

Trade and Welfare Effects of the FTAA

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The FTAA will be introduced into a region that has already achieved substantial trade liberalization through a network of preferential trade relationships. Almost all FTAA members are also pursuing multilateral trade liberalization in the Doha Development Agenda. In this chapter, we analyze agriculture trade liberalization in the FTAA in this regional and multilateral context. First, we take into account the regional trade preferences that already provide low or nonexistent duties on many bilateral trade flows in the region. We find that the FTAA's role in consolidating and completing the regional integration that already has occurred in the Western Hemisphere can lead to significant, additional expansion in the region's agricultural trade. We also consider the relationship between the FTAA, which will focus on market access (tariffs and non-tariff trade barriers), and the more comprehensive multilateral Doha negotiations on agriculture, which are expected to address market access, domestic support and export subsidies. The Western Hemisphere's role as a major net agricultural exporter to the rest of the world gives it an important stake in multilateral agricultural reform, and progress in Doha negotiations on reducing domestic support and export subsidies will facilitate market access reform in the FTAA.

This analysis uses a global, computable general equilibrium (CGE) model to simulate the potential effects of the FTAA.¹ The model is composed of 16 country or regional models, including 9 from the Western Hemisphere, linked through trade. Since we focus on agriculture, the model includes nine primary agriculture sectors and six processed food sectors; the other sectors in the economy are broadly defined as natural resources, manufacturing, and services. The model accounts for preferential agricultural tariff rates in the region, and explicitly models domestic agricultural support in the European Union (EU), Japan, Mexico and Canada in 2001, and the 2002 U.S. Farm Security and Rural Investment (FSRI) Act.

Regional Trade Agreements in the Western Hemisphere

Trade preferences are an important feature of the agricultural trading system in the Western Hemisphere. About 20 preferential trade arrangements already are in effect in the hemisphere, in addition to nearly 40 agreements that provide preferences for specific sectors, and more trade agreements are under negotiation or proposed.² Almost every member of the FTAA is now party to at least one agreement, and the multiple agreements to which most FTAA members are party create a network of overlapping memberships within the Western Hemisphere. One role of the FTAA will be to consolidate and advance the trade liberalization that has already occurred under these regional agreements.

Many types of trade preferences exist in the Western Hemisphere. In *reciprocal trade arrangements*, all parties agree to mutual reduction or elimination of trade barriers, but the level of market integration can vary. In the Western Hemisphere, the most comprehensive reciprocal arrangements are *customs unions*, which now include MERCOSUR, the Central American Common Market (CACM), the Andean Community (former Andean Pact), and the Caribbean Community and Common Market (CARICOM). In a customs union, members reduce or eliminate internal tariffs and agree on common external tariffs. *Free trade areas*, such as the one created by

¹ See appendix 1-1 for a more detailed description of the model.

² A compendium of trade agreements in the Western Hemisphere is maintained at <http://www.sice.org/TRADEE.ASP>.

NAFTA, reduce or eliminate internal tariffs but allow members to maintain separate external tariffs. Free trade areas therefore require detailed rules of origin to prevent the transshipment of imports into the union through the country with the lowest external tariffs. The FTAA will be a free trade area. *Partial scope agreements* are agreements in which trade preferences are given to selected sectors. *Economic complementation agreements* are agreements to increase economic cooperation with the stated objective of realizing free trade.

Nonreciprocal preferences, in which only one party provides trade preferences, are applied extensively in the Western Hemisphere. Among the major programs are the U.S. generalized system of preferences (GSP) and Canada's generalized preferential tariffs (GPT), both of which allow duty-free or preferential treatment for many agricultural imports from developing countries. Generally, neither arrangement allows preferences in the over-quota tariffs of tariff-rate-quota (TRQ) regimes or for safeguards. The GSP and GPT preferences apply to all FTAA members, except NAFTA members and GSP for Bermuda. Some countries party to GSP and GPT also are eligible for other trade preferences. The United States and Canada provide nonreciprocal preferences for many agricultural products from the Caribbean, and the U.S. also provides preferences for imports from the Andean countries.³ Nonreciprocal preferences are concessions, not binding commitments; in some cases they may expire and require reauthorization.

Reciprocal trade agreements that are ratified by their participants provide a greater degree of assurance about the stability of the negotiated tariff preferences.

In the Western Hemisphere, regional trade agreements and preferences largely have succeeded in including agriculture in general in trade liberalization, although sensitive imports are often exempted (table 1-1). NAFTA, for example, will eliminate almost all barriers to agricultural trade among its members by the time it is fully implemented in 2008. Canada's imports of supply managed commodities (dairy, poultry and eggs) and U.S. imports of sugar, dairy, and peanuts from Canada are among the exceptions. In MERCOSUR, almost all agricultural tariffs are to be removed, although Argentina's economic crisis has led to the elimination of regional preferences on many items, including some food products. The U.S.-Chile free trade agreement, signed in 2003, includes all agricultural products.⁴

³ The U.S. Caribbean Economic Recovery Act (CBERA), enacted in 1983, provides preferential or duty-free tariffs to 24 Central American and Caribbean countries. Canada's CARIBCAN program, enacted in 1986, provides duty-free access on many products to the Commonwealth Caribbean countries. The U.S. enacted the Andean Trade Preferences Act (ATPA) in 1991, which provides preferential duty treatment to Bolivia, Columbia, Ecuador and Peru. See chapter in this report on Market Access for a discussion of the commodity composition of U.S. nonreciprocal preferences.

⁴ This U.S.-Chile free trade agreement is not incorporated into the CGE model described in this chapter.

Table 1-1—Average applied agricultural tariff rates in the Western Hemisphere, as calculated for use in CGE model

Importing countries	Exporting countries									
	Andean countries	Argentina	Brazil	Canada	C. Amer. Caribbean	Chile	Mexico	Rest S. America	U.S.	Rest world
Andean countries	0.0	12.9	11.2	10.9	10.4	9.5	10.4	10.4	12.4	11.5
Argentina	7.5	0.0	0.0	5.4	8.5	0.0	4.8	9.0	8.4	7.7
Brazil	25.7	0.0	0.0	7.5	26.6	0.0	0.0	8.6	9.5	21.2
Canada	22.0	20.0	19.0	0.0	14.2	16.4	14.5	20.6	14.3	24.6
C. Amer./Carib.	12.9	12.0	10.5	12.1	0.0	7.2	11.5	12.3	14.6	11.2
Chile	8.0	0.0	0.0	0.0	8.0	0.0	0.0	8.0	8.0	8.0
Mexico	17.3	13.3	0.0	2.5	19.8	0.0	0.0	9.4	0.0	16.2
Rest S. America	5.8	9.8	10.3	4.5	6.3	7.5	1.6	0.0	9.1	7.1
United States	2.7	4.3	4.3	0.0	2.7	4.4	0.0	4.4	0.0	8.5

Note: Tariff aggregation and weights vary by country and are described in the appendix. Tariffs are applied rates, including tariff preferences. Sources: U.S. International Trade Commission, historical U.S. tariff database for 2000, Canada tariff schedule for 2000, Agricultural Market Access Database (AMAD), and GTAP v5, August 2001.

In addition to regional trade agreements among Western Hemisphere partners, many FTAA members have trade agreements with non-hemisphere partners. The United States has free trade agreements with Israel, Jordan, and Singapore, with other negotiations under way or proposed. Mexico has entered into a free trade agreement with the European Union that excludes agricultural commodities receiving EU domestic support, and it has agreements with the European Free Trade Association (EFTA) and Israel. Chile's agreements include one with the EU, and a MERCOSUR-EU negotiation is in progress. Caribbean countries, along with African and Pacific countries, are extended preferences by the EU, and Haiti will receive the EU's "Everything-But-Arms" extended to 48 least developed countries.

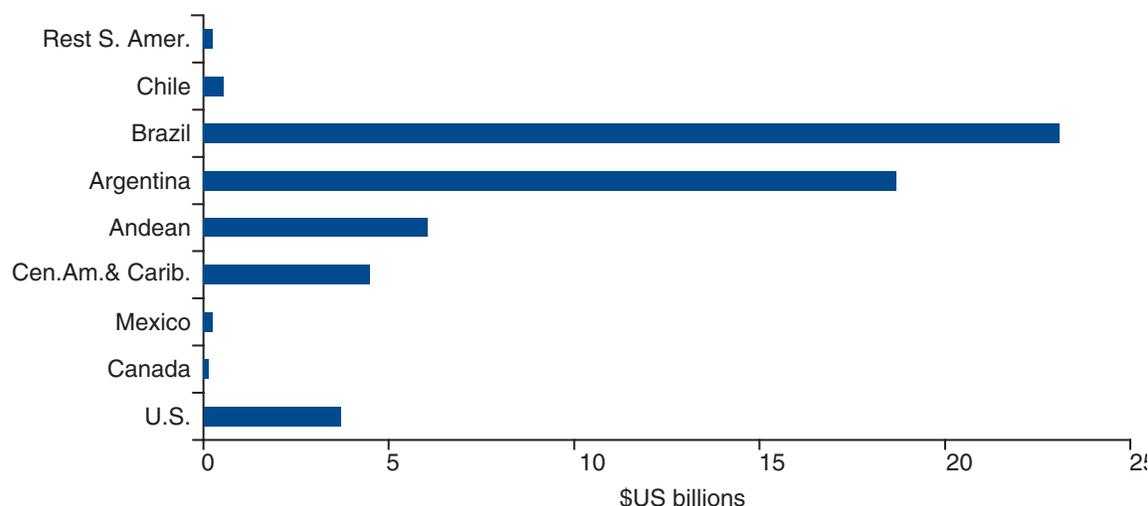
One benefit from moving forward to the FTAA will be the reduction or elimination of the discrimination that these pacts have introduced within the Western Hemisphere. The United States, for example, is not a member of MERCOSUR and faces a competitive disadvantage relative to its members' duty-free trade with each other. Likewise, FTAA countries outside of NAFTA no longer will have to compete against the preferences that the United States, Mexico and Canada give each other. In addition, the FTAA would "lock in" preferences, whereas nonreciprocal arrangements such as the U.S. GSP and ATPA must be periodically re-authorized and can therefore be allowed to lapse.

Welfare Effects of the FTAA

Based on the assumption that all agriculture and manufacturing tariffs will be eliminated, the FTAA will lead to welfare (or purchasing power) gains of \$63 billion for the region, with gains achieved by every member of the trade agreement (fig. 1-1).⁵ U.S. welfare is expected to increase by \$4.1 billion. Welfare gains derive from two sources: resource reallocation and productivity growth. First, tariff elimination removes tariff-based price distortions that influence production and consumption decisions. Countries then can reallocate resources to products for

⁵ Results reflect outcomes after a long-term adjustment (10-15 years) of the world economy. Results are reported in nominal U.S. 2002 dollars. Percent changes are reported relative to the model base year, a representative year in the global economy (1997).

Figure 1-1
FTAA's positive welfare effect on participants' economies



Source: ERS, USDA.

which they hold a comparative advantage, and consumers can follow their spending preferences. The resulting allocative efficiency gains from tariff elimination will account for almost \$4 billion in welfare gains for the region. Every country will achieve these static welfare gains from the FTAA except Chile, which will face a small loss as a result of its export taxes.

Second, the FTAA is expected to generate dynamic gains in the productive capacity of developing countries in the Western Hemisphere. The link between trade openness and accelerated economic growth has been widely observed in developing countries, and attributed to several sources. Productivity gains accrue when the expansion of exports and imports of capital goods between developing and developed members leads to technological spillovers that stimulate total factor productivity (TFP) growth in the developing countries. These spillovers can stem from technological advances embodied in traded goods, “learning by doing,” increased input varieties, or market expansion that leads to increasing returns to scale and/or Smithian economies of “fine specialization” (as opposed to Ricardian differences in factor proportions). All of these can help increase the productive efficiency of land, labor, and capital in all sectors of a developing economy.⁶ Such potential productivity gains will add \$59 billion to the estimated welfare impact of the FTAA on the region, with benefits accruing to every country, including Chile. Welfare gains will be largest in Argentina and Brazil, whose economies will increase in size by about 5 percent and 7 percent, respectively, due to the FTAA, mainly reflecting the large role of trade in manufacturing in these economies. By increasing returns to capital, productivity gains also will help to attract foreign direct investment, an important goal of the FTAA for the Western Hemisphere’s developing countries but a potential impact that is not incorporated in this analysis.

Effects of the FTAA on Western Hemisphere Trade

If all tariffs (agricultural and manufacturing) are eliminated in the FTAA, and productivity gains are realized, annual agricultural trade within the Hemisphere will increase by about \$4.0 billion, or about 6 percent (table 1-2). Agriculture will account for about 20 percent of the expansion in hemispheric trade due to the FTAA, proportionally larger than its current 9-percent share in merchandise trade and a reflection that agricultural tariffs are higher than on manufactures in many

⁶ The link between trade liberalization and factor productivity growth, based on de Melo and Robinson (1991), is one way to approximate the faster economic growth observed in more open economies than in closed economies. Trade-productivity externalities have been incorporated into many recent analyses of trade liberalization (e.g., Hinojosa-Ojeda, Lewis and Robinson, 1995; Diao, Roe and Somwaru, 2001; and Andriamananjara and Hillberry, 2001). However, the conditions that must be in place for productivity growth to be accelerated are likely to include not only tariff reform, but also factors such as institutional reforms that facilitate investment and trade (Rodrick et al., 2002). Productivity gains may also come from an increase in the varieties of intermediate inputs available (Rutherford and Tarr, 2002). In our analysis, we assume a conservative coefficient to describe this relationship, identical for all developing countries in the Hemisphere. Recent empirical evidence on the trade-productivity link suggests this effect could be very large: in a 98-country study, Frankel et al. (1999) estimated that a 1-percentage-point increase in the trade share of GDP increased the contribution of productivity to output by about 2 percentage points.

Table 1-2—Change in annual Western Hemisphere and U.S. trade due to the FTAA (\$US billion)

	Imports from FTAA	Imports from rest of world	Exports to FTAA	Exports to rest of world
Total Western Hemisphere				
Agriculture	3.9	0.2	3.9	-0.6
Manufacturing	16.2	-3.7	16.2	-1.2
United States				
Agriculture	0.9	0.1	1.4	-0.3
Manufacturing	6.1	0.7	6.5	-2.6

Source: Economic Research Service, USDA.

countries and regions, including the United States.⁷ Annual U.S. agricultural exports to the hemisphere will increase by \$1.4 billion (about 6 percent) and imports by about \$900 million (about 3 percent).

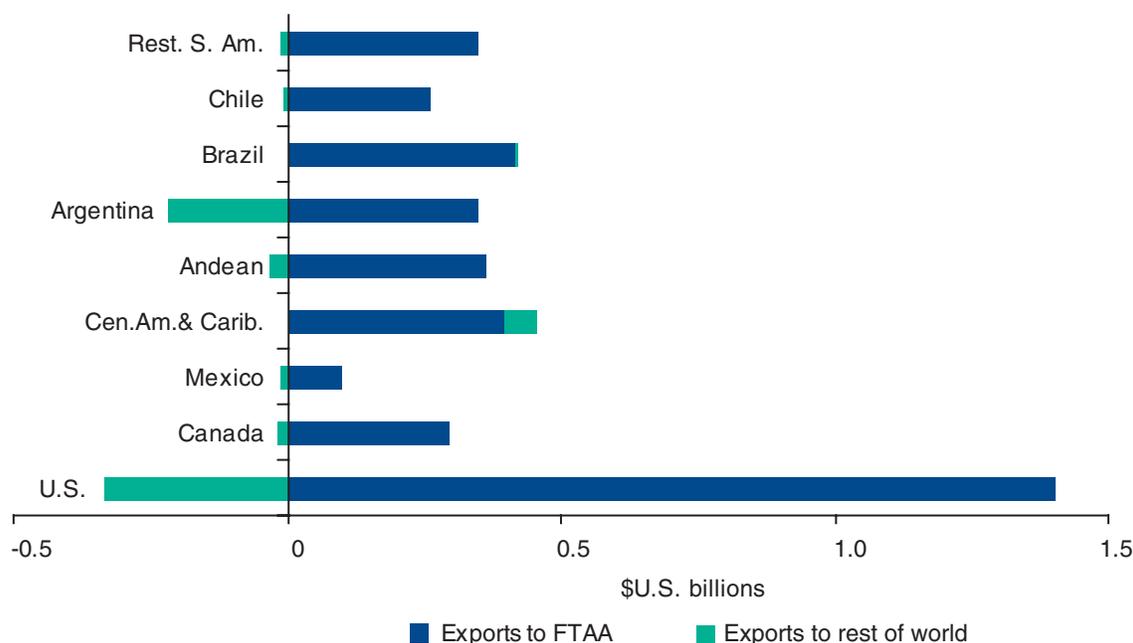
The increase in U.S. trade with the Western Hemisphere will lead to small adjustments in U.S. trade with the rest of the world. Annual U.S. agricultural exports to non-FTAA countries will decline about \$300 million, and U.S. imports from these markets will increase slightly, about \$100 million. On net, the FTAA will increase annual U.S. global agricultural exports and imports by about \$1 billion each.

Figure 1-2 shows changes in FTAA members' global agricultural exports due to the FTAA. All countries will increase their agricultural exports to the region, including Mexico, which will face greater competition in the United States, its main export market, when the preferences it receives under NAFTA are extended to other FTAA members. The Andean region and the Central American/Caribbean region will have among the highest rates of growth in their annual agricultural exports (3 percent and 5 percent, respectively), with most export growth destined for the U.S. market. Despite their nonreciprocal preferences in the U.S. market, these regions face U.S. trade barriers on some agricultural products, particularly processed foods. U.S. tariffs are low or zero on most processed food products, but they remain very high on a small number of products. Comprehensive tariff reform in the FTAA can therefore result in additional agricultural export growth by countries that already benefit from preferences.

The Central American/Caribbean and Andean regions will also have relatively large increases in annual agricultural imports under the FTAA (16 percent and 18 percent, respectively), due to the relatively high tariffs they maintain on imports (fig. 1-3). Whereas most other countries in the

⁷ Tariffs on FTAA members' imports from the Western Hemisphere, by commodity, are found in appendix table 1-1 C.

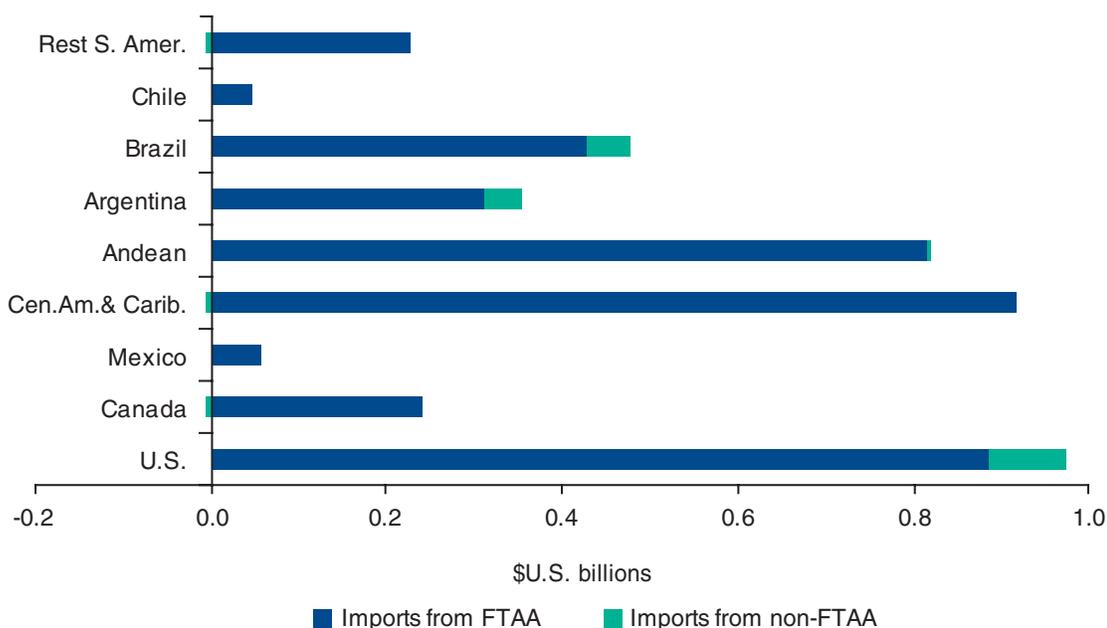
Figure 1-2
FTAA members' global agricultural exports would increase \$3.3 billion



Source: ERS, USDA.

Figure 1-3

FTAA members' global agricultural imports would increase \$4.1 billion



Source: ERS, USDA.

hemisphere have already liberalized their agricultural trade with major partners, these two regions receive nonreciprocal trade preferences from the U.S., their major trade partner in the hemisphere, and from Canada.

The expansion of both agricultural exports and imports in the Central American/Caribbean and Andean regions indicates that their agriculture is likely to undergo significant structural change in response to the FTAA, although on net their aggregate agricultural production will expand. Managing the process of structural change will be important for smaller economies. Their transition to a free trade environment has been a critical issue in the FTAA negotiations. FTAA members have agreed that the trade pact will take into account differences in the levels of development and size of the economies in the Western Hemisphere, in order to create opportunities for the full participation of the smaller economies and to increase their level of development. The U.S. FTAA proposal on market access is intended to facilitate the adjustment of small economies to free regional trade by offering them deeper and faster access to U.S. markets during the FTAA's expected transition period to free trade.

The largest agricultural trade impacts of the FTAA will be in processed foods, for which the Western Hemisphere's annual global exports will increase by about \$1.5 billion, or 3 percent (table 1-3). This export category is a large, heterogeneous sector that includes fruit and vegetable juices, syrups and confections, flour, baked goods, roasted coffee and teas, sugar and sugar products, and orange juice. The Western Hemisphere's annual global exports of dairy products also will have relatively large growth, at about \$330 million, or 33 percent, reflecting the high tariffs that remain on dairy products in the Western Hemisphere. The FTAA's global exports of "other crops"—a category that includes fibers, seeds, flowers, and tropical products such as coffee and bananas—will increase by about \$235 million, or 3 percent. Global annual grain exports, including rice, wheat, and other grains, will increase about \$460 million, or 6 percent. The commodity composition of the region's import growth due to the FTAA is similar to that of its exports, reflecting that most of the trade expansion is in intraregional trade.

Table 1-3—Change in annual, global agricultural imports and exports of FTAA members, by commodity (\$US million)

Commodity	Growth in FTAA members' global exports	Growth in FTAA members' global imports
Rice	179.8	200.7
Wheat	130.5	183.1
Other grains	146.9	191.9
Horticulture	205.0	271.9
Oilseeds	126.1	166.7
Other crops	234.7	325.7
Livestock	45.0	100.9
Meats	172.2	265.4
Oils and fats	261.0	345.4
Dairy products	330.1	350.9
Processed foods	1,532.9	1,694.1
Total	3,364.1	4,096.6

Source: Economic Research Service, USDA.

Canada's largest growth in annual global agricultural exports due to the FTAA will be in wheat (\$110 million); its largest import growth will occur in dairy products (\$210 million). Mexico's largest increases in annual agricultural exports due to the agreement will occur in processed foods (\$45 million) and horticulture (\$16 million); its largest annual import growth will occur in processed foods (\$21 million) and fats and oils (\$30 million). Argentina's largest increases in annual exports due to the FTAA will occur in processed foods (\$90 million) and oilseed and fat products (\$40 million). Brazil's annual exports of processed foods, which include sugar and orange juice, will increase by \$210 million under the agreement.

Effects of the FTAA on U.S. Agriculture

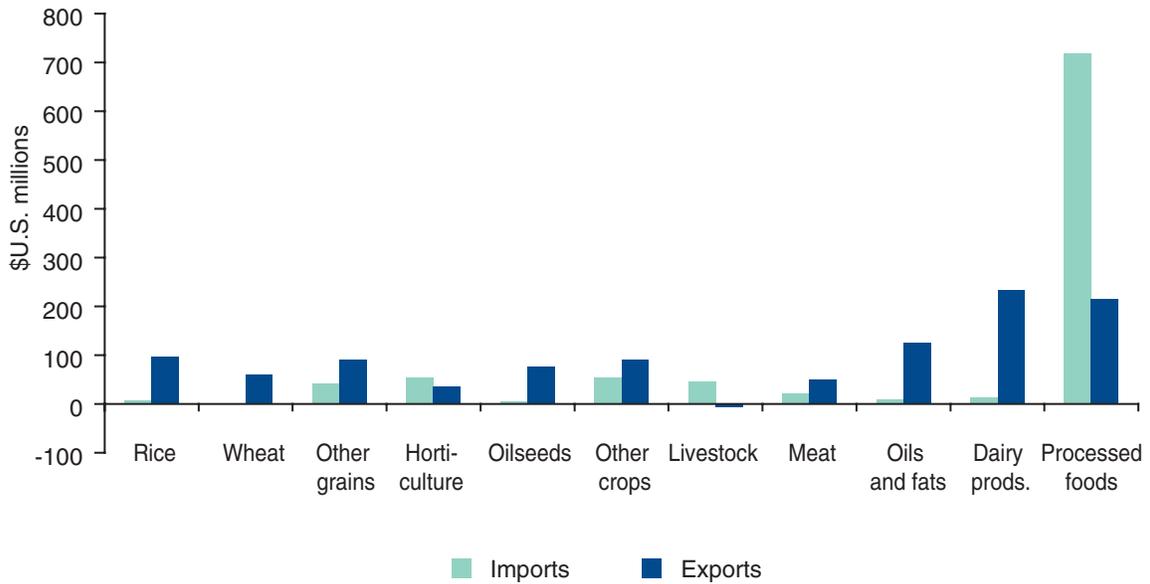
The growth in annual U.S. agricultural exports will be greatest to Central American and Caribbean countries (\$650 million, mostly processed foods) and Andean countries (\$360 million, mostly of grains, and oilseeds and products) (figs. 1-4 and 1-5).⁸ Annual U.S. agricultural exports to Canada will increase by about \$160 million (mostly dairy) in the FTAA. The FTAA will liberalize sensitive sectors that had been exempted by NAFTA, including Canadian dairy. Annual U.S. agricultural exports to Argentina (\$100 million) and Brazil (\$120 million) will be mostly in processed foods.

The Central American and Caribbean region also will account for most of the increase in U.S. agricultural imports due to the FTAA (\$310 million), followed by increased imports from the Andean region of \$170 million annually. Most of the growth in U.S. imports from these two supplying regions will be in processed food products. Although most U.S. tariffs on processed agricultural imports from these countries are already zero, U.S. preferences generally maintain very high tariffs on a small number of commodities related to U.S. farm programs including, for example, chocolate crumb, sweetened cocoa powders, cake mixes and animal feeds made with milk derivatives.

⁸ Data on changes in U.S. agricultural trade by country and commodity are reported in appendix tables 1-1A and 1-1 B.

Figure 1-4

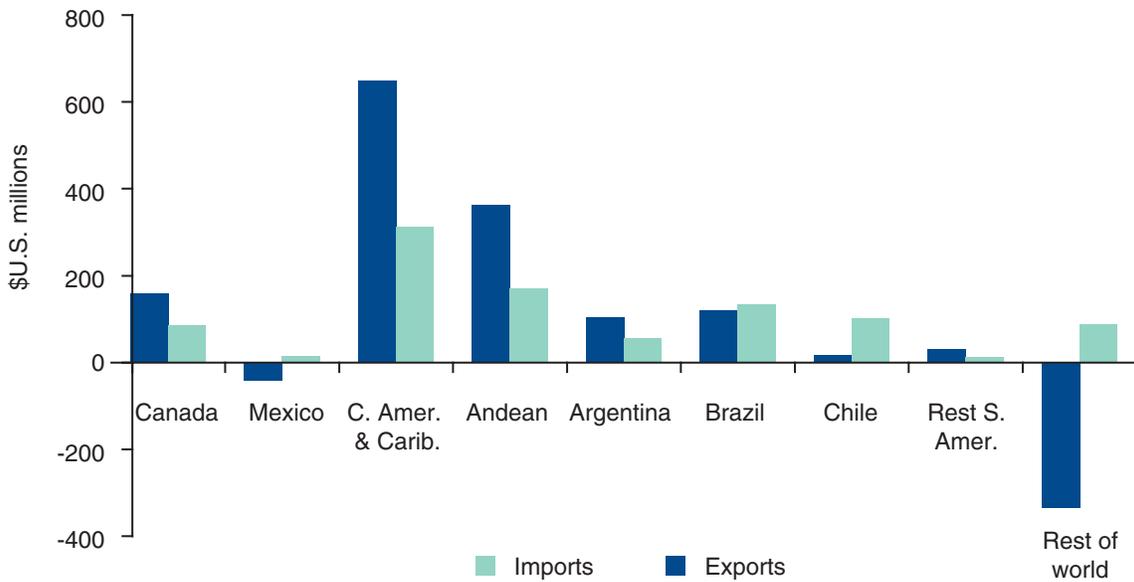
Diverse commodity composition of change in annual U.S. agricultural trade due to FTAA



Source: ERS, USDA.

Figure 1-5

Diverse partners account for change in annual U.S. agricultural trade due to FTAA



Source: ERS, USDA.

U.S. imports from Brazil will increase by about \$130 million annually and from Argentina by about \$60 million annually, with both trade flows composed of a variety of nongrain crops, including sugar and other processed food products. U.S. agricultural imports from Mexico will increase slightly due to the FTAA, by about \$15 million annually.

Because trade with the Western Hemisphere accounts for a small share of U.S. agricultural production, trade expansion due to the FTAA will have only a small effect on U.S. output. Except for rice, real output changes by less than 1 percent in the aggregate sectors described in this analysis, by sector (table 1-4). Increased U.S. exports will lead to a small expansion of output in oilseeds, oils and fats, milk and dairy products.

Inclusion of U.S., Agriculture Maximize Benefits of the FTAA

The participation of the United States in the FTAA will help the Western Hemisphere attain the full potential benefits of the agreement. The large size of the U.S. economy makes it the single most important regional market for the rest of the hemisphere. In agriculture, U.S. participation will account for about one-third of the region's global agricultural export growth due to the FTAA and about one-quarter of the region's global agricultural import growth (table 1-5). For U.S. trade partners, the potential trade opportunities with the United States will support both their efficiency gains based on increased trade and specialization, as well as potential productivity gains linked to the expansion of trade between developing- and developed-country partners. For the United States, participation in the FTAA ensures expansion of both U.S. agricultural exports and imports. Without U.S. participation, U.S. global agricultural exports would decline because of the preferential treatment that will be extended to competing suppliers within the Western Hemisphere through the terms of the agreement. Also, U.S. agricultural import growth, which lowers costs and increases variety for consumers, would be diminished.

Agriculture is often a sensitive sector in free trade agreements because most countries provide domestic support or relatively high trade protection to their agricultural producers, and the effectiveness of these policies would be compromised by freer trade. Reflecting the diverse levels of economic development of FTAA members, their agricultural policies evidence a range of objectives,

Table 1-4—Effects of the FTAA on U.S. agricultural production, by sector

Commodity	Real change in output (%)
Rice	3.2
Wheat	0.0
Other grains	-0.5
Horticulture	0.0
Oilseeds	0.4
Other crops	-0.6
Livestock	-0.4
Milk (raw)	0.1
Meat	-0.3
Oils and fats	0.5
Dairy products	0.1
Processed foods	-0.1

Source: Economic Research Service, USDA.

including farm income support, reducing price or income variability, providing income and employment in rural or low-income areas, and stimulating economic development. While the use of agricultural support and protection create challenges for the inclusion of agriculture in the FTAA, benefits will be greater if agriculture is included in, rather than excluded from, the agreement. Trade liberalization of manufacturing alone would increase FTAA members' demand for manufacturing imports, causing some countries to reduce their agricultural production and trade in order to shift resources into industry. This redistribution of agricultural to

Table 1-5—Change in global, annual agricultural trade due to the FTAA, without U.S. participation and without inclusion of agriculture (\$US billion)

	U.S.		Rest of Western Hemisphere	
	Exports	Imports	Exports	Imports
FTAA including U.S. and agriculture	1.07	0.97	2.30	3.12
FTAA without United States	-0.01	0.06	1.47	1.39
FTAA without agriculture	-0.05	0.12	0.06	0.60

Source: Economic Research Service, USDA.

manufacturing production will lead to a small increase in demand for agricultural imports in these countries. In addition, productivity gains linked to expanded trade in manufacturing sectors will stimulate consumer demand for all products, including food. The effects of the FTAA on agricultural trade in the Western Hemisphere therefore still will be positive but far smaller if agriculture is excluded from trade reform. Including agriculture in the FTAA increases these positive effects through the potential efficiency and welfare benefits linked directly to agricultural trade liberalization.

Doha Development Agenda and the FTAA

FTAA members (except Bermuda) simultaneously are negotiating their regional trade agreement and multilateral policy reforms in the WTO Doha Development Agenda. Globally, the continued proliferation of regional trade agreements indicates that regionalism and multilateralism have become accepted as dual trade strategies for most countries. By May 2003, the WTO had been notified of 184 regional trade agreements (WTO, 2003). Nearly every country in the world is now a member of at least one trade agreement (Crawford and Laird, 2001). Nevertheless, the benefits of a regional versus a multilateral trade strategy is a continuing public policy debate.

Multilateralism will always be a “first best” strategy because it is nondiscriminatory, that is, all countries participate and offer similar tariff treatment to all WTO members. This principle of nondiscrimination forms the foundation of today’s global trade rules. Regionalism, on the other hand, violates this principle by offering preferential tariff treatment to selected trade partners. Opponents of regionalism argue that the creation of trade among a small group of preferred trade partners is achieved at the expense of trade with and investment in nonmembers.

Advocates of regionalism generally emphasize its incremental and more attainable benefits compared with global reform, and its potential role in advancing or strengthening the multilateral process. Regional agreements are more likely to achieve deeper and faster reform among like-minded partners than is possible in the more diverse multilateral negotiations. Advocates also argue that a region’s successful experience in dealing with nontariff barriers following the removal or reduction of regional tariffs can provide experience that strengthens the multilateral process. The newer regional agreements formed in the past decade, particularly those in the Western Hemisphere, have also helped to accelerate economic growth in small economies, by locking in unilateral reforms, stimulating investment and productivity growth, and fostering their links with large and more developed economies (Ethier, 2001). For small, reforming countries especially, regionalism can play a role as a first step in engaging in the global trading system, and it helps give such countries a greater stake in a rules-based global trading system. Trade rules that ensure predictability and fairness in trade relationships, and that offer a credible enforcement mechanism, provide conditions that are favorable for the conduct of business, investment, and the expansion of trade.

As the Western Hemisphere pursues a regional agreement, two factors make multilateral agricultural reform of continued importance for FTAA members. First, FTAA countries are global agricultural traders. They depend on non-FTAA markets, with about 65 percent of their agricultural exports destined for, and 35 percent of their agricultural imports originating from, outside the Western Hemisphere. Non-FTAA markets are especially important for the United States and Brazil, for whom they account for 75 percent to 80 percent of their total agricultural exports. The FTAA region is also a major trade bloc in global agricultural markets. Their agricultural exports outside the Western Hemisphere account for about 45 percent of world agricultural trade, and their imports from the rest of the world account for about 9 percent of that trade.

The Western Hemisphere's position as a large net agricultural exporter gives it a great stake in WTO negotiations that may further liberalize global agricultural markets. Despite the reforms achieved in the Uruguay Round, these markets are still characterized by significant policy distortions (USDA, 2001). Further multilateral reform will impose disciplines on FTAA members and the rest of the world alike. However, in general, the level of distorting policies used by FTAA members is lower than in most other countries and regions. The average, post-Uruguay Round bound agricultural tariff of FTAA countries of about 40 percent is lower than the global average bound rate of 62 percent (Gibson et al., 2001). The average applied rate of FTAA countries is about 13 percent. Domestic support in the FTAA is also relatively low. The 2002 producer support estimates for the three FTAA members of the Organization for Economic Cooperation and Development (OECD) are 18 percent (United States), 20 percent (Canada), and 22 percent (Mexico)—below the aggregate OECD rate of 31 percent (OECD, 2003). Finally, export subsidies by FTAA members are minimal, with the EU accounting for over 90 percent of global expenditure on these subsidies in 1998 (USDA, 2001).

These patterns in agricultural trade flows and agricultural policy distortions suggest that the region will benefit from additional global trade reforms. Any scenario of globalized reform shows the benefits of a multilateral agreement for the Western Hemisphere. For example, if the Doha Development Agenda replicates the limits set in the Uruguay Round, the region's annual agricultural exports outside the Western Hemisphere would increase by 10 percent and its imports by 2 percent. Western Hemisphere agricultural export growth in this scenario for multilateral reform is estimated to account for about 40 percent of the resulting expansion of global agricultural trade.

The multilateral negotiations also have significance for the FTAA because of their more comprehensive agenda for agricultural reform. The Doha Round is negotiating disciplines on market access, domestic support, and export subsidies. While the mandate for the FTAA includes export subsidies in the region and other practices that distort trade in agricultural products, its regional scope means that it is difficult for the FTAA to limit members' domestic support for their agricultural sectors. In addition, the FTAA cannot address the use of export subsidies by non-FTAA countries that affect competition within the Western Hemisphere and in third-party markets.

FTAA members recognize the global character of their agricultural markets and the importance of third-country policies. At the Toronto Trade Ministerial Meeting in 1999, FTAA members agreed to work in the multilateral negotiations toward the global elimination of export subsidies on agricultural products. FTAA members addressed the problem of domestic support at the Quito Trade Ministerial Meetings in November 2002. There, members agreed on the need for significant results in the negotiations on agriculture both in the FTAA and the WTO, and noted that progress in the FTAA's market-access negotiations for agriculture will depend on progress being made on a broader agriculture agenda. This interdependence of the regional and multilateral negotiations increases the Western Hemisphere's stake in the Doha Development Agenda.

Conclusion

As trade becomes increasingly important for both U.S. agricultural producers and consumers, the potential benefits from the U.S. pursuit of a more open and market-oriented global trading system become greater. U.S. producers will benefit directly from their greater access to world markets and indirectly from the economic growth and increased demand for food that trade liberalization can foster. Consumers will benefit because global trade rules help to increase product variety, lower food costs, and ensure the safety and security of food supplies. The U.S. pursuit of regionalism complements its pursuit of multilateralism. The dual pursuits reinforce the same

principles of trade liberalization, with regionalism offering an opportunity to achieve deeper reforms on key issues with some partners. Multilateralism provides the venue for more comprehensive and inclusive, but likely more gradual, trade liberalization, and it can help minimize the potential negative impacts of regionalism.

This analysis focused on market access reforms in the FTAA. Market access is only one element of the FTAA negotiations, which also could address other areas that may affect trade in the hemisphere. Furthermore, trade is analyzed in this paper at relatively aggregate levels. For some individual commodities, complex trade policies and domestic programs will likely influence both the liberalization process and the potential trade flows in the FTAA. For these commodities, the results reported here can be only indicative of broad market trends in a free trade area.

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