



Global Trade Analysis Project



How Differing Trade Policies May Impact U.S. Agriculture: The Potential Economic Impacts of TPP, USMCA, and NAFTA

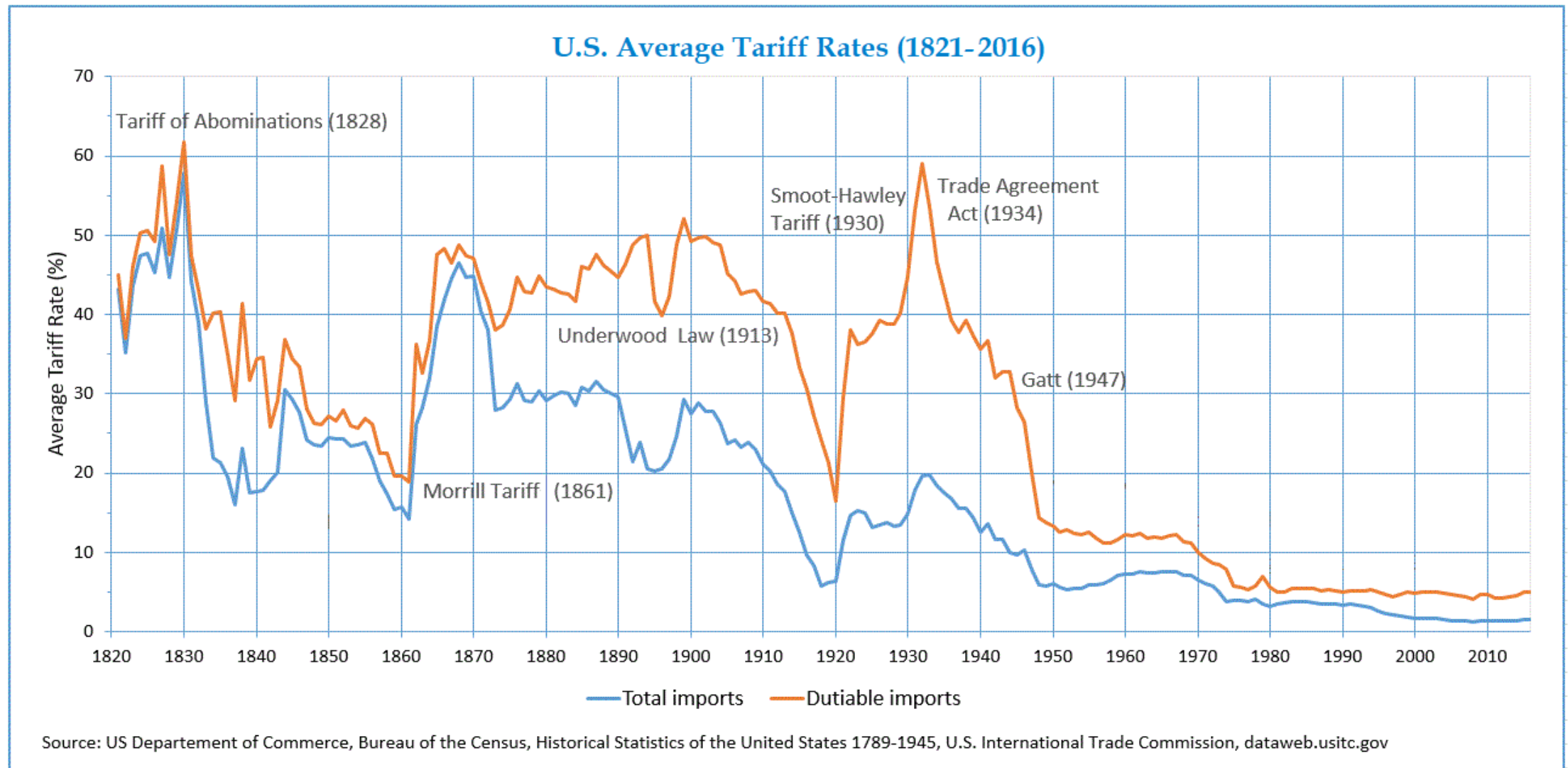
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U.S. and Canadian Perspectives on Trans-Pacific Trade, Farm Foundation Forum
4 March 2019, National Press Club, Washington, DC

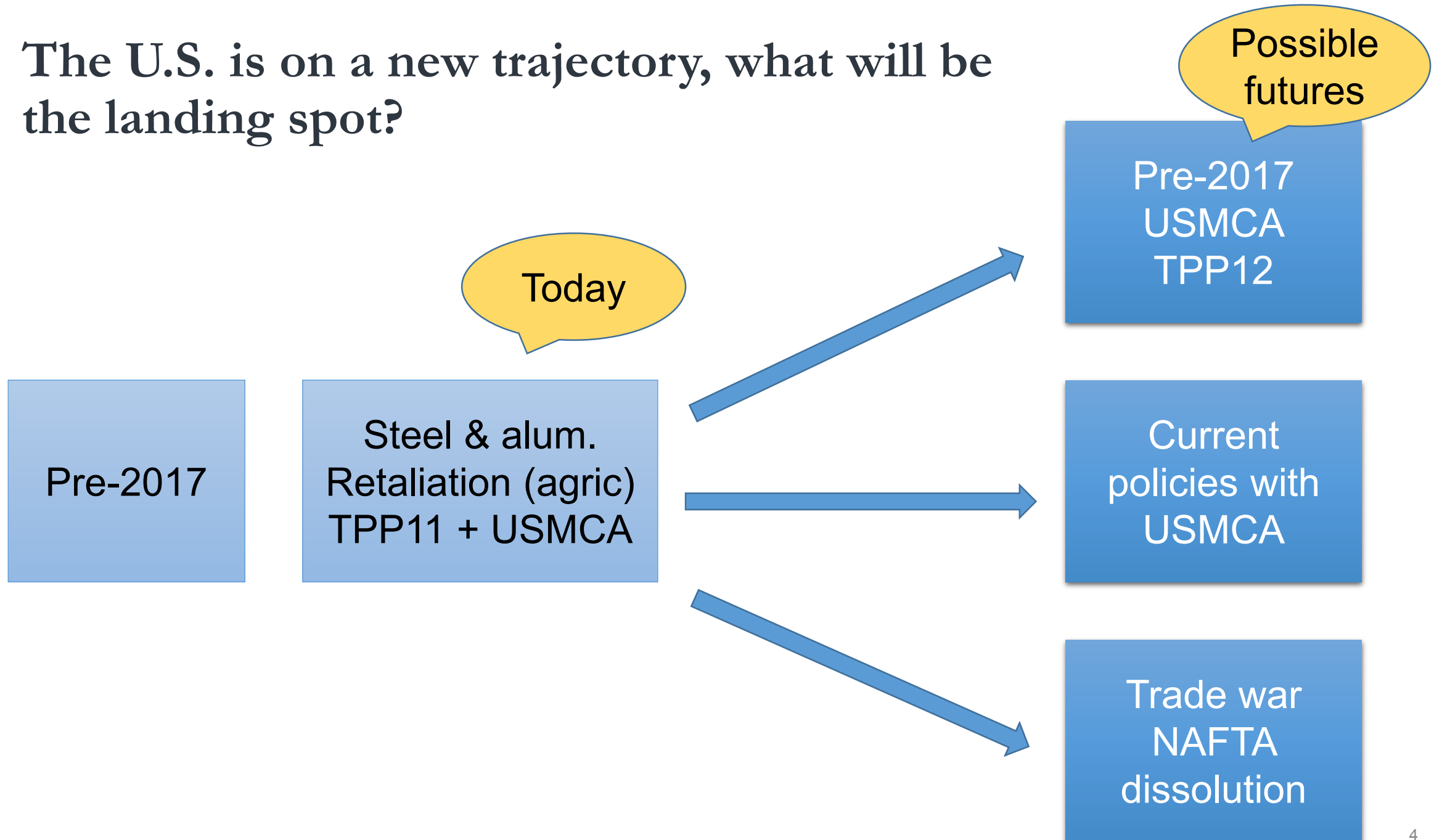
Introduction

- **U.S. agricultural trade at a crossroad**
- **What's new since October**
 - Our own evaluation of a potential dissolution of NAFTA
 - Impacts of the recently enacted TPP 11, i.e. a missed opportunity
 - And potential gains from U.S. rejoining TPP

Since World War II, U.S. tariffs have been on a sharp downward trajectory

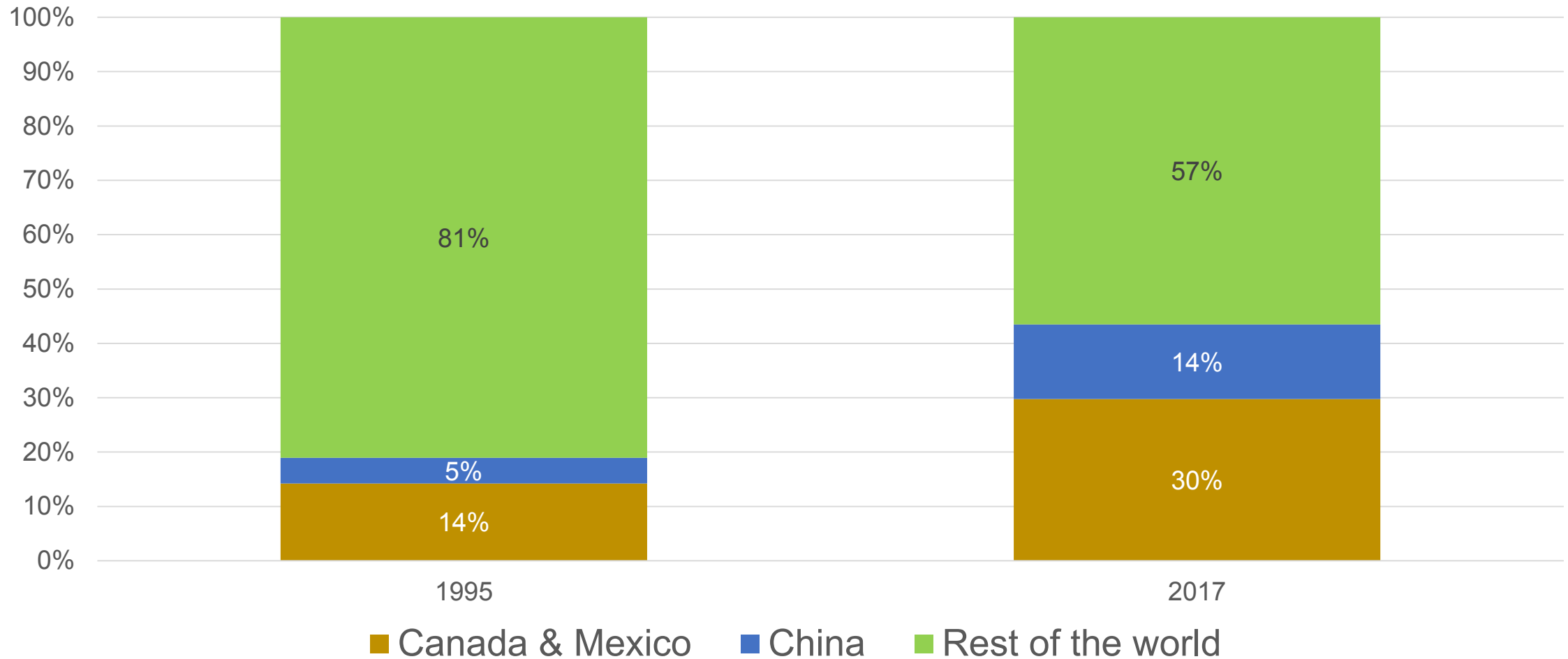


The U.S. is on a new trajectory, what will be the landing spot?



Canada and Mexico have doubled their share in U.S. agricultural exports

Destination shares of U.S. food and agriculture exports



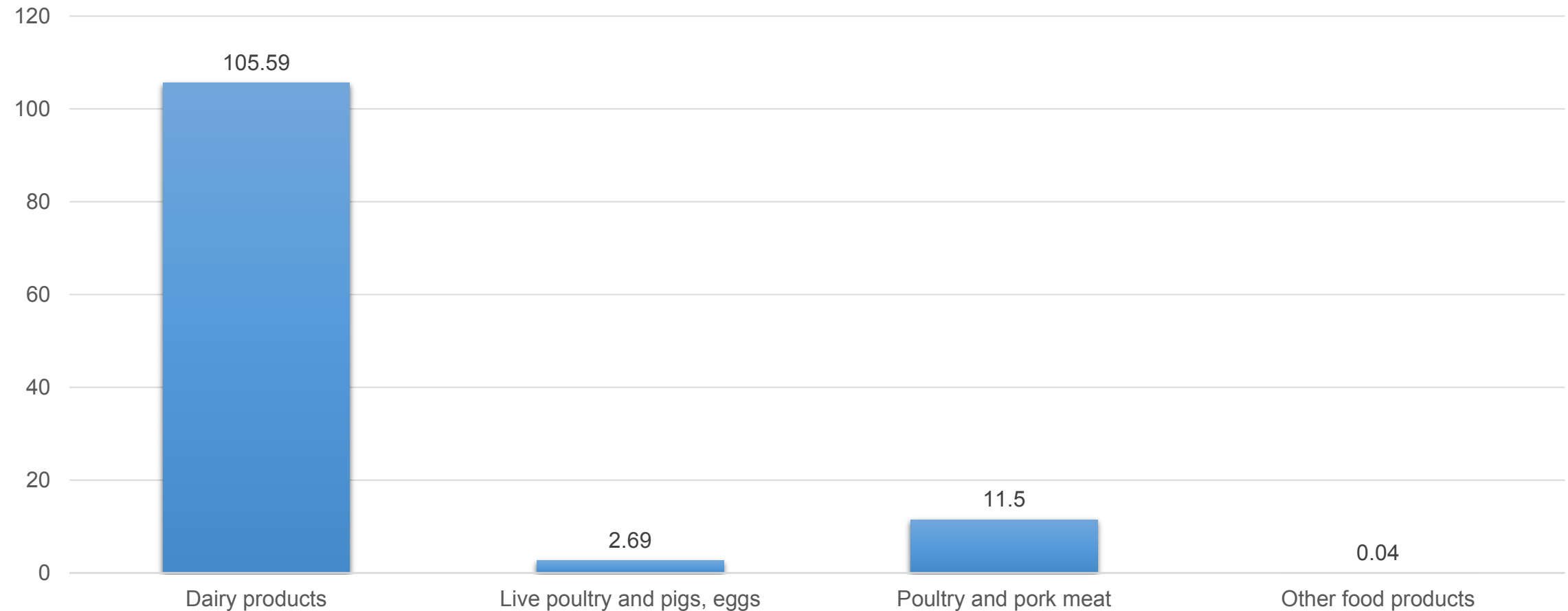
Measures and counter measures since 2017

- (Yet-to-be ratified) USMCA
- U.S. imposes tariffs on steel and aluminum—Canada and Mexico retaliate
- Other U.S. trading partners retaliate

What's in the USMCA agreement

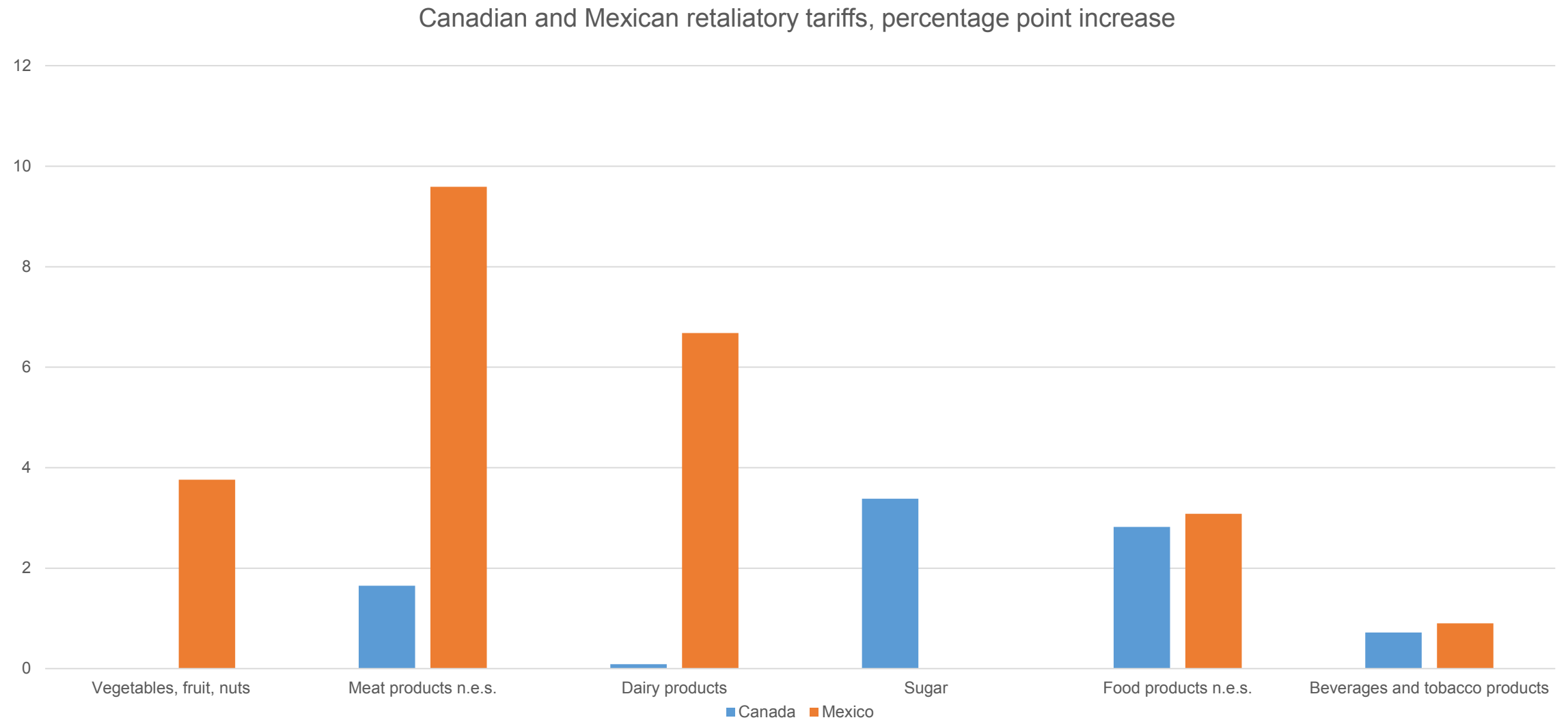
- **Consolidates NAFTA 1.0**
- **Main market access changes**
 - Auto content for duty free access is raised to 75% from the existing 62.5%
 - 45% of the auto content must be produced in factories where workers are paid at least \$16/hour
 - Expanded import quotas in Canada for dairy and poultry products
- **A variety of other changes not directly linked to market access, for example:**
 - Extension of copyright protection from 50 to 70 years
 - New measures for the digital economy: no duties on music and e-books, protection for internet companies
 - Improved transparency in import and export licensing

New market access measures in agriculture, estimated changes in quotas, percent



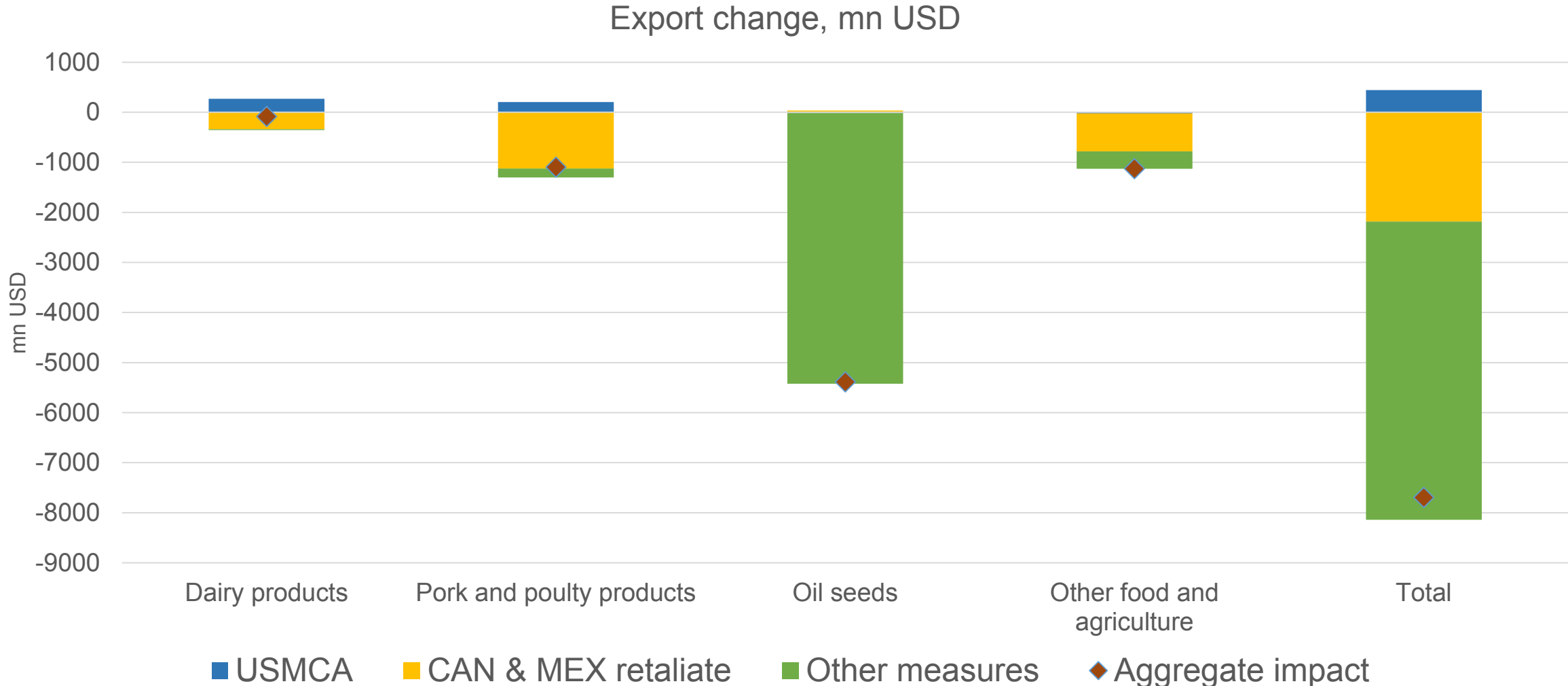
Source: authors' estimates based on USTA (2018a; 2018b)

Canada and Mexico react, target agriculture & food



Source: based on data provided in Li (2018)

Sharp decline in agricultural export revenue, total decline of \$8 billion



Comprehensive and Progressive Agreement for Trans-Pacific Partnership—TPP 11

- **Who signed?**

- Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam—GDP of \$14 trillion

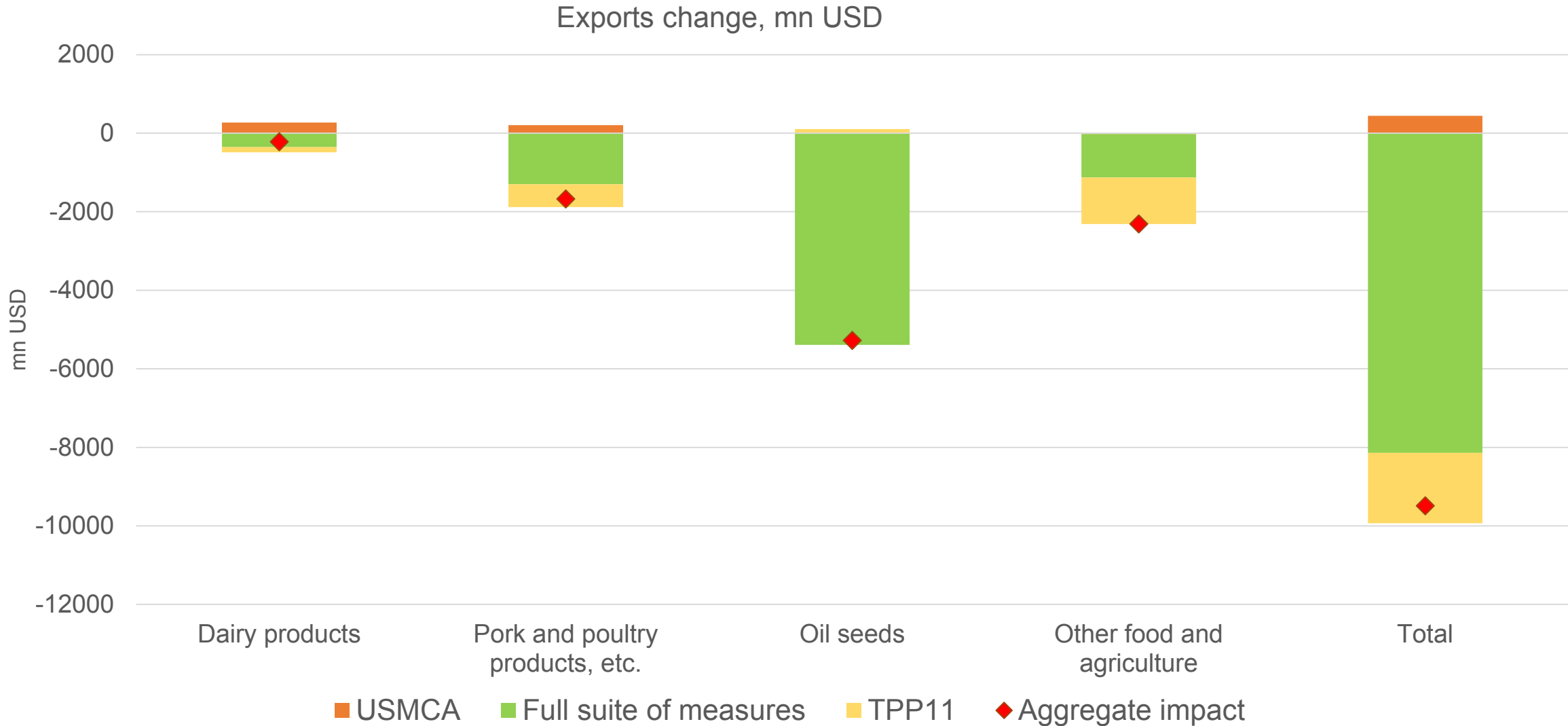
- **When was it implemented?**

- 30 December 2018 (after ratification by 6 of the signees)—so far 7 have ratified.

- **What was in it for the United States?**

- Eliminating tariffs on the majority of U.S. agricultural exports. For example, agricultural tariff rates average 19% in Japan and 16% in Vietnam, according to USTR.
- Additional tariff reductions and TRQ expansion for additional products.
- Elimination of agricultural export subsidies.
- Transparent implementation of SPS measures.
- Transparency on other non-tariff trade measures, for example bio-tech products.

TPP11 crowds out U.S. exports by an estimated \$1.8 billion

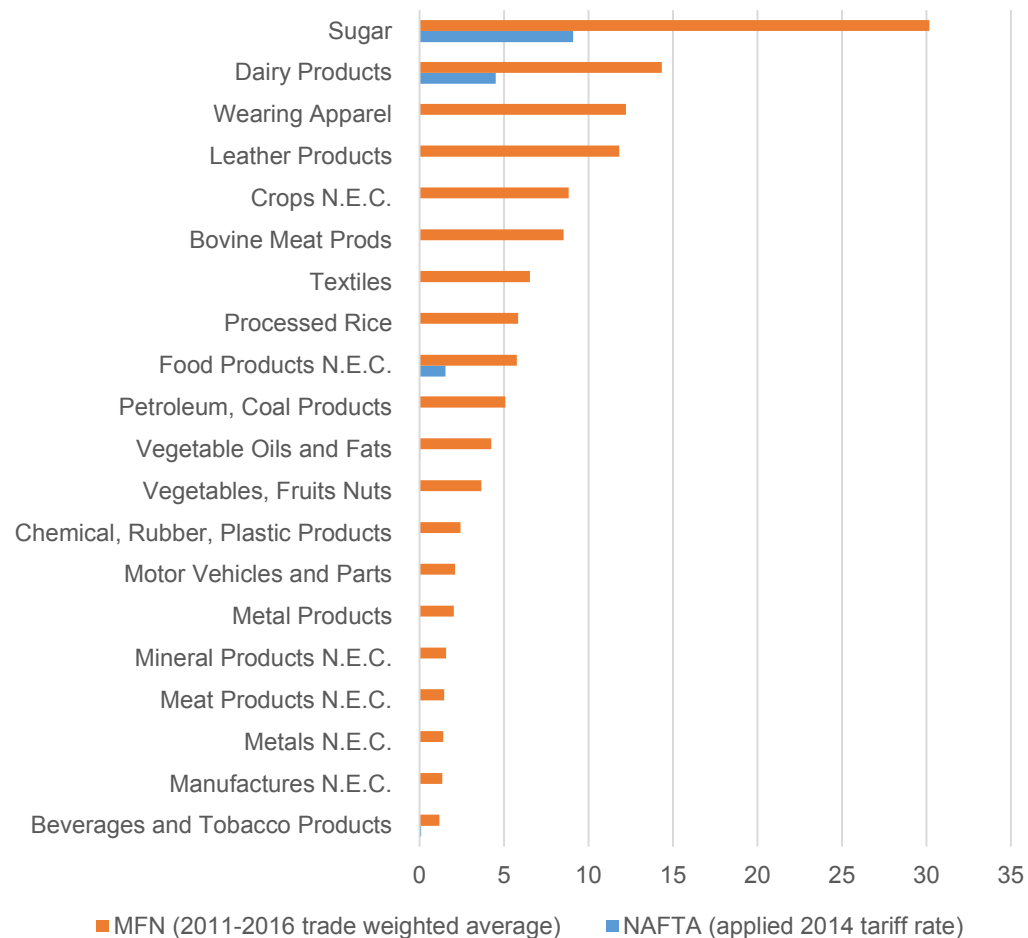


NAFTA Dissolution

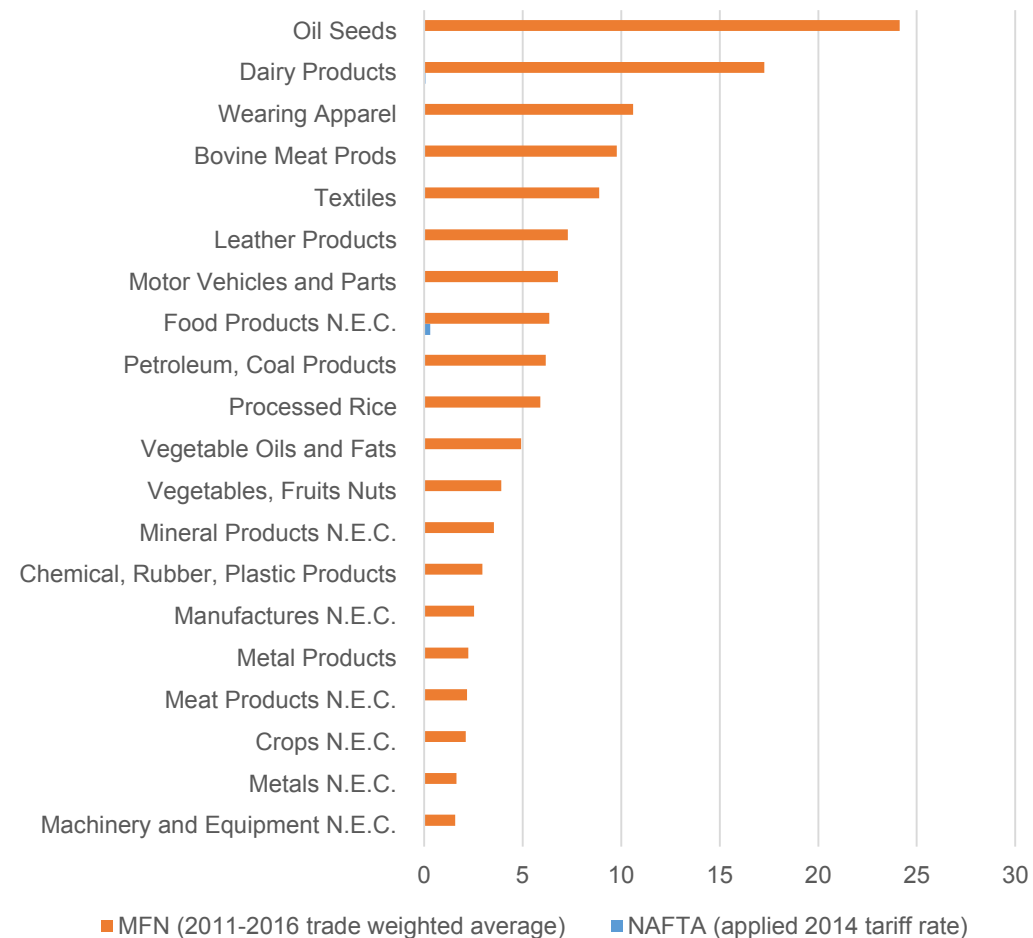
- **Reversion to most favored nation (MFN) tariff rates**
- **Uncertainty about special regimes such as dairy quotas**
- **Our own estimates of MFN reversion based on Ciuriak et al. methodology**

NAFTA has led to low agricultural tariffs, with some exceptions

U.S. tariffs on Canadian imports



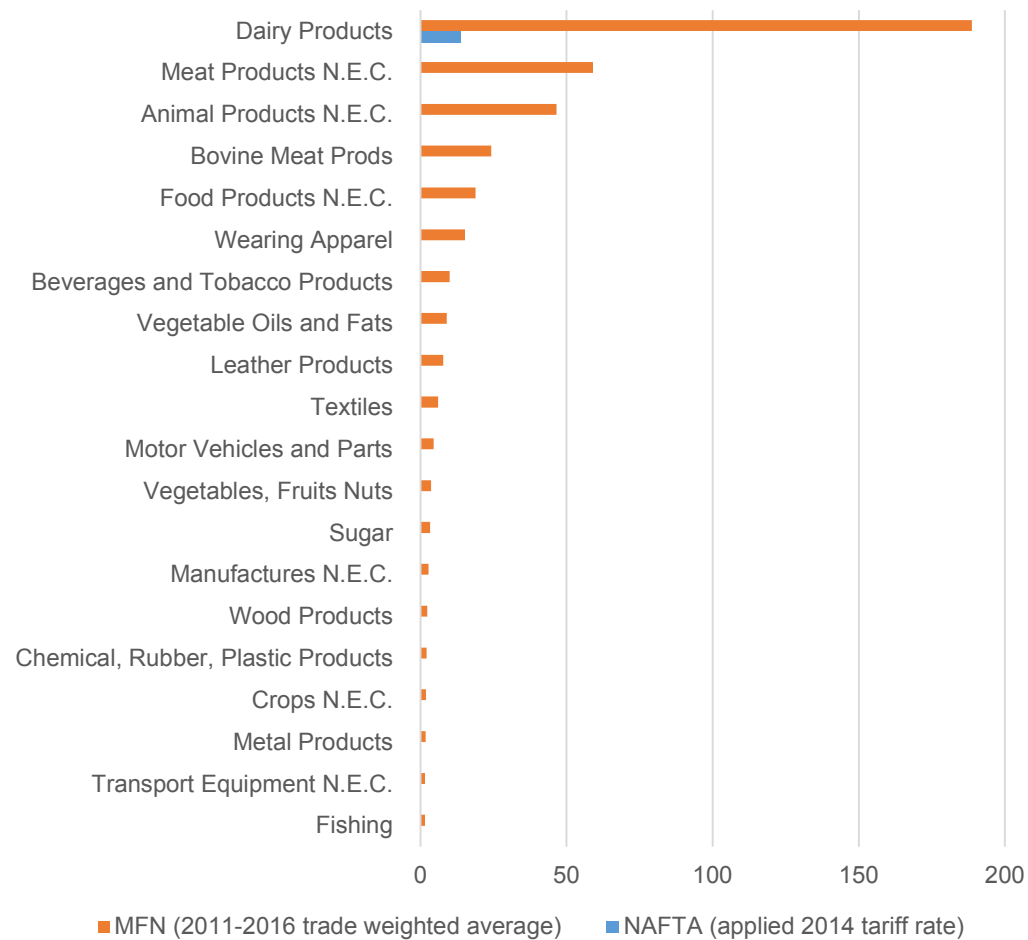
U.S. tariffs on Mexican imports



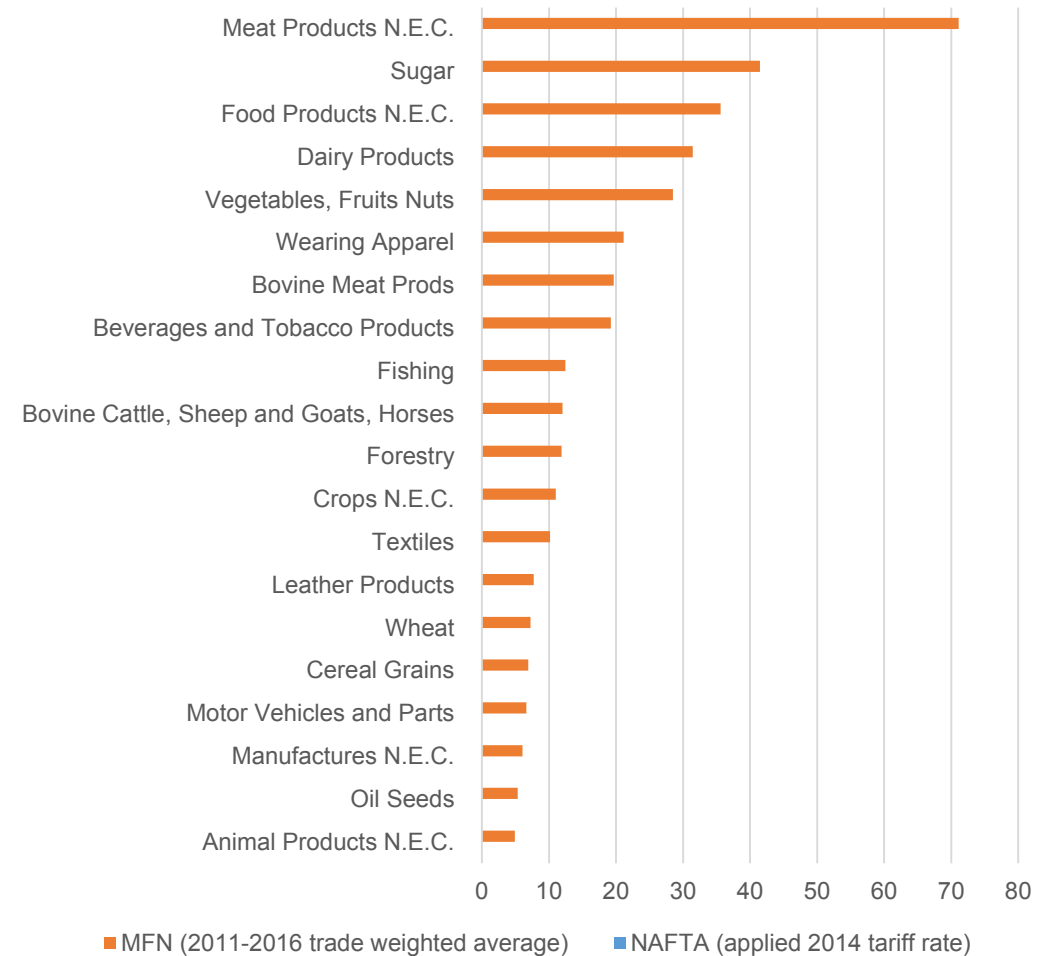
Source: GTAP 10p2 database, Ciuriak et al. (2017).

U.S. exporters would face stronger headwinds if NAFTA dissolves

Canadian tariffs on U.S. imports

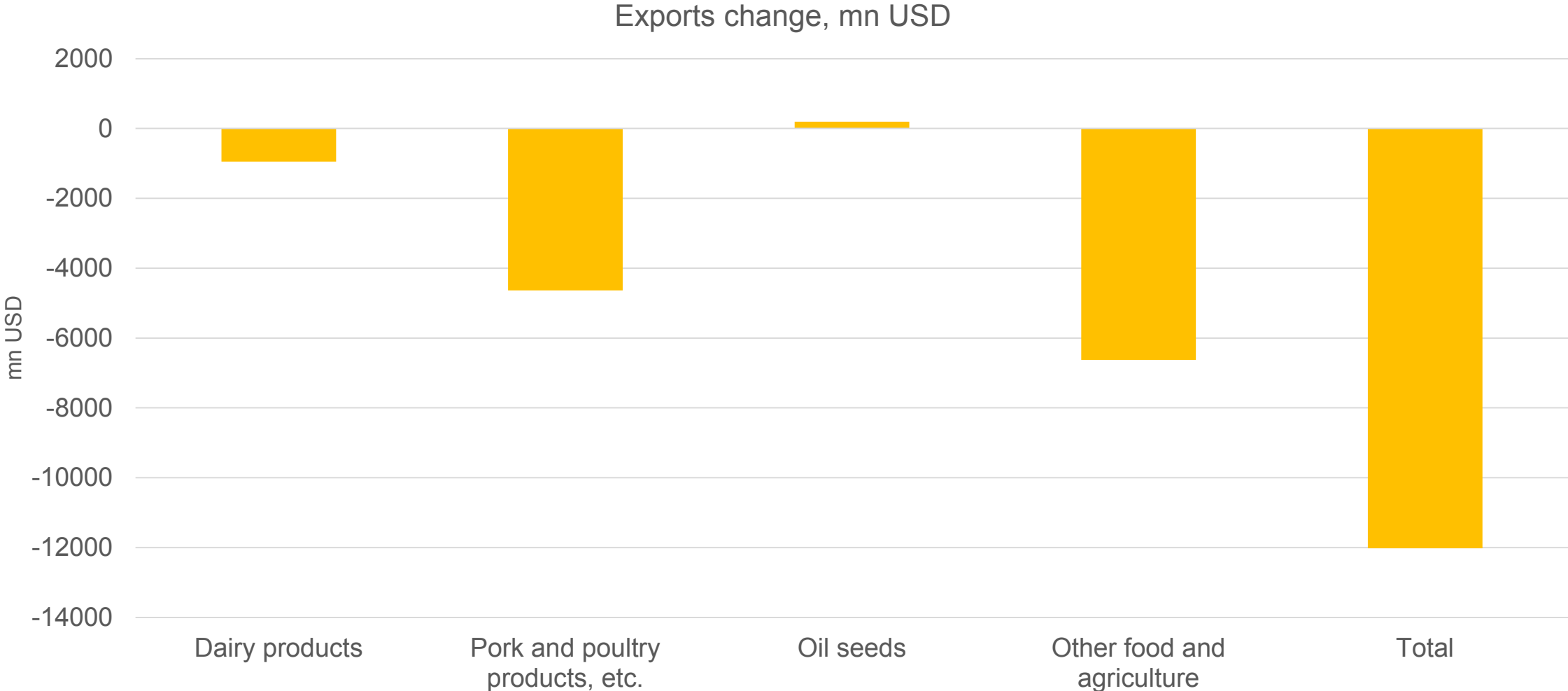


Mexican tariffs on U.S. imports

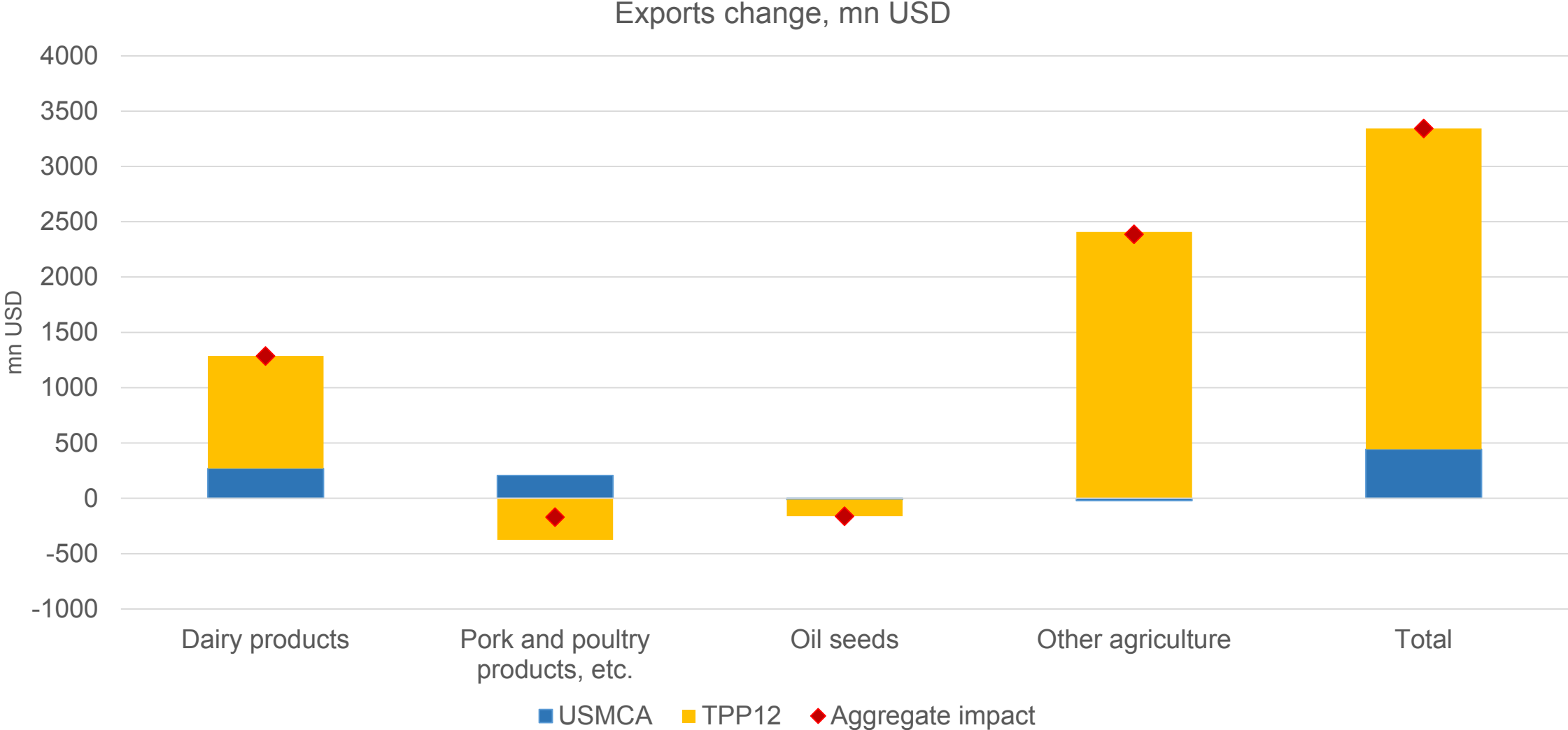


Source: GTAP 10p2 database, Ciuriak et al. (2017).

Significant drop in U.S. exports



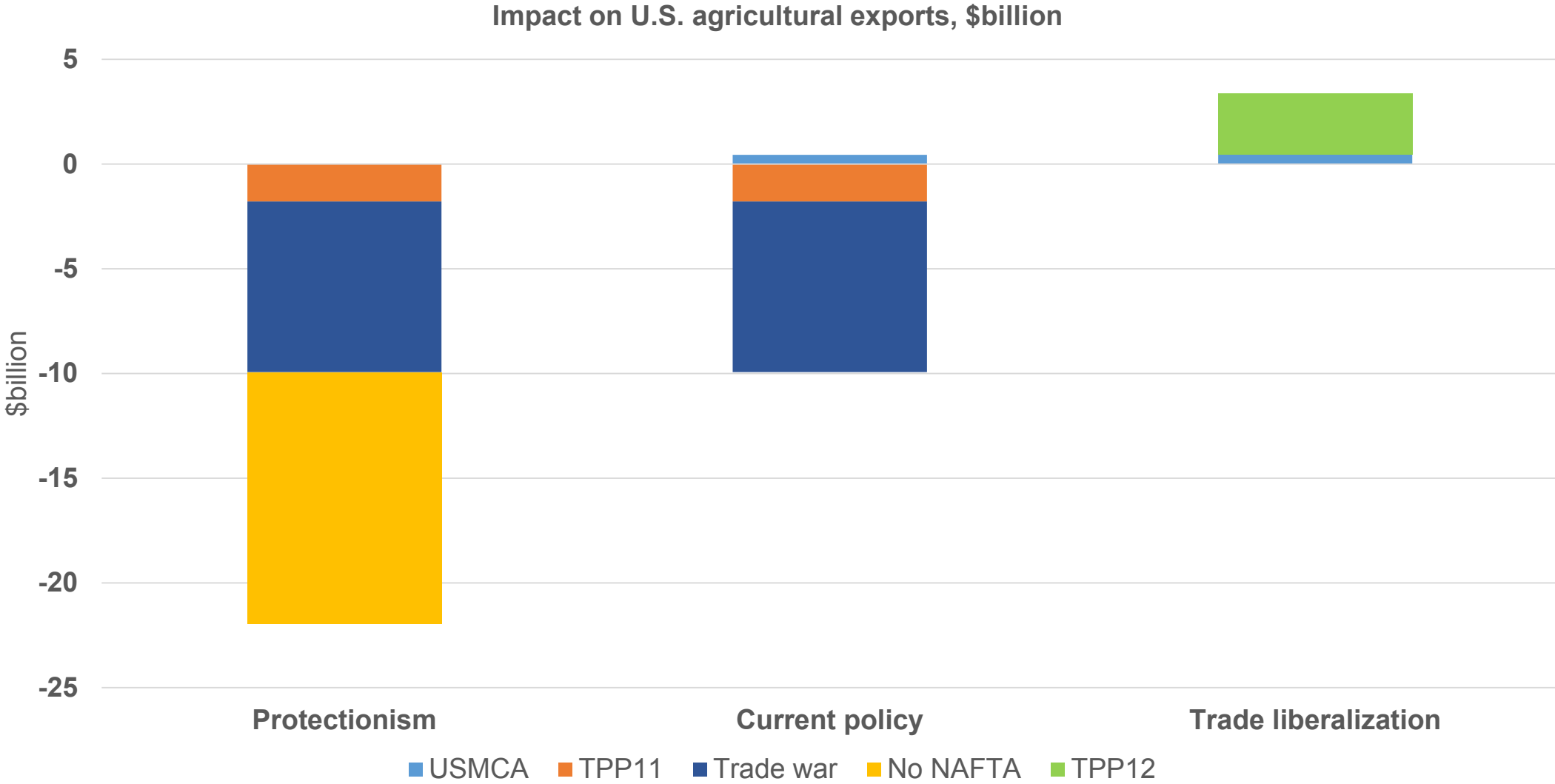
Upside 'risk': U.S. re-adheres to the TPP agreement



Concluding remarks

- **Results are subject to a number of assumptions, though likely to be robust**
 - Results reflect medium-term impacts after adjustment
 - Results ignore adjustment costs
 - Results assume standard investment behavior, however:
 - A different tariff environment in NAFTA could impact investment and changes to the deep supply chains
 - A volatile tariff environment could dampen the appetite for investment
- **Persistence of trade war will overwhelm potential positive impact of USMCA**
- **Farmers could face worse: dissolution of NAFTA and more acute trade war**
- **Best outcome: ratification of USMCA, U.S. rejoins TPP and reversion to pre-2017 tariffs**

For farmers: best option is clear...



Thank you