ERS Report Summary

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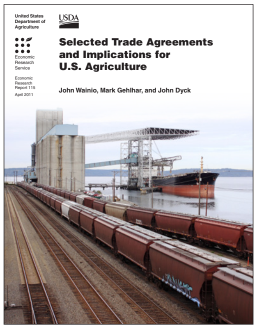

This is a summary of an ERS report.

Find the full report at *www.ers.usda.gov/publications/err115*

Selected Trade Agreements and Implications for U.S. Agriculture

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What Is the Issue?

Regional and bilateral free trade agreements (FTAs) have taken on greater significance amidst an evolving international trading environment. Member countries in FTAs agree to eliminate trade barriers on all or most goods and services traded among them. Uncertainties associated with global negotiations under the World Trade Organization (WTO) Doha Development Agenda, along with other factors, have contributed to an upsurge in bilateral and regional trade agreements. In this context, major traders have been pursuing FTAs; the United States has concluded negotiations with 16 countries since 2001, resulting in 8 trade agreements (TAs) with 13 countries. Three additional trade pacts with the Republic of Korea (South Korea, henceforth Korea), Colombia, and Panama have been signed but not yet ratified by the U.S. Congress as of March 2011.

Countries other than the United States are actively negotiating their own trade pacts. Trade agreements between key U.S trading partners and/or competitors may have raised concerns among U.S. exporters, whose ability to maintain share in established markets could be eroded by such agreements, particularly in countries where U.S. competitors have gained preferential access for their products. Korea, Colombia, and the 10 ASEAN (Association of Southeast Asian Nations) countries have been particularly aggressive in negotiating TAs.

In this study, we estimate the possible impacts on U.S. agricultural trade of two recently implemented FTAs in which the United States is not a partner: the FTAs between the ASEAN countries and China and between the ASEAN countries and Australia/New Zealand. We also examine the potential effects on U.S. agricultural exporters of pending bilateral TAs between the United States and Korea, Colombia, and Panama.

What Did the Study Find?

The effect on U.S. agricultural exports resulting from FTAs that exclude the United States depends mainly on the current structure of trade and tariffs in the FTA market and the extent to which tariffs or other barriers are decreased as a result of the FTA. In markets where tariffs levied on U.S. exports will be significantly higher than those levied on FTA members, and where U.S. exporters compete directly with FTA members, the FTA can result in declining U.S. market share. In some cases, however, these losses can be made up by increases in U.S. exports to other markets.

- Model results suggest that U.S. agricultural exports to the ASEAN region would be moderately affected by tariff cuts negotiated under the ASEAN FTAs with China and with Australia/New Zealand. Demand for U.S. exports of bulk commodities, such as wheat, oilseeds, and cotton, would be sustained because these commodities already face low tariffs in the region.
- Although most-favored-nation applied tariffs for ASEAN countries are low in general, pockets of high tariffs remain. Eliminating these could divert ASEAN country trade with non-FTA members toward the FTA partners.
- Overall, U.S. agricultural exports to the ASEAN region are estimated to fall about $350 million per year as a result of the FTAs, equal to about 6 percent of U.S. exports to this region. Much of the decrease would be in processed products, reflecting competition the United States faces from China, Australia, and New Zealand in the ASEAN market. Some U.S. exports may be diverted to other markets, offsetting some of the decrease in trade with ASEAN countries. As a result, global U.S. agricultural exports are estimated to decline by only 0.1 percent, or about $173 million per year.

Pending bilateral TAs between the United States and Korea, Colombia, and Panama have potential mutual benefits.

- U.S. agriculture will benefit from pending TAs between the United States and Korea, Colombia, and Panama, largely because U.S. exports to these markets currently face significantly higher tariffs than exports from these countries face in the U.S. market.
- Of the three pending U.S. TAs, the U.S.-Korea Trade Agreement (KORUS) would offer the largest gains for U.S. agriculture. Total U.S. agricultural export gains in the Korean market are estimated at over $1.9 billion annually, an increase of about 40 percent. The U.S.-Colombia Trade Promotion Agreement (CTPA) is estimated to generate an increase of 44 percent in U.S. exports, or an additional $370 million per year. Though Panama represents a relatively small market, the U.S.-Panama Trade Promotion Agreement (PTPA) is expected to provide U.S. exporters with opportunities for an additional $46 million in annual sales of rice, corn, meats, dairy, and processed foods.
- Each pending U.S. TA partner would have additional access to the U.S. market for those agricultural commodities that now face U.S. tariff-rate quotas. The U.S. sugar sector would face competition from increased imports of sugar from Colombia and Panama. Ethnic foods, such as biscuits, savory snack foods, ramen noodles, and seaweed products, would account for the bulk of the small increase in additional imports from Korea as a result of KORUS. Other imports from the three countries could be accommodated by the large U.S. market with little effect on domestic prices or production.

How Was the Study Conducted?

The analysis of FTAs in this report uses the most current and comprehensive WTO tariff submissions. Applied tariffs were matched to trade flow values from official country customs data to provide a preliminary assessment of the extent to which the United States would face greater competition from competing exporters in selected markets. Measures of tariff protection estimated for both the United States and its trading partners and for the ASEAN countries and their new FTA partners were based on the actual negotiated reductions in tariffs for each FTA and used to quantify the impacts of each free trade agreement. The study employed a well-known global modeling framework (Global Trade Analysis Project) to assess the impacts on agricultural trade.