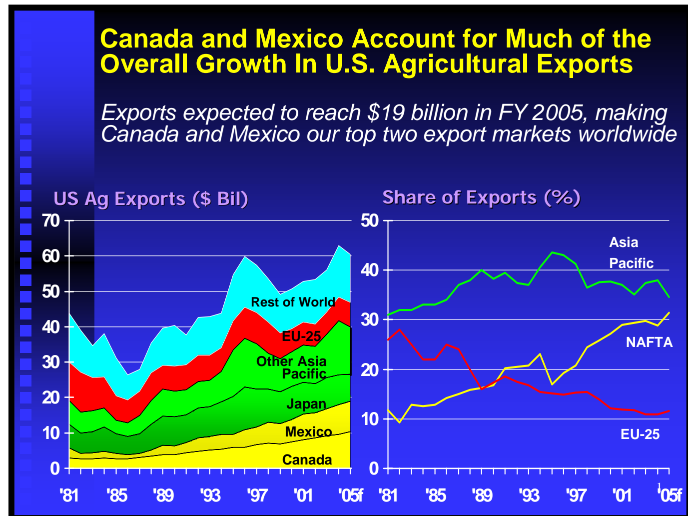
**MYTHS REGARDING THE IMPACT OF NAFTA ON U.S. AGRICULTURAL TRADE**

**MYTH:** NAFTA hasn't helped the United States; it has just led to a big increase in U.S. agricultural imports.

**REALITY:** While this is the perception in some quarters, the empirical evidence is quite the contrary. NAFTA's export benefits have been overwhelmingly positive for U.S. producers while the increase in imports that critics attribute to NAFTA are grossly overstated.




To understand how much NAFTA has benefited U.S. exporters, compare our export performance to Canada and Mexico since 1994 with our performance to the rest of the world. The difference is startling. Between 1994 and 2005, global U.S. agricultural exports have increased from $46.2 billion to a projected $60.5 billion, a total gain of $14.3 billion. During the same period, exports to Canada and Mexico increased from $9.5 billion to a projected level of $19 billion in 2005, a gain of $9.5 billion. This means that our NAFTA partners – Canada and Mexico – now account for 31 percent of overall U.S. agricultural exports and two-thirds of the worldwide increase in U.S. exports since 1994. Of that $9.5 billion increase, $5 billion was to Canada and $4.5 billion to Mexico. As a result, in 2005, they will be our two largest export markets in the world and, along with China, our fastest growing markets since 1994 – by a wide margin.

While a wide variety of U.S. agricultural products have benefited from the agreement, a number stand out as our best performers. To Canada, these include processed grains, grocery products, corn, essential oils, poultry meat, soybeans, and feed ingredients to name but a few. To Mexico, these include beef, corn, soybeans, cotton, beef offals, dried/dehydrated vegetables, feed ingredients, wheat, sorghum, grocery products, pork, and deciduous fruits.

What makes our export performance to Canada and Mexico so exceptional is that it largely occurred during a period when the value of the U.S. dollar was particularly strong against the currencies of the world's major agricultural markets (mid-1995 through mid-2002). This hurt our exports to most of these markets where some improvements in market access for U.S. exporters were not sufficient to overcome our loss of competitiveness due to a strong currency. However, in Canada and Mexico, the trade losses associated with a strong dollar were more than offset by the trade gains associated with significant improvements in market access. Any reductions in the value of the dollar in the years ahead will improve our export prospects to Canada and Mexico even further.

U.S. agricultural imports have also increased from Canada and Mexico, growing from a combined $8.1 billion in 1994 to a projected $19.6 billion in 2005, representing a total gain of $11.5 billion. But Canada and Mexico are not unique. Agricultural imports have increased significantly from the rest of the world as well during this period, growing from $18.5 billion to almost $39 billion, a gain of $20.5 billion. In fact, almost all major foreign suppliers saw sharp gains in their sales to the United States since 1994, with most reaching new record highs. Some of the gains by our NAFTA partners were clearly related to the improvements in market access that the trade agreement offered them. However, since U.S. barriers were already low prior to 1994, most of the gains were related to the strong U.S. economy, which increased overall import demand and, until 2002, the strong dollar, which increased their competitiveness in the U.S. market. In other words, *imports from Canada and Mexico would have grown sharply even if there had been no NAFTA agreement while our exports to those countries grew largely because of NAFTA.*

Of the $11.5 billion increase in total U.S. agricultural imports from NAFTA countries, only half were in products that are competitive or partially competitive with U.S. farm production. Overall agricultural imports from Canada rose $6.5 billion. However, only one-third of this gain was in farm products that are competitive or partially competitive with U.S. farm production. Red meats (beef and pork) and fresh vegetables showed the most significant gains, with imports in 2004 increasing by roughly $2 billion over levels a decade earlier. The remaining two-thirds of the increase was in processed foods and beverages – with snack foods and grocery products contributing the most. Meanwhile, agricultural imports from Mexico have increased by $5 billion since 1994. Farm products that are only partially competitive with U.S. production account for the majority of the growth. Led by winter vegetables and fresh fruit, these imports have increased due to growing U.S. consumer demand for year around supplies of fresh horticultural products when domestic supplies tighten. Imports of processed food and beverages accounted for a sizeable share of overall growth, led by higher wine and beer shipments and, to a lesser degree, snack foods and grocery products.