Effects of North American Free Trade Agreement on Agriculture and the Rural Economy

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Abstract

U.S. agricultural trade with Canada and Mexico has nearly doubled since the implementation of the North American Free Trade Agreement (NAFTA). While only a portion of this overall increase can be attributed solely to the agreement, NAFTA has allowed competitive market forces to play a more dominant role in determining agricultural trade flows among the three countries. By dismantling numerous trade barriers, the agreement has contributed to an expansion in U.S. agricultural exports and increased the domestic availability of various farm and food products. In addition, NAFTA has established rules and institutions that mitigate potential trade frictions and promote foreign direct investment. Conversely, many of the initial trepidations that were voiced concerning declining agricultural employment and environmental degradation have not materialized. Thus, NAFTA should be judged not just in the context of the trade gains associated with the agreement’s agricultural provisions, but also in terms of the benefits derived from “locking in” key trade, investment, and institutional reforms in an increasingly integrated North American market.

Keywords: North American Free Trade Agreement, NAFTA, agriculture, Mexico, Canada, United States, trade, environment, transportation, employment.
FOREWORD

This document is the third in a series of reports about the North American Free Trade Agreement (NAFTA) and its impact on U.S. agriculture and the rural economy. The report is prepared in accordance with the North American Free Trade Agreement Implementation Act, which requires the Secretary of Agriculture to submit a biennial report on this subject to the U.S. Congress, starting in 1997 and ending in 2011. This edition of the report reflects the research team’s understanding of economic and policy developments through early 2001.

Since NAFTA’s implementation, U.S. agricultural trade with its partners in the agreement has increased in both size and relative importance. Between 1993 and 2000, U.S. agricultural exports to Canada and Mexico expanded by 59 percent, while corresponding exports to the rest of the world grew only 10 percent. Similarly, U.S. agricultural imports from Canada and Mexico increased 86 percent between 1993 and 2000, compared with 42 percent for U.S. agricultural imports from the rest of the world.

NAFTA is one of many factors contributing to the economic integration of the agreement’s member countries. Other factors that are particularly important with respect to agriculture are unusual weather conditions, population growth, and changes in exchange rates and macroeconomic performance. With this in mind, the report provides a careful assessment of NAFTA’s impact in the context of other events and economic forces.

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