

### Implementation of NAFTA Nears Completion U.S. Ag Trade with Canada and Mexico More than Doubled *Jose G. Peña, Professor and Extension Economist-Management*

With the North American Free Trade Agreement (NAFTA) nearing full implementation, agricultural trade with Canada and Mexico has more than doubled since NAFTA took effect in 1994. (Figure 1A). The last of the transitional trade restrictions will be removed, effective January 1, 2008. During the 15-year implementation transition period to eliminate numerous barriers to regional commerce, agricultural trade within the Canada/Mexico/U.S. free-trade area has experienced rapid growth. Canada and Mexico are now the 1<sup>st</sup> and 2<sup>nd</sup> U.S. trading partners, moving ahead of Japan.

Increased U.S. international trade dependence indicates that the suspension of the Doha Round of trade negotiations at the World Trade Organization (WTO) in Geneva last July, after 5 years of negotiations, makes viable regional trade agreements, like NAFTA, substantially more important. The Central American Free Trade Agreement-Dominican Republic (CAFTA-DR) was implemented in 2007. CAFTA-DR will be phased in over the next 20 years and will create new trade opportunities and challenges for U.S. agriculture.

Figure 1A: U.S. Agricultural Trade with NAFTA Countries

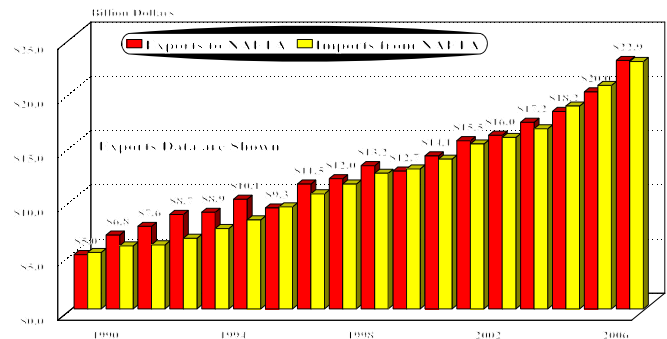


Figure 1B: U.S. Imports And Exports To and From Mexico

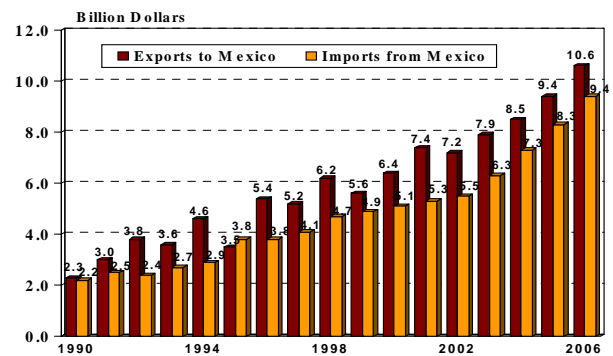
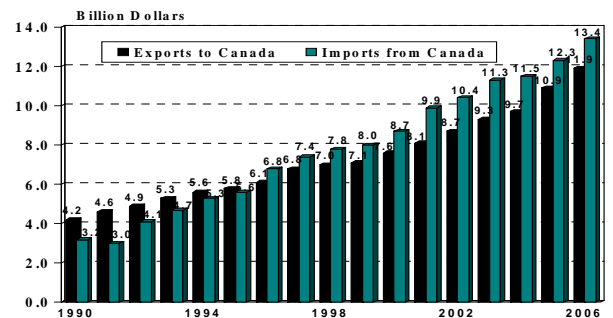


Figure 1C: U.S. Imports And Exports To and From Canada



Source: Foreign Agricultural Trade of the United States, Calendar Year, USDA/ERS

Regional market integration, one of NAFTA's primary objectives, has been a major accomplishment and the process is still ongoing. Almost all agricultural trade within the NAFTA region is free of tariffs and quotas . Numerous restrictions were eliminated immediately upon NAFTA's implementation, while others were phased out over periods of 5 or 10 years.

The region has combined to form a single market, with agricultural imports from NAFTA trading partners increasing nearly 800% since 1980. Canadian and Mexican industries, which rely on U.S. agricultural inputs, have expanded. U.S. feedstuffs have facilitated a marked increase in Mexican meat production and consumption, and the importance of Canadian and Mexican produce to U.S. fruit and vegetable consumption is growing. US agricultural exports to Mexico have tripled to about \$10.6 billion since NAFTA was implemented in 1994 (Figure 1B). Agricultural exports to Canada have more than doubled, reaching \$11.9 billion in 2006 (Figure 1C).

U.S. agricultural imports have also grown, with imports from Mexico more than tripling to \$9.4 billion and imports from Canada doubling to \$13.4 billion in 2006. That same year, the United States had an agricultural trade surplus of \$1.4 billion with Mexico and a trade deficit of \$1.5 billion with Canada.

NAFTA is in its final stage of full implementation with trade restrictions on a handful of agricultural commodities, such as U.S. exports to Mexico of corn, dry edible beans, and nonfat dry milk and Mexican exports to the U.S. of sugar, cucumbers, and sprouting broccoli, scheduled to be removed during early 2008. Similar but not identical restrictions on Canada-Mexico trade also will be removed in 2008.

### **Employment - Consumer Benefits**

Agricultural trade with the NAFTA countries is an important generator of U.S. employment. According to a recent USDA-ERS research report, input-output analysis suggests that U.S. agricultural exports to Canada and Mexico supported about 268,000 jobs throughout the U.S. economy in 2005. In addition, as NAFTA U.S. tariffs have declined, more fresh produce has entered the U.S. market from Mexico and Canada. These new and additional products have reduced consumer food costs, helped keep inflation lower than otherwise and led to higher living standards nationwide.

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