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

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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?

Pre-2017

Steel & alum. Retaliation (agric) TPP11 + USMCA

Possible futures

Current policies with USMCA

Trade war NAFTA dissolution

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

Exports change, mn USD

<table>
<thead>
<tr>
<th>Category</th>
<th>USMCA</th>
<th>Full suite of measures</th>
<th>TPP11</th>
<th>Aggregate impact</th>
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<tbody>
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<td>Dairy products</td>
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<td>Pork and poultry products, etc.</td>
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<td>Other food and agriculture</td>
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<td>Total</td>
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-12000 -10000 -8000 -6000 -4000 -2000 0 2000 4000 6000 8000 10000 12000

mn USD
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

Source: GTAP 10p2 database, Ciuriak et al. (2017).
U.S. exporters would face stronger headwinds if NAFTA dissolves

Source: GTAP 10p2 database, Ciuriak et al. (2017).
Significant drop in U.S. exports

Exports change, mn USD

- Dairy products
- Pork and poultry products, etc.
- Oil seeds
- Other food and agriculture
- Total
Upside ‘risk’: U.S. re-adheres to the TPP agreement

Exports change, mn USD

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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…

Impact on U.S. agricultural exports, $billion

- Protectionism
  - USMCA
  - TPP11
  - Trade war
  - No NAFTA
  - TPP12

- Current policy

- Trade liberalization
Thank you