade with Korea was the most significant. In addition we examine US trade with China. Although the US does not have a bilateral trade agreement with China, the US did grant China permanent normal trade relations status in late 2000 and we think it is worth looking at the nature of that trading relationship as well.

The US entered into a bi-lateral trade agreement with Colombia that went into effect in 2012. In the year prior to the implementation of the agreement (2011), US domestic exports to Colombia totaled $12.9 billion while US imports for consumption from Colombia were $22.4 billion. US exports as a percent of imports stood at 57.5 percent. By 2014 that calculation stood at 105.1 percent, meaning that the US was exporting more goods to Colombia that it was importing from Colombia. Between 2011 and 2014 the US balance of trade improved from $9.5 billion to $867 million. The biggest gain in the balance of trade over the 3-year period was in manufactured petroleum and coal products ($5.4 billion).

Imports of US crop and animal production from Colombia increased by $12 million out of a total of $2.0 billion in these exports over the 3-year period. During the same time-frame, US exports of crop and animal production to Colombia increased by $775 million to $1.4 billion. As a result, the US balance of trade in crop and animal production improved by $764 million to $575 million. The US balance of trade in manufactured food and kindred products and beverages and tobacco products increased by $610 million.

With Panama, the US had a positive balance of trade when the bilateral trade agreement went into effect in 2012 ($9.4 billion). During the 2012-2014 period, US domestic exports to Panama as a percent of imports for consumption increased from 1,692 percent to 2,351 percent with the balance of trade increasing by $2.0 billion; Panama exported only $417 million in products to the US in 2014. The balance of trade in crop and animal production decreased by $3 million while manufactured food and kindred products and beverages and tobacco products increased by $208 million between 2011 and 2014.

The trade agreement between the US and Korea also went into effect in 2012 as the US experienced a 2011 balance of trade with Korea of -$14.7 billion. By 2014, the balance of trade had declined to -$26.6. The balance of trade over the prior decade had remained fairly stable averaging -$14.3 billion. During the 3 years that the trade agreement has been in effect the average balance of trade has been -$22.5 billion.

The US balance of trade in crop production and animal production, while remaining positive, declined by $583 million while manufactured food and kindred products and beverages and tobacco products increased by $315 million between 2011, the year before the agreement went into effect, and 2014. Fourteen of 32 economic sectors saw a positive improvement in the balance of trade with none greater than $850 million, while 18 sectors saw a decline in the balance of trade, the largest of which was manufactured transportation equipment at -$6.7 billion and primary metal manufacturing at -$2.0 billion.

The biggest change in trade in recent memory goes back more than a decade before the trade agreements with Colombia, Panama, and Korea that we have just examined. That change was granting China permanent normal trade relations (PNTR) status in late 2000; in the years prior to that, China was granted normal trade relations status on an annual basis. The 2000 change removed the tentative nature of US trade relations with China, allowing US importers to offshore production to China without having to fear that the rules would be changed in subsequent years.

Since 2000, US crop production exports (primarily soybeans and cotton with soybeans taking the lion's share) to China have soared from $1.2 billion to $18.3 billion in 2014, though it would be difficult to determine the portion of this change attributable to the change to PNTR. The value of exports, particularly soybeans, has been amplified by higher soybean prices in recent years. With the current decline in soybean and cotton prices, the value of crop exports will likely stagnate or fall if the low prices continue.

While for all commodities, US exports to China have risen from $15.3 billion in 2000 to $115.6 billion in 2014, imports from China have risen as well. US imports for consumption have increased from $99.5 billion to $465.5 billion. Currently US exports to China are 24.8 percent of US imports for consumption from China. The US balance of trade with China has declined by $265 billion between 2000 and 2014. The cumulative trade deficit for the years 2001 through 2014 is $3.3 trillion.

In summary, since the 2012 trade agreements, trade balances with Columbia and Panama have favored US agriculture and the US economy as a whole. The overall US trade balance with Korea has become more negative since 2012, although the US trade balance for agriculture has remained positive. In the case of China, annual US balance of trade has declined by $265 billion between 2000 and 2014 at the same time

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that US exports of soybeans and cotton have exploded. In summary, as we look back at the several trade agreement discussed in this and the previous three columns, a couple of things come to mind. First, trade agreements have differential impacts across sectors of the US economy and for some economic sectors there is significant uncertainty whether those sectors will experience a benefit or loss from a given trade agreement. This may be especially true in the case of agriculture.

Secondly, economic analyses of trade agreements that are based exclusively on country differences in private costs of production often miss other important, sometimes critically important, influences on countries' willingness to import or export certain goods. Here again this may be especially true in the case of agriculture.

And, it important for us in the US to remember that international trade is, indeed, a two-edged sword. While it is natural to focus on the potential offered by opening up markets for US goods, it is also important to remember that the US is currently the single largest and most lucrative market in the world.

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