

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

Trade deals and US agriculture

In early October 2015, negotiators for the Trans-Pacific Partnership (TPP) reached an agreement that they submitted to their respective governments for approval. The countries involved in addition to the US are Canada, Mexico, Japan, Australia, Brunei, Chile, New Zealand, Singapore, Malaysia, Peru, and Vietnam. The Office of the United States Trade Representative explains that the “TPP will make it easier for American entrepreneurs, farmers, and small business owners to sell Made-In-America products abroad by eliminating more than 18,000 taxes & other trade barriers on American products across the 11 other countries in the TPP—barriers that put American products at an unfair disadvantage today.”

In any trade agreement there are always winners and losers among countries and economic sectors. While it is difficult to say with any degree of certainty how the TPP will play out, we can gain some insight by looking at the impact of past trade agreements. By far, the most important trade agreement of the last couple of decades was the North America Free Trade Agreement (NAFTA).

NAFTA, negotiated by the George H.W. Bush administration and ratified during the presidency of Bill Clinton, came into effect on January 1, 1994. The agricultural export boom that began in the early 1970s peaked in 1981. Over the next decade US crop exports remained below earlier levels as production increased and prices languished. With the ratification of NAFTA, farmers had high expectations that they would benefit from increased agricultural trade with Canada and Mexico.

With that in mind, we looked at US International Trade Commission (USITC) data for US domestic exports and US imports for consumption for both Canada and Mexico. We chose to use data beginning in 1997 because USITC data before 1997 are not available using NAICS (North American Industry Classification System) codes that allow us to look at individual economic sectors. The latest full-year data available is 2014 allowing us to compare the change in trade between 1997 and 2014, just short of the full period NAFTA was in force.

For crop agriculture, a \$497 million positive balance of trade with Canada in 1997 became \$362 million in 2014, for a net reduction of \$135 million, even though crop prices in 2014 were well above their 1997 levels. The US-Canada balance of trade for animal agriculture and aquaculture of -\$1.4 billion in 1997 became -\$2.5 billion by 2014. Forestry and logging saw a change in the balance of trade of -\$33 million and fishing, hunting, and trapping experienced a change in the balance of trade of -\$770 million for the 1997-2014 period. Overall, the cumulative balance of trade between the US and Canada for all agriculture

over the period was -\$30.4 billion.

The largest negative change in the US balance of trade with Canada is for the products of oil and gas extraction which changed from -\$13.6 billion in 1997 to -\$78.0 billion in 2014. This was a part of the change in the sourcing of petroleum products from the Middle East to North American as tar sands and fracking produced more petroleum in the US and Canada. Excluding petroleum products, the US balance of trade with Canada improved by \$13.4 billion between 1997 and 2014.

Turning to Mexico, the US balance of trade in crops changed from \$106 million in 1997 to -\$2.3 billion in 2014, a change over the period of -\$2.4 billion. For that same period, animal agriculture and aquaculture experienced a -\$492 million change in the balance of trade; forestry and logging -\$17 million; and fishing, hunting, and trapping -\$17 million. For all agriculture, the change in the balance of trade was -\$2.9 billion between the years of 1997 and 2007. For the whole 18-year period, the cumulative balance of trade for all agriculture was -\$9.6 billion.

The sector with the largest change in the US balance of trade with Mexico between 1997 and 2014 was manufacturing. The change was -\$65 billion between the two years. The cumulative manufacturing balance of trade for all years in the period was -\$876.1 billion. As the NAFTA results suggest, high expectations that trade deals will accelerate growth in the value of total US agricultural exports don't always materialize.

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