Issues in Agricultural Trade: The Free Trade Area of the Americas

This summary, prepared by the symposium organizers, is of the five papers sponsored by Farm Foundation at a special symposium which took place at the Caribbean Agro-Economic Society's 24th West Indies Agricultural Economics Conference, July 9-12, 2002, in Grenada. Theme of the symposium was Agriculture, Trade and the Environment in the Caribbean and the Americas. *Principal authors for the papers were Dale Colyer of West Virginia University; Curtis M. Jolly of Auburn University; Alison Keefe of Auburn University; Won W. Koo of North Dakota State University; and Edmund M. Tavernier of Rutgers University.*

U.S. agricultural trade with Canada and Mexico has increased significantly since the signing of free trade agreements with both countries, while trade with other Western Hemisphere countries has increased at slower rates or remained flat. Canada and Mexico are the United States' two major trading partners in the Western Hemisphere, but the United States also imports a significant amount of agricultural products from South America. The United States has an agricultural trade deficit with South America that has averaged $2.5 billion during the 1989-2000. The United States also has an agricultural trade deficit with Central America and a growing trade deficit with Canada, but has agricultural trade surpluses with Mexico and the Caribbean.

Although the United States exports considerable quantities of agricultural products to Western Hemisphere countries, the hemisphere is a greater source of U.S. imports than it is a destination for U.S. exports. In recent years, 54% of U.S. agricultural imports have been from the Western Hemisphere, while about 35% of U.S. agricultural exports have been sent to Western Hemisphere countries. Western Hemisphere countries not including Canada and Mexico have been the source of about 20% of U.S. agricultural imports and the destination for about 9% of U.S. agricultural exports.

Koo and Mattson estimate the effects of macroeconomic factors on the flow of agricultural trade with Western Hemisphere countries under the FTAA. The authors show that U.S. agricultural exports within the hemisphere are positively influenced by real GDP in the importing country and negatively influenced by the strength of the U.S. dollar and tariffs in importing countries. U.S. agricultural imports are positively affected by the strength of the U.S. dollar and negatively affected by U.S. tariffs. The types of products imported from Latin America are mostly horticultural products or tropical products such as coffee, while exports to Latin America largely consist of grains and oilseeds. Their analysis indicates that tariffs have a greater effect on U.S. exports than they do on imports. The effect on U.S. exports is greater because tariffs are higher in Latin American countries than they are in the United States, and the estimated elasticities are higher for exports than they are for imports, which indicates that food consumption is more price sensitive in other countries. A reduction or elimination of tariffs would mean increases in U.S. exports of wheat, corn, soybeans, and possibly meat. The increase in imports would likely include sugar, which could be harmful for U.S. sugar producers.

Keefe and Jolly examine the potential effects of the Free Trade Area of the Americas (FTAA) on trade in fisheries products (freshwater fish, marine fish, and shellfish) between the U.S. and the Caribbean Community and Common Market (CARICOM) and Latin America. In 2001, CARICOM countries exported 36,530 metric tons of fisheries products to the United States, a 76% increase over the previous five years. Revenue from exports of CARICOM fisheries products averages between 9 and 10% of agricultural GDP, making fisheries a potential major source of revenue for Caribbean countries. Despite this good news, the authors argue that rising fish imports due to changing institutional arrangements within the FTAA could present significant challenges to the less competitive countries in Latin America and the Caribbean. A reduction or elimination of the existing tariff rate of $0.44/kg and $6.60/kg under the FTAA for all three types of fisheries products entering the United States could take market share from LAC countries and deprive the countries of valuable foreign exchange earnings. The authors conclude, however, that present levels of fish imports from non-CARICOM/LAC do not appear to pose a threat to CARICOM fish producers.

Colyer illustrates the importance of environmental issues in trade negotiations. These issues are assuming greater prominence in trade negotiations. For example, NAFTA explicitly includes environmental provisions, and environmental issues are a factor in ongoing WTO and FTAA negotiations. Colyer argues that the final role of the environment in the FTAA is uncertain, given opposition by most of its members. Thus, the draft FTAA agreement does not contain a separate section on the environment, but some environmental provisions are incorporated into specific chapters such as those on investment and agriculture. The large number and varied economic and environmental conditions of the 34 countries in the FTAA, make it difficult to include meaningful environmental provisions in the agreement. The author surmises that the inclusion of such provisions in the NAFTA and WTO agreements may make it difficult to get approval of future agreements that do not address environmental issues or at least that do not guard against creating pollution havens or that might encourage laxness in environmental protection agreements.

Colyer argues that the FTAA, WTO, and other trade liberalization negotiators need to ensure that trade agreements are structured in ways that do not work at cross purposes to environmental concerns and needs. Indeed, trade agreements can help facilitate and promote environmental solutions. However, the author questions whether the independent international negotiating processes for free trade and environmental issues can be depended upon to promote environmental solutions because of the difficulty of reaching consensus on multilateral environmental agreements. While care must be used to see that environmental rules are justifiable and not erected as barriers to trade that protect a domestic industry, environmental concerns also are legitimate and must not be victims to free trade agreements. However, to make environmental protection rules fair it may be necessary to assist developing countries obtain the resources and technology to enable them to meet stricter environmental standards.

Despite the importance of the environment in trade, Colyer sees little evidence that the FTAA negotiations will encompass environmental issues to any significant extent, although some environmental provisions will be contained in the various chapters of the agreement. A decision has been made by FTAA negotiators to let the WTO negotiate the rules with respect to the role of the environment in multilateral trade agreements and this is likely to prevail. However, the issue is controversial and its outcome is uncertain.

Tavernier examines the influence of regional trading arrangements (RTAs) on economic growth. RTAs are an important mechanism by which countries provide trade preferences to facilitate the exchange of goods and services among members. While the degree of economic integration determines the particular trade preference, the formation of RTAs is likely to have differential impacts on regional economic growth. This differential is to be expected because of variation among countries and regions in output and productivity and the public policies affecting the environment within which economic agents produce and transact. Tavernier examines the degree to which RTAs contribute to the process of economic convergence in Latin America and the Caribbean.

The author finds that countries with low real per capita GDP growth in the 1980 had higher growth in 1997. Some of this growth is the result of the positive influence of RTAs, such as the Caribbean Community and Common Market. This growth is likely to mean an increase in consumer demand for high-value U.S. imports and provides an opportunity for businesses to explore avenues for trade. In some cases, RTAs did not contribute to economic growth. The mixed results are expected because of the variation in output and productivity, and the different policy environment that exist among the countries and regions.

Jolly, Almarwani and Kebede examine the effects of the FTAA on the Organization of Eastern Caribbean States (OECS). The OECS is experiencing serious economic and structural changes resulting from World Trade Organization (WTO) rulings on their major export crops. With a declining agricultural industry and generally depressed economies, the countries are forced to decide whether to become part of the Free Trade Area of the Americas (FTAA), or remain out of the proposed union. This dilemma holds serious trade implications for the economies of the countries. The authors argue that the formation of the FTAA and the adoption of a common external (CET) tariff may force members of the OECS to buy high priced goods from member countries. The authors use rice to make that point and estimate the welfare loss from the reduction of export subsidies on imports from the United States, and its probable impact on OECS economies and intra-regional trade once the OECS joins the FTAA.

Jolly, Almarwani and Kebede assume zero transportation cost, homogeneous product, and a CET, and imports of rice from 1997/1998 to 2001/2002. Under that scenario the OECS is expected to lose U.S. $1.1 million to $5.5 purchasing rice from the United States at current prices instead of buying rice from Vietnam. If rice is purchased from Guyana instead of Vietnam in 2001/2002, the OECS is expected to pay about U.S. $1.0 million more. The authors suggest that there are other situations in the food industry where the OECS may be forced to buy from less efficient member states. The authors conclude that because the islands have a negative food balance and an overall negative trade balance, unless they are able to increase exports at a faster rate than imports, joining the FTAA may not be advantageous to them.

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