



Agricultural Trade Balances Under NAFTA

A focus on trade deficits has emerged as an important fixture of the Trump Administration’s trade policy, including its ongoing review of the North American Free Trade Agreement (NAFTA). Merchandise trade deficits (or surpluses) refer to an accounting of the net balance of exports and imports of goods. In agricultural trade, the U.S. Department of Agriculture (USDA) reports that the United States had a trade surplus of \$20.3 billion in 2016 based on total U.S. agricultural exports of \$134.9 billion worldwide compared to imports of \$114.6 billion. This aggregate surplus, however, masks trade deficits for some product categories or within some markets.

The value of U.S. agricultural trade with its NAFTA partners—Canada and Mexico—has increased sharply since NAFTA was implemented. Total U.S. agricultural exports under NAFTA rose from \$8.7 billion in 1992 to \$38.1 billion in 2016. U.S. imports also rose from \$6.5 billion to \$44.5 billion. This resulted in a \$6.4 billion trade deficit for U.S. agricultural products in 2016. In general, the U.S. agriculture trade balance with NAFTA countries has fluctuated, resulting in a surplus in some years and a deficit in others. Further examination reveals that this deficit is concentrated with certain agricultural products and also varies depending on the trading partner country. It also reveals that the U.S. trade deficit for certain products might be attributable to longer-term market changes.

In 2016, U.S. agricultural exports to Canada totaled \$20.2 billion. Leading exports were grains and feed, meat and poultry products, fresh and processed fruits and vegetables, sugar and related products, oilseeds, and nuts. Agricultural imports from Canada were valued at \$21.6 billion, resulting in a U.S. trade deficit of \$1.3 billion in 2016. However, since NAFTA was implemented, the balance of agricultural trade between the United States and Canada has alternated between a trade surplus and a trade deficit (Figure 1). Averaged over the 2012-2016 period, the U.S. agricultural trade deficit with Canada averaged \$0.7 billion per year.

Table 1 highlights that most product categories are marked by annual U.S. trade surpluses, including sugar and related products, fruits and vegetables, nuts, and dairy products. U.S. agricultural trade deficits with Canada are attributed to trade in meat, grains, and oilseeds. In 2016, the U.S.-Canada agricultural trade deficit totaled \$3.6 billion for grains and oilseeds and \$1.6 billion for meat (mostly pork). This trade disparity is largely explained by general market and trade trends between the United States and Canada but also by trade patterns in these products with other global trading partners. This deficit with Canada does not reflect global U.S. grain and meat trade trends, which generally reflect a trade surplus each year.

U.S. agricultural exports to Mexico were valued at \$17.8 billion in 2016. Leading exports were grains, oilseeds,

meat, and dairy products. Imports from Mexico were valued at \$23.0 billion, resulting in a trade deficit of \$5.1 billion in 2016. The balance of agricultural trade between the United States and Mexico has also alternated between a trade surplus and a trade deficit since NAFTA was implemented. From 2012 to 2016, the U.S. trade deficit with Mexico averaged \$1.1 billion per year (Figure 2). The deficit grew sharply beginning in 2015 as certain U.S. agricultural imports from Mexico continued to grow while overall U.S. exports to Mexico receded (Table 1). Prior to 2015, U.S.-Mexico agricultural trade consistently showed a surplus.

Figure 1. U.S.-Canada Agricultural Trade, 1990-2016

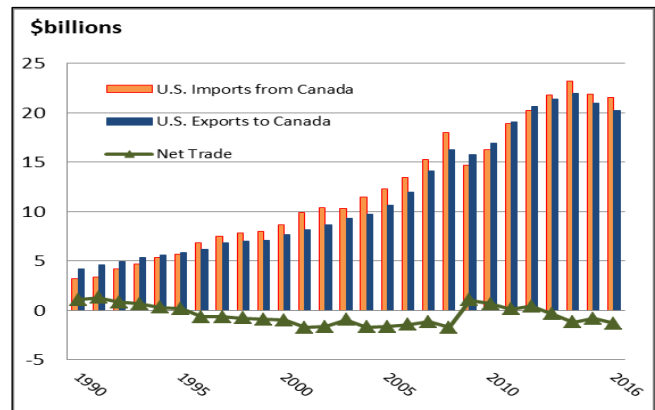
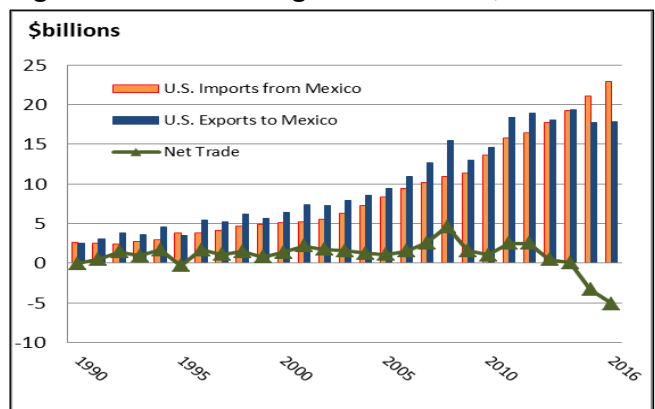


Figure 2. U.S.-Mexico Agricultural Trade, 1990-2016



Source: CRS using USDA data for “Agricultural Products” as defined by USDA. Data are not adjusted for inflation.

Table 1 highlights which product categories have seen the greatest gap in the value of U.S. exports compared to imports from Mexico in recent years. Much of the current U.S. agricultural trade deficit is attributable to sharp increases in U.S. imports of Mexico’s fruits and vegetables. In 2016, the U.S.-Mexico trade deficit totaled \$6 billion for fresh and processed vegetables and \$5.2 billion for fresh and processed fruits (Table 1). Mexico’s increased fruit and vegetables production and export supplies may largely be

explained by its ability to grow certain crops during the U.S. winter season, increased U.S. business investment and market integration in Mexico’s produce sectors, and increased demand for year-round fruits and vegetables by consumers in the United States. This deficit reflects broader global trends in U.S. fruit and vegetable trade. (See CRS Report RL34468, *The U.S. Trade Situation for Fruit and Vegetable Products*.) Growth in Mexico’s produce exports is also attributed to its investment in large-scale greenhouse production facilities, which some claim has been supported by the Mexican government.

Table 1. U.S.-NAFTA Trade Balance, 2012-2016

| Product Group | 2012 | 2013 | 2014 | 2015 | 2016 |
|---------------------------------------|------------|--------------|--------------|--------------|--------------|
| (\$billions) | | | | | |
| U.S.-Canada Agricultural Trade | | | | | |
| Grains, feeds | (1.3) | (1.8) | (1.7) | (1.4) | (1.5) |
| Meat, poultry | (0.7) | (1.0) | (2.1) | (1.7) | (1.6) |
| Dairy products | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Vegetables, prods. | 0.4 | 0.4 | 0.5 | 0.6 | 0.4 |
| Fruits, preps. | 1.6 | 1.7 | 1.7 | 1.5 | 1.5 |
| Sugars, products | 1.3 | 1.2 | 1.3 | 1.2 | 1.3 |
| Oilseeds, prods. | (2.0) | (2.2) | (2.3) | (2.0) | (2.1) |
| Nuts, preps. | 0.6 | 0.7 | 0.8 | 0.8 | 0.7 |
| Beverages, juice | 0.8 | 0.9 | 0.9 | 0.9 | 0.8 |
| Total | 0.4 | (0.4) | (1.2) | (0.8) | (1.3) |
| U.S.-Mexico Agricultural Trade | | | | | |
| Meat, poultry | 2.6 | 3.1 | 3.3 | 2.2 | 2.3 |
| Dairy products | 1.1 | 1.3 | 1.5 | 1.1 | 1.1 |
| Grains, feeds | 4.7 | 3.7 | 3.8 | 3.5 | 3.6 |
| Oilseeds, prods. | 3.2 | 2.8 | 3.2 | 2.8 | 2.8 |
| Sugars, products | (<0.1) | (0.5) | (0.3) | (0.4) | (0.4) |
| Other horticulture | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Vegetables, prods. | (4.2) | (4.8) | (4.9) | (5.1) | (6.0) |
| Fruits, preps. | (2.7) | (3.0) | (3.7) | (4.4) | (5.2) |
| Beverages, juice | (2.1) | (2.2) | (2.7) | (2.9) | (3.4) |
| Total | 2.5 | 0.4 | 0.1 | (3.3) | (5.1) |

Source: CRS using USDA data. Totals do not add as some product groups are excluded. Values in parentheses represent a trade deficit.

A focus on periodic trade imbalances for certain products masks the fact that, overall, NAFTA has contributed to three- to four-fold growth in the value of U.S. agricultural exports within NAFTA since it was implemented (Figure 1, Figure 2). It also masks that trade balances often tend to be highly variable year-to-year—resulting in an overall surplus in some years or in deficits for some products that may be balanced out by surpluses for other products.

Often agricultural trade deficits exist because consumer demand in one country is much greater than in the trading partner country (e.g., U.S. year-round fruit and vegetable demand that cannot be met by seasonal U.S. production). Duty-free access under NAFTA of product imports generally results in lower consumer prices compared to imports without preferential access. Also, opportunities to increase exports may be limited if the target market is already saturated. As shown in Figure 3, the United States

already accounts for 60%-70% of Canada’s imports of grains, oilseeds, and meat products and accounts for about 70% of Mexico’s fruit and vegetable imports (Figure 4).

A trade imbalance does not imply any particular economic cost or benefit for either country. For example, there has been substantial cross-border foreign investment and market integration between the United States and its NAFTA partners (e.g., U.S.-Canada animal finishing operations and U.S.-Mexico produce operations). USDA reports that since NAFTA was implemented, U.S. direct investment in Mexico’s and Canada’s production agriculture has increased. Accordingly, product imports from a country could in part reflect sales from a partnership or U.S.-owned business in the partner country, highlighting diverse potential import benefits for U.S. stakeholders.

Figure 3. Canada’s Agricultural Suppliers, 2016

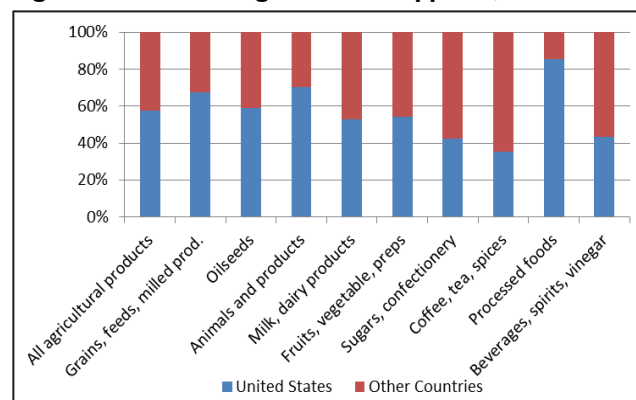
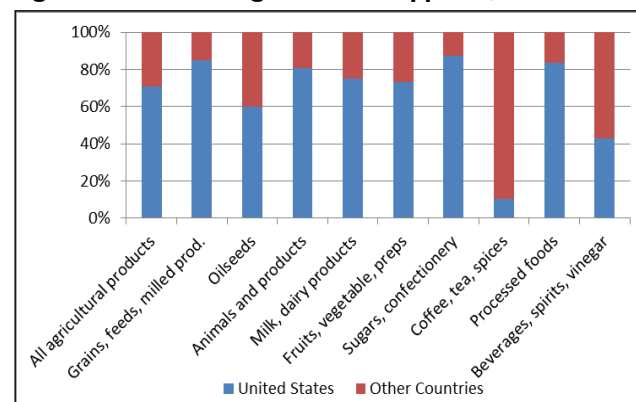


Figure 4. Mexico’s Agricultural Suppliers, 2016



Source: Compiled by CRS using Global Trade Atlas.

Issues raised here focus primarily on the microeconomic factors that affect trade balances for particular products. In general, however, most economists conclude that the trade balances may be influenced by a number of macroeconomic factors. Factors may include differences between countries in savings and investment within the economy, economic growth, and infrastructure and distribution networks, as well as periodic fluctuations in exchange rates and changes in consumer demand. For additional information, see CRS In Focus IF10619, *The U.S. Trade Deficit: An Overview*.

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