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Source: *The Business Times,* p24
Date: 8 June 2017

Mexico is the third biggest importer of American farm products. It is the biggest importer of American corn, dairy products, pork and rice.
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Trump's trade tactics will hurt American agriculture

US Corn Belt economies may nosedive as Mexican farmers are incentivised to produce more even as the country is forced to mull food diversification. BY CECILIA TORTAJADA AND ASIT K BISWAS

THE election of Donald Trump as US president has changed the relations that have existed in recent decades between the United States and Mexico.

Among many of his outrageous claims are that the Mexican government is "forcing their most unwanted people" who are "criminals, drug dealers, rapists, etc, into the United States". He wants to build a "big beautiful wall" on the shared border, paid for by the Mexicans, to stop illegal migration. He plans to renegotiate North American Free Trade Agreement (Nafta) which contributed a US trade deficit with Mexico in goods of US$63.2 billion last year. He has also suggested a border adjustment tax which will make Mexican imports more expensive.

Overall, Nafta has been beneficial to Mexico, Canada and the US. Since Nafta was signed in 1994, foreign direct investments (FDI) in Mexico have averaged 2.6 per cent of gross domestic product compared to one per cent two decades before Nafta. Today, annual bilateral trade between the two countries is running at US$580 billion.

Mr Trump's anti-Mexican rhetoric did initially affect Mexico. The Mexican peso nosedived following his election last November. It has now almost recovered. FDI in Mexico last year fell by 6 per cent, and is estimated by some to drop as much as 21 per cent this year. Moody's Analytics estimated that some US$4.5 billion of investments have been on hold in Mexico since Mr Trump's election.

Mr Trump seems to fight an age-old battle with Mexico without good understanding of the situation and with an outdated protectionist strategy. Much of it hinges on manufacturing activities and offshoring of manufacturing jobs to Mexico.

One area that has not entered his calculations is agriculture. Globalisation may have contributed to manufacturing job losses in the US but it has significantly benefited its agricultural sector.

US exports of agricultural products to Mexico have increased nearly fivefold since Nafta was signed. Mexico is the third biggest importer of American farm products. It is the biggest importer of American corn, dairy products, pork and rice; the No 2 buyer of soya beans and wheat; and No 3 for beef and upland cotton. According to US Department of Agriculture, Mexico is expected to import 4 per cent of US corn in 2016-17. It buys 7.8 per cent of US pork production.

For the 2014-15 crop marketing year, US corn production was 360 million tonnes, 13 per cent of which was exported. Mexico accounted for 23 per cent of this export.

In 2016, Mexico imported US$17.9 billion of American agricultural products – US$2.6 billion for corn, US$1.5 billion for soya beans, US$1.3 billion for pork and US$1.2 billion of dairy products. Mexico imports 98 per cent of its corn from USA.

Lulled by a steady supply of farm products from US, low transportation costs and an implicit assumption that good times will continue, Mexico did not diversify its agricultural imports to ensure its long-term food security.

The breadbaskets of the world are US, Brazil, Australia, Russia, Argentina and Ukraine. US is the world's top exporter of agricultural products. However, as the US rivals are rapidly adopting modern farming and agricultural technologies and improving their transport and farm products handling infrastructure, America's global export share has been steadily declining in recent years.

POLICY UNCERTAINTIES

Some past events have contributed to accelerate this decline. In 1979, US banned grain sales to the then Soviet Union because of Afghanistan invasion. This forced USSR to improve its own food production. Brazil and Argentina rapidly accelerated their grain production to grab market share from America.

In 2016, Russia – a significant global wheat importer of the past – surpassed US for the first time in 2016 as an exporter.

American policy uncertainties in terms of Nafta and potential disruptions have now compelled Mexico to consider food diversification on an urgent basis.

As America threatens to close its agricultural export, Brazil and Argentina are now trying to open a new market.

Mexico already has free trade agreements (FTAs) with 45 countries, the highest in the world, but not with Brazil and Argentina. Brazil's Agriculture Minister Blairo Maggi has said that the country is "back in the game". FTAs between Mexico, Brazil and Argentina have become a priority issue for all the three countries because of economic self-interests. Mexico is also discussing bilateral deals with Australia and New Zealand as well. Former president Ernesto Zedillo said that it is "waste of time" to play "Nafta tweaking games with the Trump administration".

Agricultural trading companies such as Adecoagro, in which the family of George Soros own 9.5 per cent of the shares, are exploring new export opportunities to Mexico. Adecoagro, based in Buenos Aires but listed in New York, manages 434,000 ha of farmland in Brazil, Argentina and Uruguay, and harvests some two million tonnes of agricultural products every year. It exports to Africa, Asia and Middle East but not to Mexico.

Mr Trump's vituperations may prove to be beneficial to Mexico over the long term. It is incentivising farmers to produce more, modernise agriculture, increase crop yields, expand cultivable areas and improve transportation and storage infrastructure. The latest upheavals are forcing Mexico to take a realistic hard look at itself. These will be beneficial to Mexico but will be detrimental to the US over the long term. An important benefit of the Trump diatribes has been that it has united the Mexicans, from the far left to the far right like never before.

Nafta talks will start later this year. Meanwhile, the approval rating of Mexican president Enrique Peña Nieto is close to single digit. If the economy performs anaemically (Mexican financial institution Bancomer predicts economic growth this year of a paltry one per cent), Mr Peña Nieto is unlikely to go for a hard sell of Nafta if it does not look appealing to the Mexicans. Thus, Mexico is likely to play hardball with the US. They have more options than they initially realised.

There are too many moving parts in Nafta negotiations. Most states in the US Corn Belt voted for Mr Trump. If their economies nosedive, they may become restless. Should US decide to "punish" Mexico, the market is likely to sell off Mexican peso aggressively. This may make Mexican products cheaper even with border tax tariffs.

When the Trumpcare bill was being discussed, Mr Trump said that "nobody knew that health care could be so complicated". He may be forced to express similar sentiments on negotiating Trumptrade with Mexico.

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