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AGRICULTURAL TRADE POLICY: ‘AMERICA FIRST’?

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Abstract: *There has been a growing openness and importance in trade over time as indicated by an increasing ratio of trade to gross domestic product for the World. However, some recent movements have been more protectionist and less open to trade. The potential impacts of less trade are explored with the United States (US) taken as an example. Trade agreements have been important in increasing trade by the US, particularly for US agriculture which has had a trade surplus since 1959.*

Countries should benefit from trade according to economic theory. However, stances taken by the US administration during the first half of 2017 have resulted in the withdrawal of the US from the Trans-Partnership Agreement and an announced renegotiation of the North American Free Trade Agreement. With falling US farm income, the potential undoing of trade agreement benefits, and possible trade retaliations, US agriculture is concerned about any potential disruption in exports and losses from less trade. In addition, US consumers and importers of US agriculture should be concerned about a potential decrease in trade.

Keywords: *Agriculture, policy, trade, trade agreement*
(JEL Code: *Q18*)

INTRODUCTION

International trade has occurred for centuries, even before there were nations. The Silk Road, as an example, stretched through regions of Eurasia from the West to East. Trade contributed to the development of civilizations along the route. In general there has been a growing openness in trade over time. However, recently there have been some movements that are more protectionist and less open. For example, Britain voted to exit the European Union, which is commonly referred to as Brexit, and there has been speculation the Netherlands, France, and Greece could have similar votes and outcomes (Meredith, 2017). And then there was the 2016 United States (US) presidential campaign and stances taken by the Trump administration during the first half of 2017 that calls for ‘America First’ policies (White House, 2017a, 2017b, 2017c). Any actions corresponding to protectionist policies may directly and/or indirectly result in barriers to trade and less trade. Based on economic theory, the consequence of such actions is that people will lose *on average*. The italics are added to note that there are likely winners and losers in the countries when they have less trade, although, according to economic theory, the ‘losses’ are expected to outweigh the ‘winnings’ in each country. And as will be discussed, US agriculture and those who import US agricultural products

could have large losses if trade agreements are suspended since they have benefited greatly from trade agreements.

Although agricultural policy may include domestic conservation, renewable energy, farm support, food and nutrition assistance, as well as immigration and foreign aid, the focus of this article is on trade. Next are brief reviews of the economics of trade and trade agreements. Then a presentation and discussion on total trade and agricultural trade follows. The article ends with some concluding comments.

TRADE ECONOMICS

The idea people will lose on average from a loss of trade can be thought of as the opposite of people will win on average from trade. Statements about the advantages of specialization and trade can be attributed to Adam Smith (1776) in his *Wealth of Nations*. There are advantages from trade among countries when one country has a cost advantage, or absolute advantage, in the production of some items. Even if one country is better than other countries at producing all goods, there are benefits to trade from the comparative advantage of producing a good by one country relative to other countries (Ricardo, 1821). Voluntary trade between countries is to their mutual benefit, which can be measured in the increasing national incomes of both countries (Grønnes, 1984). We can continue by having

an economic discussion about trade resulting in consumer and producer surplus and barriers to trade resulting in inefficiencies and deadweight losses. But to put it succinctly, people on average lose from lost trade.

As a result of trade, there can be particular groups or sectors that are ‘winners’ and ‘losers’ both between countries and within countries. Consider trade of automobiles as an example. The initial importation of automobiles into the US from Japan benefited US automobile consumers and Japanese manufacturers and their employees. However, it hurt both Japanese automobile consumers because of higher automobile prices and US automobile manufacturers and their employees with loss of income and jobs. Whereas automobile consumers were located throughout the US, automobile manufacturers and their employees were mostly located in the upper Midwestern US. US automobile consumers were ‘winners’ and automobile manufacturers and their employees were ‘losers’, however, the benefits of trade outweighed the losses for both countries and people benefited on average.

There can be good trade agreements and better trade agreements depending on a country’s perspective. Although all countries gain from trade, they may not benefit equally. Moreover, there may be a certain amount of art to making a deal (Trump and Schwartz, 1987). Besides the economics of international trade, there are the sciences of political science, sociology, and psychology to be considered. There may be a possibility to negotiate from a position of strength. If the US can negotiate from a position of strength, perhaps bilateral trade negotiations may result in a relatively better trade agreement from the perspective of the US, although likely relatively worse trade agreement from the perspective of the trading partner. And even then, certain groups within the US may benefit and other groups may be in a worse position. For example, the US manufacturing sector has a trade deficit and agricultural sector has a trade surplus. A trade agreement may be negotiated to favor US manufacturing relative to agriculture. This may be done in an attempt to obtain less of a trade deficit, but also because manufacturing directly impacts more people than agriculture with 12.298 million people employed in the manufacturing sector and 1.140 million people in the agricultural sector at the end of 2016 (US Department of Labor, 2017). However, negotiating along this line of reasoning may be more in the realm of political science than economics by ignoring the economics of comparative advantage.

TRADE AGREEMENTS

There have been a number of trade agreements that have created opportunities for US agriculture, including the General Agreement on Tariffs and Trade (GATT) in 1947 to the North American Free Trade Agreement (NAFTA) in 1994 (USDA, FAS, 2017a) and until recently in 2017 the possibility of the Trans-Pacific Partnership (TPP). GATT’s purpose was to promote international trade and economic prosperity through “...increasing standards of living, ensuring full employment and a large and steadily growing volume of

real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods”. And GATT intended to meet these objectives by “...the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce” (GATT, 1986). There were a number of rounds of multinational negotiations under the framework and organization of GATT, with the Uruguay round being the last, ending in 1994. GATT subsequently became the World Trade Organization in 1995.

TPP began negotiations in 2010 and had 12 nations when the Agreement was signed in 2015. The 12 nations included Canada, Chile, Mexico, Peru, and US on the eastern side of the Pacific and Australia, Brunei, Japan, Malaysia, New Zealand, Singapore, and Vietnam on the western side. Although signed in 2015, TPP had yet to be ratified by all 12 nations, including the US. It was estimated total US agricultural exports would increase 2.6% by 2032 if TPP was implemented and imports would increase by 1.5% for a net increase in the US balance of trade for agriculture (US International Trade Commission, 2016). However, the effect of TPP on total US trade was estimated to expand the total trade deficit, although by a very small percentage. Thus, the trade surpluses of agriculture were estimated to be more than offset by trade deficits in manufacturing, natural resources, and energy and service sectors. Even with an expanding trade deficit, US annual real income, real gross domestic product (GDP), and employment were estimated to be higher by 0.23%, 0.15% and 0.07% if TPP was implemented. Although TPP was estimated to result in these positive outcomes, President Trump on his first day in the White House on 23 January 2017 withdrew the US from TPP.

NAFTA has been particularly important to Canada, Mexico, and US, the signatories of the Agreement. Since NAFTA’s implementation in 1994, US agricultural exports to Canada and Mexico have grown 327% from \$8.9 billion in 1993 to \$38.1 billion in 2016 (USDA, ERS, 2017a). The share of total US agricultural exports to Canada and Mexico has increased from 20.8% in 1993 to 28.2% in 2016. And US exports accounted for about 60% of Canadian agricultural imports and about 70% of Mexican agricultural imports (USDA, FAS, 2017b). Yet, President Trump notified Congress on 18 May 2017 his administration intended to renegotiate NAFTA with Canada and Mexico after a required 90-day consultation period with Congress.

The US Administration’s withdrawal from TPP, renegotiation and potential withdrawal from NAFTA (White House, 2017a), and other trade discussions have agricultural groups and farmers worried about trade policy (Good, 2017). US agricultural exports have increased following implementation of NAFTA and other trade agreements (USDA, FAS, 2017c). And US net farm income, in nominal and real dollars, is expected to fall in 2017 for the fourth straight year since a high in 2013 and to the lowest level since 2009 in nominal dollars and since 2002 in real dollars (USDA, ERS, 2017b). With the potential undoing of trade agreement benefits, falling income, large amounts of supplies

and stocks for many agricultural commodities, and potential trade retaliations, farmers are concerned about any potential disruption in exports.

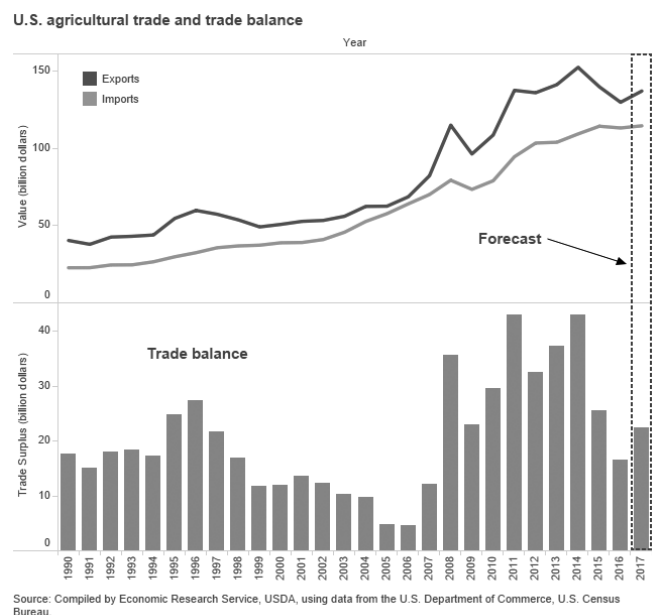
WORLD AND UNITED STATES TRADE

The importance of international trade in the World has been increasing. Trade as a percent of GDP is frequently used as a measure of trade importance, where trade is the sum of exports and imports of goods and services. For the World as a whole, trade as a percent of GDP increased from 23.6% in 1962 to 60.9% in 2008 and 60.7% in 2012 before slipping slightly for three years to 58.0% in 2015 (World Bank, 2017). The US and European Union (EU) have had similar patterns as the World. For the US, trade as a percent of GDP was only 8.9% in 1962 and increased to a high of 30.9% in 2011 and then fell to 28.0% in 2015. The lower ratio for the US may be explained by the US being a large economy in which interregional trade substitutes for international trade (Grennes, 1984). For the EU, trade was much higher at 38.0% of GDP in 1962 and increased to 83.3% in 2015 and then decreased slightly to 82.7% in 2016. The much higher ratio for the EU is explained by the inclusion of trade between EU Member States. Without the inter-EU trade, the EU ratio was 32.1% in 2014 (European Commission, 2016), which is comparable to the US. The World, US, and EU all experienced decreases in the ratio in 2009 which coincided with the recession that was taking place in most countries at the time.

As far as US exports of all goods in 2016, the destinations were led by the EU (United Kingdom, followed by Germany, Netherlands, France, etc.) with Canada a close second, and then came Mexico and China for a total of \$1453.2 billion to all countries (United Nations, 2016). US imports of goods totaled \$2249.7 billion in 2016 and came from China, closely followed by the EU (Germany, followed by United Kingdom, France, Italy, etc.), and then Mexico and Canada. Obviously bilateral trade (sum of exports and imports) is important between the US and the EU and these countries. The EU led the way in US bilateral trade, followed by China, Canada, and Mexico. The balance of trade (exports minus imports) for the US was -\$796.5 billion in 2016 and by far the largest trade deficit was with China, followed by EU (Germany, Italy, France, etc.), Japan, and Mexico. Trade deficits for the US have occurred every year since 1975.

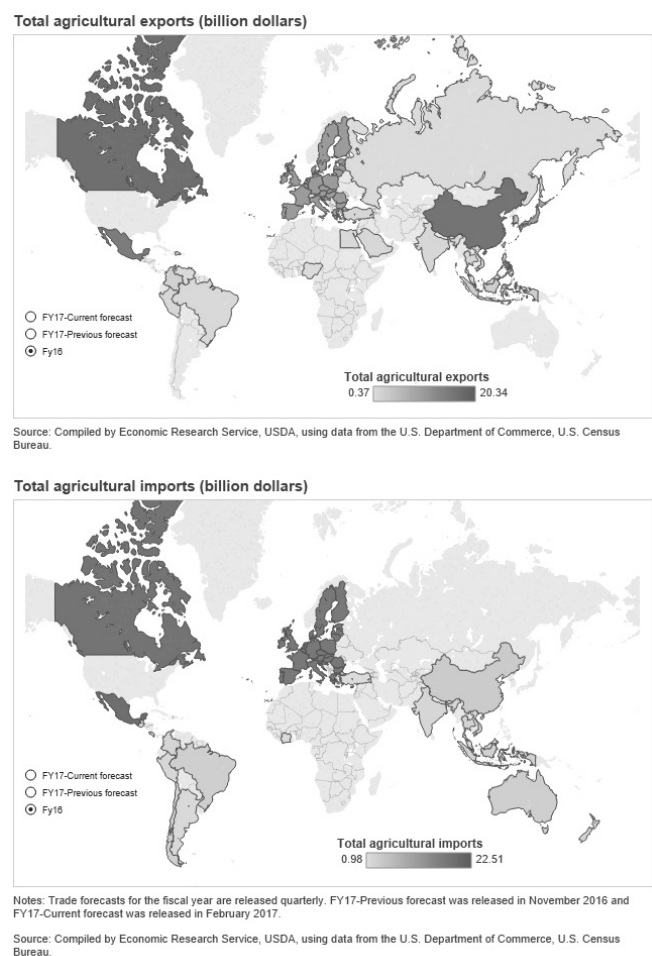
Unlike the trade deficit in all goods for the US, the balance of trade for agriculture has had a trade surplus every year since 1959 (Cooke, Melton, and Ramos, 2017). After five years of particularly large agricultural trade surpluses of \$30 billion or more (Figure 1), trade balances are smaller in 2015, 2016, and the forecast for 2017 with an expected average of \$21.5 billion. The decline in agricultural trade surplus is due to slower world economic growth and a stronger US dollar relative to the currencies of major US agricultural markets and competitors (Cooke et al., 2016).

Figure 1. US agricultural trade and trade balance



Source: USDA, ERS, 2017c

Figure 2. Leading US agricultural export destinations and import sources, 2016



Source: USDA, ERS, 2017c

NAFTA is certainly important for the trade of all goods among the US, Canada, and Mexico as well as for agricultural trade. In fiscal year 2016, Canada and Mexico were among the top three US trading partners for agricultural exports and imports (Figure 2). Canada (\$20.34 billion) led the way for US agricultural exports, followed closely by China (\$19.17 billion) and Mexico (\$17.66 billion), and then the EU (\$11.65 billion). For US agricultural imports in 2016, Mexico (\$22.51 billion) was the number one supplier, then Canada (21.46 billion), EU (20.41 billion), and China (\$4.25 billion) a distant fourth.

CONCLUDING COMMENTS

The 'America First' agenda has been championed by the US administration during its first six months in office in 2017. And although the 'America First' slogan has been parodied many times, including the initial parody 'The Netherlands Second' (Donadio and Stack, 2017), 'America First' policies may put trade at risk and have negative impacts for the US and its trading partners, particularly for US agriculture.

US agriculture is one of the few sectors of the US economy with a trade surplus. In part this surplus is because the US has a comparative advantage in agriculture relative to many other countries. Since trade agreements have allowed the US agricultural trade surplus to grow over time, trade disruption and US withdrawal from trade agreements may potentially result in US agriculture being more negatively impacted than other sectors of the economy. US agriculture is not alone in this. Importers of US agriculture may also be negatively impacted by having fewer choices and higher prices.

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