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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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CONTENTS

Executive Summary	v
PART I: NAFTA'S IMPACT ON U.S. AGRICULTURE: A BROAD OVERVIEW	1
Developments in Trade Policies, Domestic Agricultural Programs, and Dispute Resolution	1
Introduction	1
The Canada-U.S. Free Trade Agreement	1
The North American Free Trade Agreement	2
NAFTA and Domestic Agricultural Policies	3
Agricultural Trade Disputes in the NAFTA Era	6
Dispute Resolution Mechanisms in NAFTA	7
References	9
NAFTA's Impact on U.S. Agricultural Trade: An Overview	10
Introduction	10
Trends in U.S. NAFTA Trade	10
Evaluating NAFTA's Impact	11
Investment in Agriculture and Food Processing	22
Introduction	22
U.S. Farm and Food-Processing Investment	22
NAFTA and Foreign Direct Investment	23
Recent ERS Research about FDI	25
Conclusion	26
References	26
Employment in U.S. Agriculture and Related Industries	28
Introduction	28
Sectoral Employment Levels	28
Federal Assistance with Trade Adjustment	31
Textiles and Apparel: A Closer Look	35
Conclusion	41
References	41
NAFTA, Agricultural Trade, and the Environment	43
Introduction	43
The Environmental Impact of Trade Liberalization: Theory and Evidence	43
Trade Liberalization and Agriculture: Empirical Evidence	44
The North American Agreement on Environmental Cooperation	45
Environmental Concerns: The Effects of Trade and NAFTA's Rules	47
Conclusion	48
References	48

Modal Choices in the Transportation of U.S.-Mexico Agricultural Trade . . .	51
Delays Accompany Growth in U.S.-Mexico Trade	51
The Improved Efficiency of Mexican Rail Carriers	52
Challenges Facing Intermodal Rail	52
Recent Developments in Maritime Systems	53
Conclusion	54
PART II: DETAILED COMMODITY ASSESSMENT	56
Livestock and Animal Products	56
Cattle	56
Beef	58
Hogs	60
Pork	63
Poultry Meat	64
Dairy	67
Grains, Oilseeds, and Related Products	70
Corn	70
Sorghum	71
Barley	72
Oats	74
Wheat	75
Rice	78
Oilseeds and Oilseed Products	80
Peanuts and Peanut Products	83
Other Field Crops	86
Dry Beans	86
Cotton	87
Sugar and Sweeteners	90
Vegetables	95
Fresh Tomatoes	95
Processed Tomatoes	98
Bell Peppers	100
Fresh-Market Cucumbers	101
Squash	103
Eggplant	104
Snap Beans	105
Fresh and Processed Potatoes	106
Frozen Broccoli and Cauliflower	108
Fruits and Fruit Juices	110
Fresh Citrus	110
Orange Juice	111
Fresh Apples	114
Fresh Pears	117
Fresh Peaches	118
Avocados	120
Grapes	121
Cantaloupe	122
Watermelon	123