Trade Negotiations & U.S. Agriculture: Prospects & Issues for the Future

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Overview

- International Setting & Trade Strategy
- Role of Trade Agreements
- The World Trade Organization
  - Negotiations in Doha Development Agenda
  - DS 267, ‘Cotton Case’
- Conclusions & Implications
International Setting & Trade Strategy
World Population

Billions

Ind. + 8%, Dev. + 31%

China, India, Indonesia

US Census Bureau
GDP Growth Projections

% Change From Previous Year

- **Developed Countries**
  - 2004: 5.6%
  - 2006: 4.9%
  - 2008: 4.6%
  - 2010: 4.4%
  - 2012: 4.3%
  - 2014: 4.1%

- **Developing Countries**
  - 2004: 3.2%
  - 2006: 2.5%
  - 2008: 2.5%
  - 2010: 2.5%
  - 2012: 2.4%
  - 2014: 2.3%

Regional GDP Growth Projections


% Change From Previous Year

- Africa
- Asia
- Latin America
- Middle East

China + 6.5%
India + 5.4%
Regional GDP Growth Projections

U.S. Agricultural Trade, 1970 - 2005E

World Average Agricultural Tariffs, 2002

Percent

<table>
<thead>
<tr>
<th>Region</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>114</td>
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<tr>
<td>Caribbean Islands</td>
<td>85</td>
</tr>
<tr>
<td>Central America</td>
<td>55</td>
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<tr>
<td>South America</td>
<td>40</td>
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<tr>
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<td>North America</td>
<td>25</td>
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<tr>
<td>United States</td>
<td>12</td>
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</table>

62% World Average

Source: WTO & ERS/USDA
**U.S. Trade Strategy**

- **Unilateral**
  - Generalized System of Preferences (GSP)
  - CBI/CBERA
  - African Growth Opportunities Act (AGOA)

- **Regional/Bilateral**
  - NAFTA, CAFTA-DR, Others

- **Multilateral**
  - World Trade Organization
  - Only Forum Where All 148 Countries Are Present & Farm Policy Is Negotiated

Concurrent Initiatives
Progress to Date
Trade Agreements In-Place (7)

- **Israel** - 1985-1994
- **Canada-**US
  - (CUSTA) - 1989-1998
- **North America**
  - (NAFTA) - 1994-2008
  - US-Mexico
  - US-Canada
  - Canada-Mexico
- **Jordan** - December 17, 2001-2010
- **Chile** - January 1, 2004-2015
- **Singapore** - May 6, 2003-2012
- **Australia** - January 1, 2005-2022
Trade Agreements-Pending (9)

- **Morocco**-President Signed 8/17/04, Pending Signature, King of Morocco
- **CAFTA-DR**-Signed by President, Passed El Salvador, Guatemala, Honduras (20 Years)
- **Bahrain**-Pending Submission to Congress
- **Panama**-Nine Negotiating Sessions Held, Panama Delays
- **Colombia, Ecuador, Peru (ANDEAN)**-Nine Rounds, Negotiations Continue
- **Thailand**-Three Rounds Held
Trade Agreements-Pending (9)

Southern African Customs Union (SACU): Botswana, Namibia, Lesotho, Swaziland, South Africa-Six Rounds Held

Oman-Two Rounds of Negotiations Held, Part of Middle East Free Trade Area (MEFTA)

United Arab Emirates-Two Rounds Held, part of MEFTA
Why Regional Agreements?

- 2d Best After MTN
  - WTO Has Been Slower than Desired
  - Outcome is Uncertain

- Economic Incentives
  - Open Markets
  - Increase Business Efficiency

- Keep Pressure on MTN to Perform

- Any One Agreement-Small Impact, Taken Together-Large Impact
Strategic Considerations

- Secure Key Strategic Materials
  - Oil, Fertilizer, Natural Gas
- Stem Illegal Immigration by Creating Economic Opportunity in Other Countries
- Create ‘Buffer Zone’ Against Terrorism (Thomas Barnett & 9/11 Commission Report)
Doha Development Agenda in the World Trade Organization (2001-?

Preparing for the Hong Kong Ministerial

December 8-13, 2005
Three Pillars of Trade Reform
(Agreed in Concept August 1, 2004)

- **Market Access**: Reductions in Tariffs
- **Export Competition**: Elimination of Export Subsidies
- **Trade Distorting Domestic Support**: Reductions Over Time
Market Access

- Highest Tariffs Cut the Most
  - U.S. Pushing for Deep Tariff Cuts by Developing Countries (60-75%)

- Issue: Many Developing Countries Want ‘Special’ Treatment & Some Reluctant to Agree to Large Cuts

- Much Left ‘To Be Negotiated’ & A Potential ‘Deal Breaker’
Export Competition

- Reduce & Eliminate Export Subsidies by Date Certain (Agreed)
  - EU Export Subsidies, $2+ Billion/Year
  - U.S. Export Credit Guarantees > 180 Days

- Food Aid to Be Disciplined

- Strong Support for Export Competition Reforms
Trade Distorting Domestic Support

Programs that Cause Production to Be Different than Would Be Without Programs

- Year 1 Cut of 20%
- Subsequent Phased Reductions
  - 40-50% Range

- Reductions from Allowable Support

- **Issue**: Developing Countries Wanted Cuts Now, Tariff Reductions Later

- If Big 3 Don’t Make Substantial Cuts, A ‘Deal Breaker’
Agricultural Producer Support by Country 1986-88 and 2001-03

-Percent of Total Farm Receipts from Government-

Source: OECD's database (see www.oecd.org)
Total Allowable Trade Distorting Domestic Support, 'The Big 3,' 2002

- European Union: $128 Billion
- United States: $49 Billion
- Japan: $48 Billion

Includes Amber + Blue Boxes, Product Specific + Non-product Specific De Minimis, Each Based on 5% of Total Value of Agricultural Production.
Total Trade Distorting Domestic Support Remaining After Year 1 Down Payment (calculated)

Billion $

European Union: $100.2
United States: $39.2
Japan: $38.4
Total Trade Distorting Domestic Support

Assuming 50 Percent Reduction

- Billion Dollars -

European Union: $50.1
United States: $19.6
Japan: $19.2

Calculated

-Impacts in 2015 Relative to the Baseline (2001 dollars)-

Source: Anderson, Martin and van der Mensbrugghe (2005a, Table 12.3)

-Annual Average Growth Rate (Percent)-

Source: Anderson, Martin and van Mensbrugghe (2005a, Tables 12.12 and 12.13)
## Trade Liberalization Impacts on Factor Prices, 2015

<table>
<thead>
<tr>
<th>Region</th>
<th>Skilled Wages</th>
<th>Unskilled Wages</th>
<th>Land Owner Rent</th>
<th>Inflation</th>
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<tr>
<td></td>
<td>Percent Change</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>EU 25</td>
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<td>-0.1</td>
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<tr>
<td>New Zealand</td>
<td>1.1</td>
<td>3.5</td>
<td>20.9</td>
<td>1.5</td>
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</tbody>
</table>

Anderson, Martin, and van der Mensbrugghe (2005a, Table 12.7).
Conclusions and Implications
Conclusions & Implications

- U.S. Market Is Open, Rest of World Is Not
  - U.S. Export Growth Lags Import Growth
- Agricultural Trade Distorted by Tariffs, Export Subsidies, Trade Distorting Domestic Support
- U.S. Pushing for Deep Tariff Cuts by Developing Countries To Open More Markets for U.S. Exports
- Little Agreement on How Much Tariffs Might Be Cut
Conclusions & Implications

- Reductions in Trade Distorting Domestic Support Likely Substantial
  - Some Adjustment for U.S. Producers

- Absent WTO Progress, World Trade & Economic Growth Stifled, Especially in Agriculture-Not Good for U.S. Agriculture

- Cotton Case Could Figure in Outcome
  - U.S. Response
  - Other Cases (Rice, Soybeans??)

- Trade Reform is at a Crossroads: Protection or Progress?
  - If Export Markets Are Important, Trade Agreements & WTO Progress Are Necessary
Thank You!

Questions?

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