Likely Effects of a Trade War for US Agriculture? Sad!

"I will renegotiate NAFTA. If I can't make a great deal, we're going to tear it up. We're going to get this economy running again." – Donald J. Trump, October 19, 2016

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US farmers and ranchers overwhelmingly supported Donald Trump in the recent Presidential election citing their concerns with overly burdensome regulations and their belief that the President-elect was the best candidate to lead the country over the next four years. Yet, that support came despite promises made by President-elect Trump during the campaign to levy taxes against China exports to the United States, to renegotiate NAFTA, to withdraw from the Transpacific Partnership (TPP) agreement, and to pull the US out of the World Trade Organization if membership in the global trade body interferes with his plan to impose penalties on companies that move American production offshore. Early actions taken by President-elect such as the appointment of so-called trade hawks to key trade positions suggest the aggressive stance taken in the campaign will likely carry over to his new Administration.

How important is trade to US agriculture? US agricultural exports averaged over $142 billion over 2013-15. Over the same period the US enjoyed a $25 billion net agricultural trade balance. Based on the value of agricultural production, roughly one-third of what is produced by US farmers and ranchers is exported and for many commodities such as soybeans, wheat, and cotton, more than 50 percent of the crop is typically exported. Moreover, with a slowing population growth rate at home, more than 97 percent of the anticipated population growth over the next 35 years is anticipated to take place outside of US borders. Those facts explain why US agricultural interests have been such strong supporters of free trade agreements in the past.

Let's consider the three top agricultural export markets – China, Canada, and Mexico. Those markets are particularly significant because policies towards China and NAFTA have been most singled out by the President-elect as needing reform. US agricultural exports to China, Canada and Mexico averaged $63 billion over 2013-15, accounting for 44 percent of total agricultural exports. In addition, sales by US-owned food processing companies in Canada, Mexico and China totaled more than $58 billion in 2014, and accounted for about 25 percent of sales of US-owned food processing companies worldwide.

How important are China and NAFTA to US producers? China has risen from the 15th largest US export destination over 1991-93 to the number one destination over 2013-15. Average agricultural exports to China over 2013-15 exceeded $23.3 billion, led by soybean exports which averaged $12.8 billion. About 28 percent of the soybeans grown in the United States today end up in China where the meal supplies large animal feeding operations and the soybean oil supplements strong consumer demand for vegetable oil. China remains the top destination for US cotton exports, hides and skins, feeds and fodder, and distillers dried grains, and it is the 2nd largest destination for US tobacco exports. In addition, sales by US food processing affiliates in China were $10.9 billion in 2014.

1 Glauber served as the US Chief Agricultural Negotiator during the WTO Doha Round talks from 2007 to 2009.

Actions by President Trump to make good on campaign promises to raise tariffs on China exports to 45 percent would surely be met with counter measures that could potentially devastate US agricultural exports. While some have argued that China would be unlikely to cut off food imports necessary to meet their growing consumer demand, those arguments ignore the fact that there are many other suppliers in the world – particularly in South America and the Black Sea Region – which have the capacity to ramp up production and exports to meet those demands. US farmers and ranchers would likely be the primary losers, particularly as China demand increases over the long run.

The President-elect has also blamed NAFTA, particularly Mexico, for many of the economic woes facing the United States, and has threatened to renegotiate an agreement that has been in force since 1994 (and in the case of the Canadian-US free trade agreement since 1989). With a few key exceptions, trade in agricultural products under NAFTA is now free of tariff and quota restrictions. Bilateral agricultural trade between the US and Canada has grown at an annual rate of 7.3 percent since 1990 and averaged $43.7 billion over 2013-15. Bilateral trade between the US and Mexico has grown at an 8.3 percent annual rate since 1990 and averaged $37.7 billion over 2013-15.

Trade has diversified as well as supply chains have expanded to better integrate the North American market. For example, NAFTA has seen the growth of trade in prepared and processed products between the Canada and the United States. Sales by US-owned food processing companies in Canada were over $34 billion in 2014 while sales by Canada-owned firms in the US were over $12.6 billion. As a result of tariff elimination and better cooperation on phytosanitary issues, fruit and vegetables are available year round in North American markets. Increased availability has resulted in increased per capita consumption of fruits and vegetables in North American diets.

As was brought out well in the recent WTO case on Country of Origin Labeling (COOL), NAFTA has been instrumental in the development of a single North American livestock market. Mexican feeder cattle are brought to the United States for finishing and slaughter. Canadian hogs and cattle are finished and brought to slaughter facilities in the United States. Two-way trade in beef and pork products has grown between the US and Canada as has two-way beef trade between the US and Mexico.

Disrupting agricultural trade by imposing punitive tariffs on Canada and Mexican exports would play havoc with supply chains and likely mean the loss of several billion dollars to US, Canadian and Mexican producers and processors. While trade disputes under NAFTA are certainly not new, a long-term reversal of the gains made under NAFTA would impose harsh penalties not just on US agricultural producers but US consumers as well who have benefitted from lower prices and an increased variety and availability of food products.

Lastly, if President Trump follows through on his promise to withdraw from TPP and presumably from the Transatlantic Trade and Investment Partnership (TTIP) with the European Union, it would likely mark an end to an era of trade liberalization that has largely characterized the post-World War II era. Whether new trade initiatives are launched remains to be seen, but the near-term future would suggest that trade disputes are more likely. The loss of potential gains under TPP and TTIP could be relatively minor compared to US agricultural losses if a full blown trade war were to erupt between the US and China or the US and its NAFTA partners.

Since the election, a number of farm leaders and Congressional members have sought to moderate the President-elect's views on trade. Whether their views will alter his actions is thus far uncertain. In his book *Peddling Protectionism: Smoot-Hawley and the Great Depression*, Douglas Irwin recounts how economists at the time were almost unanimous in their opposition to passage of the Smoot Hawley Tariff Act that raised tariffs on more than 20,000 imported goods. To that end, a petition signed by 1,028 American economists was presented to then President Herbert Hoover to veto the legislation. For US farmers (as well as US consumers) let's hope the current President-elect heeds the warning more than did his predecessor.

Irwin, D. 2011. *Peddling Protectionism: Smoot-Hawley and the Great Depression.* Princeton, NJ: Princeton University Press.

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