Implications of a U.S.- Mexico Free Trade Agreement For U.S. Food Processors

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Problem

The food processing industry is the largest manufacturing sector of the U.S. economy. It is also one of the slowest growing. Processors have sought to offset lagging domestic growth by developing and expanding markets abroad. In 1989, the $350 billion processing industry grew 1.5 percent in real terms, and one-half of that growth was attributable to increased exports. Export markets offer great expansion potential for U.S. processors, particularly in light of proposed reforms embodied in the General Agreements on Tariffs and Trade and in hemispheric trade agreements.

Methodology

The research considered here evaluates the likely impacts for U.S. food processors of an effective trade agreement between the U.S. and its third-ranked customer, Mexico. It surveys historical levels and composition of processed food trade between the U.S. and Mexico; it also evaluates trade policy, land and price policies, home production, and other pertinent elements of the Mexican market that influence the demand for U.S. processed food exports. Finally, it infers probable effects for individual processing industries of liberalized trade.

Findings

A trade agreement will expand exports to Mexico, particularly of unbranded products. Principal gainers are likely to be meat processors, particularly if size of Mexican land holdings continues to restrict feed crop and forage production, but sugar exports and dairy products also are likely to gain. Less restrictive import licensing requirements and quota abolition offer greater promise than tariff reductions of expanding some exports.