

LATIN AMERICAN AGRICULTURE IN A WORLD OF TRADE AGREEMENTS

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Latin American and Caribbean (LAC) countries are members of 29 distinct free trade agreements with other Latin American partners, and 44 such agreements exist between an LAC country and other countries. Among the LAC countries linked by an Free Trade Agreement (FTA), a large percentage of trade is already duty free though many trade barriers in agriculture persist. There is a significant difference in the trade patterns among the LAC countries. The Southern Cone countries, for example, have extensive agricultural exports to Asia and to the European Union (EU), and have few FTAs with regional countries. By contrast, countries in Central America and the Andean region have extensive trade agreements with each other, and have fewer exports outside the region. Meanwhile, other regions are negotiating ambitious mega-agreements, particularly the Trans Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (T-TIP). These could have significant impacts on the region, including trade diversion and preference erosion in major import markets. Several possible avenues exist for Latin American countries to accomplish the following: counter the impact of a TPP and T-TIP on agricultural exports; strengthen existing bilateral trade agreements within the region; link existing multi-country agreements such as Mercado Común del Sur (MERCOSUR) and the Pacific Alliance to North American Free Trade Agreement (NAFTA); consolidate the current trade agreements with the EU; or “sign on” to the TPP. This last option would be more attractive if China were to become a TPP participant. If China is not interested in joining the TPP, then for some countries a direct FTA with China could be contemplated.

Key words: Agricultural trade, trade policy, FTAs, Latin America, mega-regionals, TPP, T-TIP, preference erosion, competition for agricultural markets, FTAA.

JEL codes: F1, F5, F6.

This paper explores some possible impacts on Latin American agricultural trade of the many bilateral, regional, and supra-regional trade agreements (referred to here as Free Trade Agreements, or FTAs) that are either underway or being negotiated in all parts of the world.¹ These include the trade agreements within the Latin American and

Caribbean (LAC) region, where trade flows have been affected by multiple FTAs. The LAC countries have also been among the most active participants in the negotiation of trade agreements outside the region.² Progress in the direction of further integration in the LAC seems to have stalled, however, with continued tensions in Mercado Común del Sur (MERCOSUR), political difficulties in the Andean Community, and a halt in the proposed Free Trade Areas of the Americas (FTAA) negotiations.³

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¹ Another term for these types of agreements is “preferential trade agreements,” but in almost all cases they are free-trade agreements that reduce or eliminate tariffs on bilateral trade

flows on a reciprocal basis. Customs unions are free trade areas, with the addition of common external tariff levels.

² The countries of Latin America and the Caribbean region are members of 73 of the 259 FTAs notified to the World Trade Organization (WTO), with 29 of these agreements including Latin American partners, and the remaining 44 being between an LAC member country and other countries. For a more comprehensive discussion of the spread of FTAs, see Acharya et al. (2011).

³ A more positive development is the agreement among four countries on the Pacific coast—Chile, Peru, Colombia, and

Meanwhile, other countries are moving ahead rapidly with ambitious mega-agreements, particularly the Trans Pacific Partnership (TPP) among twelve countries of the Pacific Rim and the Trans-Atlantic Trade and Investment Partnership (T-TIP) between the U.S. and the EU.⁴ The only LAC countries actively involved in the TPP talks are the three Latin American Asia-Pacific Economic Cooperation (APEC) members: Mexico, Chile, and Peru. The creation of these mega-agreements would have significant impact on the LAC region, in agricultural as well as other sectors. These impacts include the prospect of trade diversion and preference erosion in major agricultural import markets, as competitors improve market access. In the area of non-tariff border measures, the implications for Latin American agriculture could also be significant, if it led to the de facto harmonization of regulatory measures.

The impacts of the TPP and T-TIP on Latin American agriculture and Latin American interest in and strategies toward these potentially significant agreements have so far gone largely unstudied. This paper attempts to contribute to emerging analysis of the economic impact of the mega-agreements by focusing on markets where Latin American agricultural exports stand to gain or lose, and how they might respond to these developments.⁵ These markets include Japan, Canada, the United States, and the EU. Changing conditions of access and competition in these markets will be an important consideration in the development of trade policy in the LAC region.

Several *ex ante* assessments have been made of the economic impacts of the TPP and T-TIP using partial equilibrium models, computable general equilibrium models, and gravity models (Francois et al. 2013; Thorstensen and Ferraz 2014; EU 2013; Burfisher et al. 2014; and Muhammad and

Jones 2013). Besides suggesting the impact on participating countries, these models also provide some indication of impacts on third countries. The third country impact is usually indicated by including a “rest of world” grouping of countries not included in the trade agreement.

This paper does not attempt to duplicate or extend such models. The approach is rather to complement those results with a more focused look at agricultural trade conditions for individual LAC countries in light of the plethora of FTAs. This involves examining the present stage of integration in agricultural trade in the region, the trade orientation of countries as related to the existence of FTAs, and the changing nature of competition in the major markets for LAC agricultural exports. This leads to a consideration of the range of trade policy options that countries could choose, and an indication of how such strategies might influence the exports of agricultural products of interest to the region.

The decision to enter into FTA negotiations either within or outside the region is a political one, based only in part on economic costs and benefits. Agricultural interests are important if not paramount for most of the countries. Within agriculture, producers of imported and exported commodities will have different economic incentives, and these will be reflected in political decisions. Accordingly, this paper does not attempt to recommend any particular strategy for any country in the region. Nevertheless, it is important to clarify some of the emerging issues in agricultural trade faced by governments in the region as they respond to a rapidly changing world of trading blocs.

The State of Trade Liberalization in the LAC Region

Free Trade Agreements in the LAC region have a long history; the original 1960 Latin American Free Trade Association (LAFTA) included Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay. Colombia and Ecuador joined in 1961, followed by Bolivia and Venezuela in 1970. The Andean Pact, including Chile, Colombia, Bolivia, Ecuador, and Peru, was created in 1969 as a reaction to the view that the greatest benefits of the LAFTA had gone to the largest

Mexico—to consolidate their existing FTAs into a Pacific Alliance (Alianza del Pacífico; ICTSD 2014).

⁴ A third mega-regional is the Regional Comprehensive Economic Partnership (RCEP) now under negotiation between Association of Southeast Asian Nations and the countries with which they have negotiated bilateral trade agreements (China, Australia, New Zealand, Japan, Korea, and India). The 5th RCEP negotiating round was held in June 2014. The implications of this agreement for Latin America are not discussed in this article, and in any case would likely be relatively small.

⁵ This agreement has not yet been notified to the WTO. Costa Rica will join next year, and Panama and Guatemala could follow “soon.”

countries, that is, Brazil, Argentina, and Mexico. Venezuela joined the Andean Pact in 1973. In 1980 the LAFTA was transformed into the Latin American Integration Association (ALADI) with 13 members, in the process adding Panama and Cuba to the list. Over the next decade, a bevy of bilateral (mainly partial scope) FTAs were negotiated under the auspices of ALADI. In addition, the Andean Pact countries deepened their own links and are now integrated under the Andean Community (CAN).

In 1991, the MERCOSUR agreement was signed, bringing closer trade ties between the four southern cone countries of Brazil, Argentina, Uruguay, and Paraguay. Chile, Colombia, Ecuador, Guyana, Peru, and Suriname have each become Associate Members of MERCOSUR; Venezuela joined as a full member in 2012 and Bolivia is in the process of accession. MERCOSUR has not achieved the unity in trade policy that was originally envisaged, and has suffered from internal tensions (including the imposition of taxes on trade) among its members (Acharya et al. 2011).

The integration of the Central American markets started in 1958 when five Central American countries formed the Central American Common Market (CACM). Internal political problems then disrupted the CACM, which was suspended in the 1980s. In 1993, a free trade zone was created and tariffs were again reduced within the region. A broader political organization, the Central American Integration System (SICA), was established in the same year, with Belize joining in 2000, and the Dominican Republic in 2013. The Caribbean road to integration started in the late 1950s, and has culminated in the Caribbean Community (CARICOM) Single Market and Economy (CSME). The Dominican Republic joined CARICOM countries in the Caribbean Forum (Cariforum) and entered into the Cariforum Economic Partnership Agreement (EPA) with the European Union (EU) in 2008.

At their December 1994 Summit of the Americas, the leaders of 34 Western Hemisphere countries pledged to negotiate a Free Trade Area of the Americas (FTAA) by the year 2005. Formal negotiations began in April 1998 and, after several years of contentious talks, were eventually suspended in early 2004. Since the FTAA talks were abandoned, the 34 countries

have enacted an additional 23 intra-regional FTAs. Among Latin American countries, Panama, with seven new agreements, has led the way, followed by Chile (6), Peru (5), Guatemala (5), and Honduras (5). Within the broader region, the United States has concluded and implemented agreements with nine Latin American countries since 2004 (six within Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), along with Peru, Colombia, and Panama) (Acharya et al. 2011).

The Current State of Agricultural Trade Liberalization in LAC

With such a broad history of free trade agreements, one might conclude that all the countries of the region have a network of trading relations with each other. A look at the pattern of FTAs that blanket the LAC region, shown in figure 1, shows a somewhat different story. Though all the countries of the region participate in at least one FTA, there are significant differences. For example, in the ten-country sub-region encompassing Central America, the Dominican Republic, Chile, Colombia, and Peru, almost all have already implemented or are in the process of negotiating an FTA with the others in the group. Trade integration among these countries is at least “on the books.” Most of these ten countries also have an FTA with the three NAFTA countries, implying a potential integration with the agricultural markets of North America. By contrast, Ecuador and the six MERCOSUR countries (including Bolivia) have not been a part of the wave of bilateral and regional trade liberalization that has swept the region. Neither has there been any FTAs concluded between these countries and the NAFTA countries. With the exception of the membership of Venezuela and Bolivia in both the Andean Community and MERCOSUR, a Uruguay-Mexico FTA from 2004, an FTA between Mexico and Bolivia, and the agreement between MERCOSUR and Chile (not yet reported to the WTO), there are no current trade agreements between the Southern Cone countries and any of the other countries in the region. This distinction is particularly significant in terms of agricultural trade patterns, as shown below, and has implications for the trade policy options of the countries in the region.

	ARG	BRA	PRY	URY	VEN	BOL	ECU	COL	PER	CHL	PAN	DOM	CRI	SLV	GTM	HON	NIC	MEX	USA	CAN					
Argentina	MERCOSUR 2006 ¹																								
Brazil																									
Paraguay																									
Uruguay																						2013			
Venezuela																									
Bolivia																									
Ecuador																									
Colombia							Andean Community 1995																		
Peru										2012					2029	2029	2029		2020	2030	2032				
Chile										2012	2016				2014	2017	2029	2017	2013	2006	2016	2014			
Panama										2029					2026	2013	2013	2026	2013		2031	2031			
Dominican Rep														Dom Rep - Cen Am 2021							2025				
Costa Rica										2027	2014	2026	Dom Rep - Cen Am 2021	CAFTA - DR 2025 Central American Common Market 1965				Mex Cen Am 2021	2025	2016					
El Salvador									2029		2017	2013							2025	2016					
Guatemala									2029		2029	2013							2025	2016					
Honduras									2029		2017	2026							2025	2016					
Nicaragua											2013	2013							2025	2016					
Mexico				2013					2020	2023	2006														
United States									2030	2025	2016	2031	2025	2025	2025	2025	2025	2025		NAFTA 2008					
Canada									2032	2025	2014	2031	2016												

Source: WTO RTA Database (<http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>)

-- Years indicate date agreement was, or will be, fully implemented

-- Thatched cells represent bilateral agreements that have been early notified to the WTO, but have yet to enter into force.

-- Dotted cells represent bilateral agreements listed on the Organization of American States (OAS) website as having entered into force, but not yet notified to the WTO.

-- Not shown: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago are members of the Caribbean Community and Common Market (CARICOM).

CARICOM was implemented between 1973-1985 with the objective to create a single unified open market area with a common external tariff.

-- Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela are members of the Latin American Integration Association (LAIA, 1981), a partial scope agreement that provides limited tariff preferences between members.

¹The MERCOSUR website indicates that Venezuela and Bolivia were accepted as members in 2006 and 2012. Bolivia is still in the process of acceding. Neither has notified the WTO of these actions.

Figure 1. List of FTAs between selected Western Hemisphere countries

The Treatment of Agriculture in LAC FTAs

Have these FTAs moved the region towards an integrated market for agricultural products? Part of the answer lies in the extent to which agricultural trade within the region is already duty free, and how many of the existing tariffs will be eventually cut to zero under previously negotiated FTAs. The extent to which countries in the western hemisphere have extended agricultural tariff concessions to their partners in existing intra-regional FTAs is shown in table 1.⁶ The bilateral preferential trade partners in the table are ordered by the extent to which agricultural tariff lines have been excluded from reductions in their respective FTAs (column 5). Peru, Mexico, Panama, and the Central American countries have negotiated multiple trade agreements with a significant portion of agricultural tariff lines (above 10%)

being excluded from cuts. Chile, along with Canada and the United States, has excluded many fewer agricultural tariffs. Chile and the United States have been able to negotiate fewer exceptions to tariff cuts for their own agricultural exports within the FTAs, even in their agreements with Peru. Among the limited number of agreements that reduce all agricultural tariffs to zero are those between Chile and Colombia, and between Chile and Peru. This is also true of the agreement between Chile and the United States, though U.S. tariffs on 14% of agricultural tariff lines are only partially eliminated (column 4).

Some countries tend to be fairly consistent across their FTAs regarding which politically sensitive agricultural products to exclude from cuts (table 2). The United States tends to exclude sugar and sugar-containing products, reflecting the political clout of the domestic sugar sector; Canada excludes poultry and dairy products so as to protect the supply control policies for these products. The Central American countries tend to exclude rice, beans, and coffee, as well as some fruits and vegetables from their

⁶ Market access is also conditioned by non-tariff measures, including sanitary and phytosanitary import regulations. This issue is not specifically treated in this article.

Table 1. Treatment of Agricultural Tariffs in Latin American Country FTAs

FTA Partners (Importer-Exporter)	Most Favored Nation duty free in base year of FTA	Reduced to zero	Partially reduced	Excluded from reduction
	Percentage of agricultural tariffs			
Peru – Mexico	6	70	1	22
Mexico – Peru	11	68	0	20
Panama – Peru	21	60	0	19
Panama – Chile	22	60	0	18
Central America – Chile	23	56	4	17
Chile – Central America	0	84	2	14
Peru – Panama	32	54	0	14
Mexico – Colombia	10	56	22	13
Colombia – Mexico	0	61	27	12
Central America – Panama	18	70	0	12
Central America – Mexico	13	75	1	11
Colombia – Canada	0	89	1	10
Mexico – Central America	6	83	1	10
Canada – Panama	43	47	0	10
Chile – Canada	0	93	0	7
Canada – Colombia	42	50	0	8
Panama – Canada	22	70	0	8
Panama – Central America	19	71	3	8
Canada – Peru	42	50	0	8
Canada – Chile	42	51	0	7
Peru – Canada	30	63	0	7
Chile – Mexico	0	91	4	6
Mexico – Chile	22	74	1	3
U.S. – Peru	20	77	0	3
U.S. – CAFTA-DR	21	76	0	3
U.S. – Colombia	21	76	0	3
U.S. – Panama	21	76	0	2
Chile – Panama	0	99	0	1
Panama – U.S.	19	81	0	0
U.S. – Chile	22	65	14	0
CAFTA-DR – U.S.	18	82	0	0
Chile – Colombia	0	100	0	0
Chile – Peru	0	100	0	0
Chile – U.S.	0	100	0	0
Colombia – Chile	0	100	0	0
Colombia – U.S.	0	100	0	0
Peru – Chile	0	100	0	0
Peru – U.S.	36	64	0	0

Source: WTO RTA Database (<http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>), authors' calculations.

three FTAs. Panama excludes meats, dairy, and sugar from its FTA with Peru and Chile, as well as with Canada.

However, in many other cases the list of exemptions differs by partner country, suggesting that something other than protecting domestic producers is at stake. Mexico excludes a wide range of agricultural products from liberalization in its FTA with Colombia, including meats, dairy products, sugar, and cotton, but excludes no agricultural products from its tariff-cutting list in the FTA with Chile. Colombia excludes sugar from its tariff reductions in its FTAs

with Mexico and Canada, but not in its FTA with Chile. Peru also excludes similar products from its own tariff liberalization in its FTAs with Mexico and Panama, though not with Chile. Chile excludes a wide range of products from Central America including meats, dairy products, corn, rice, sugar, and beer, though its FTAs with Colombia and Peru contain no such exemptions.⁷ This is

⁷ Chilean tariffs are low, so the exclusion of tariff reductions may not be as protectionist as it would be in other countries.

Table 2. List of Products Partially or Fully Excluded from Tariff Cuts

FTA Partners (Importer-Exporter)	Sensitive products (tariffs partially reduced)	Highly sensitive products (tariffs excluded from cuts)
Canada – Chile	poultry, lard	poultry, dairy, butter substitutes, mixes and doughs
Canada – Colombia		poultry, dairy, butter substitutes, mixes and doughs, sugar
Canada – Panama		poultry, dairy, sugar, mixes and doughs, ethyl alcohol, cigarettes
Canada – Peru	poultry, lard	poultry, dairy, butter substitutes, sugar, mixes and doughs, malt extract, feed and feed supplements
Central America – Chile	pasta, baked goods, pet food	meats, dairy, tomatoes, corn, beans, potatoes, citrus, rice, vegetable oils, prepared foods
Central America – Mexico	corn, beer	pork, poultry, offals, onions, beans, bananas, pineapples, avocados, coffee, rice, sugar
Central America – Panama	poultry, sesame oil, tomato sauce/ketchup	poultry, potatoes, onions, coffee, rice, vegetable oils, sugar
Chile – Canada		poultry, dairy
Chile – Central America	poultry, pasta, baked goods, prepared or preserved pineapples and peaches, tomato juice, pet food	meats, dairy, potatoes, tomatoes, onions, peppers, citrus, corn, rice, flours, starches, vegetable oils, sugar, chocolate, confectionary, processed foods, fruit juices, tomato products, beer, liquors, hides and skins
Chile – Mexico	dried legumes, grapes, barley, malt, veg. oils, tobacco products	dairy, wheat, corn, veg. oils, sugar, tobacco products
Chile – Panama		sugar, durum wheat
Colombia – Canada	corn, rice	poultry, dairy, margarine, sugar, wines, liquors and liqueurs
Colombia – Mexico	meats, dairy, vegetables, bananas, melons, coffee, grains, oilseeds and products, flours, animal fats, sweeteners, processed fruits and vegetables, tobacco products, cotton	dried legumes, grapes, barley, flours, starch, vegetable oils, sugar, confectionary, chocolate, baked goods, tobacco products
Mexico – Central America	sunflower seed oil, beer	pork, poultry, dairy, tomatoes, beans, citrus, rice, sugar
Mexico – Chile	dried milk, cheese and curd, barley, flour, malt, veg. oils	
Mexico – Colombia	meats, dairy, vegetables, bananas, melons, coffee, corn, rice, flour, starch, animal fats, veg. oils, sugar, pasta, baked goods, prepared or preserved fruits and veg., oilmeals, pet food, cotton	meats, dairy, grapes, flours, starch, soybeans, copra, vegetable oils, sugar, fruit juices, oilmeals, tobacco products, cotton
Mexico – Peru	potatoes, papaya, ethyl alcohol	meats, dairy, peas, beans, fruits, nuts, prepared foods
Panama – Canada		poultry, dairy, potatoes, onions, rice, processed ham, coffee, ice cream
Panama – Central America	ethyl alcohol	poultry, potatoes, onions, coffee, rice, vegetable oils, sugar
Panama – Chile		meats, dairy, potatoes, onions, beans, coffee, rice, vegetable oils, sugar, tomato products
Panama – Peru		meats, dairy, beans, coffee, corn, rice, vegetable oils, sugar, tomato products

Continued.

Table 2. Continued

FTA Partners (Importer-Exporter)	Sensitive products (tariffs partially reduced)	Highly sensitive products (tariffs excluded from cuts)
Panama – USA		potatoes, onions
Peru – Canada	offals	meats, dairy, sugar, chocolate
Peru – Mexico	potatoes, papaya, corn, ethyl alcohol	meats, dairy, peas, beans, fruits, nuts, grains, coffee, prepared foods
Peru – Panama		meats, dairy, potatoes, onions, beans, coffee, corn, rice, starch, vegetable oils, sugar, tomato products
USA – CAFTA-DR		sugar, chocolates, baking mixes and doughs, extracts and essences
USA – Chile	dairy, vegetables, fruits, peanuts, veg. oils, sugar, chocolate, baking mixes/doughs, prepared or preserved fruits and veg., fruit juices, rum, tobacco products, cotton	wine, grapefruit
USA – Colombia		sugar, chocolates, baking mixes and doughs, extracts and essences
USA – Panama		sugar, chocolates, baking mixes and doughs, extracts and essences
USA – Peru		sugar, chocolates, baking mixes and doughs, extracts and essences

Source: WTO RTA Database (<http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>), author's calculations.

presumably related to the fact that Central America excludes many products from each of its FTAs with Chile, Mexico, and Panama. This appears to reflect a fairly high degree of quid pro quo between bilateral partners, with a similar range of excluded products found within the tariff schedules of both partners, even though in some cases the percentage of tariffs excluded from cuts is larger for one partner than the other.⁸

Though tariff reduction is the primary method of increasing market access, in some cases products excepted from tariff cuts are not completely excluded from additional market access. Countries on occasion open up limited bilateral tariff-rate quotas to allow some additional trade, while ensuring that imports above the quota are constrained by high over-quota tariffs. So, for example, the United States provided Colombia a tariff-rate quota (TRQ) of 50,000 tons for sugar in the first year of their agreement. The quota increases by 750 tons each additional year, with imports in excess of the quota being charged the full MFN tariff. In the case of Canada and Peru, each opened a TRQ of 3,000 tons for sugar that gradually increases until it reaches 4,654 tons for 2019

and beyond. Imports in excess of the quota are charged the MFN tariff.

It is apparent from these examples of delays and exceptions to the implementation of a tariff-free agricultural market in the LAC region that integrating national markets has some way to go. As markets become more integrated, the exceptions will have to be renegotiated or trade deflection will erode their significance.⁹

FTAs and Agricultural Trade Flows

How far does Latin American agricultural trade reflect the existence of FTAs within the region? One would expect some correlation between the existence of an FTA and the flows of farm products, and this is confirmed by the data. The four original MERCOSUR countries (Argentina, Brazil, Paraguay, and Uruguay), which tend to have the least number of FTAs with their regional partners, also tend to ship a larger proportion of their own agricultural exports to countries in the rest of world (table 3), including China, Russia, Indonesia, and the Middle East (column 10).

⁸ Comparing the percentages of tariff lines is not always an indication of the degree of liberalization, as some countries are more precise in their tariff schedules for sensitive products, breaking them out into many HS8-digit tariff lines.

⁹ Many import restrictions take the form of non-tariff measures, particularly those in the health and safety area. The experience of Latin America in harmonizing these measures within FTAs is illustrated by Almeida, Gutierrez, and Shearer 2009.

Table 3. Share of Latin American and Caribbean (LAC) Countries Agricultural Exports to Selected Destinations, 2011–13 average

Exporter ¹	World	Of which:				United States	Canada	Japan	EU27	Rest of World
		LAC (ex Mexico)	FTA Partners	Mexico	Market Share %					
	\$million				Market Share %					
Argentina	42,797	26.2	13.4	0.6	3.7	0.6	1.0	18.2	49.7	
Brazil	83,670	7.6	4.3	0.4	5.5	0.9	3.9	22.1	59.7	
Paraguay	5,106	34.4	18.6	2.9	2.7	0.1	1.6	24.5	33.8	
Uruguay	5,539	29.9	24.4	1.6	4.2	0.9	0.1	12.1	51.4	
Venezuela	43	20.2	8.0	2.9	2.9	0.0	6.3	35.6	31.9	
Bolivia	1,413	82.2	54.3	0.1	6.6	0.7	0.8	11.5	-1.9	
Ecuador	4,821	18.4	6.5	1.6	22.7	1.0	1.4	29.3	25.6	
Colombia	6,636	20.7	8.8	1.3	36.9	3.3	5.1	25.4	7.3	
Peru	4,410	18.6	13.1	1.0	27.4	2.2	1.4	41.5	7.9	
Chile	10,925	20.2	7.7	4.7	24.6	2.7	5.1	22.4	20.3	
Panama	510	55.3	20.3	0.9	16.3	0.7	1.2	30.0	-4.4	
Dominican Rep	1,518	27.5	1.1	1.4	51.0	0.9	0.4	17.0	1.9	
Costa Rica	3,869	24.1	20.5	4.9	35.0	1.0	0.5	30.9	3.6	
El Salvador	1,155	44.9	44.1	1.6	29.0	4.6	3.3	14.1	2.6	
Guatemala	4,495	24.5	20.8	5.6	35.7	2.9	4.0	12.3	15.0	
Honduras	2,314	19.5	15.8	3.3	26.6	1.1	1.7	45.1	2.8	
Nicaragua	1,746	46.5	23.4	4.1	28.2	2.5	1.4	12.1	5.2	
CARICOM	1,216	33.8	22.4	0.6	24.4	4.0	1.9	33.7	1.6	
LAC (ex Mexico)	182,183	17.8	10.0	1.2	10.8	1.1	2.8	21.8	44.5	
Mexico	21,186	7.9	5.1		76.2	3.0	3.1	4.6	5.2	
United States	145,432	9.3	4.0	12.8		14.9	9.5	8.1	45.5	
Canada	43,264	4.4	1.9	4.0	49.4		8.9	5.7	27.6	
Japan	3,504	0.7	0.1	0.2	15.1	1.3		6.4	76.3	
European Union	147,227	3.8	1.0	1.0	13.9	2.5	4.4		74.3	

Source: United Nations COMTRADE database, accessed through WITS, and authors' calculations.

1. Countries are ordered as in figure 1 to reflect the main FTAs in the region – MERCOSUR, Andean Pact, CACM, CARICOM, and NAFTA.

A significant portion of their agricultural exports also go to the EU. In the case of Brazil, which is by far the largest agricultural exporter in the region, only 8% of its agricultural exports are destined for LAC partners and for Mexico, which is the only other country to ship a smaller share of its agricultural exports to countries within the region.

Many of the smaller countries in the region are much more dependent on their neighbors' markets as export destinations. Bolivia, for example, shipped 82.2% of its agricultural exports to LAC markets (column 3). The proportion is also high for the Central American countries: Panama (55.3%), and Nicaragua and El Salvador (46.5% and 44.9%, respectively), sell significant amounts of agricultural products to regional markets. Most of these countries tend to ship the majority of their intraregional (LAC minus Mexico) agricultural exports to countries with which they already have an FTA (column 4). In the case of four of the five Central American countries (El Salvador, Costa Rica, Guatemala,

and Honduras) a high proportion of their exports within the LAC region go to FTA partners.

Agricultural trade within the region is more important as a source of imports, with twelve LAC countries buying over 50% of their agricultural imports from their neighbors (table 4, column 3). The importance of MERCOSUR as a large market is particularly evident on the import side, with the original four members sourcing between 43.1% (Argentina) and 75.7% (Paraguay) of their agricultural imports from their customs union partners. The five Central American countries also source much of their agricultural imports within their region, with Nicaragua (48.9%) and El Salvador (46.9%) depending on FTA partners for almost one-half of their agricultural imports. The countries that are exceptions to the dominance of intra-LAC FTA trade are the CARICOM countries (13.9%), Chile (8.1%) and the Dominican Republic (6.6%), which each importing a larger percentage

Table 4. Share of Latin American and Caribbean (LAC) Countries Agricultural Imports from Selected Origins, 2011–13 average

Importer ¹	World	Of which:							Rest of World	
		LAC (ex Mexico)	FTA Partners	Mexico	United States	Canada	Japan	EU27		
	\$million									
				Market Share %						
Argentina	1,948	62.7	43.1	2.5	8.6	0.8	0.1	12.6	12.8	
Brazil	10,962	53.6	47.9	0.7	13.2	0.9	0.1	17.3	14.2	
Paraguay	968	84.4	75.7	0.7	5.5	0.1	0.0	8.4	0.9	
Uruguay	1,280	80.9	73.7	0.7	3.0	0.6	0.0	10.5	4.3	
Venezuela	5,436	60.0	51.9	2.5	18.1	6.2	0.0	7.1	6.1	
Bolivia	652	86.5	14.8	1.7	6.2	0.2	0.0	4.4	1.0	
Ecuador	1,954	62.2	30.5	2.4	20.9	9.5	0.0	4.8	0.0	
Colombia	5,673	60.4	21.4	2.7	22.5	6.5	0.0	4.7	3.2	
Peru	4,303	64.6	21.5	1.6	18.0	5.7	0.0	4.3	5.7	
Chile	5,891	66.4	8.1	2.0	14.2	2.7	0.0	8.8	6.0	
Panama	1,476	36.4	19.5	5.0	40.9	1.6	0.0	11.1	4.9	
Dominican Rep	2,521	31.9	6.6	3.4	49.8	1.4	0.0	12.0	1.6	
Costa Rica	1,741	38.2	22.6	8.0	43.0	4.0	0.0	6.7	0.1	
El Salvador	1,780	53.1	46.9	6.2	34.2	0.5	0.0	3.7	2.3	
Guatemala	2,430	36.4	26.9	11.5	44.2	0.9	0.0	4.4	2.6	
Honduras	1,466	44.0	36.8	8.3	42.8	0.2	0.0	3.3	1.3	
Nicaragua	895	56.1	48.9	5.9	29.2	1.1	0.0	3.4	4.2	
CARICOM	3,163	30.2	13.9	1.6	50.9	2.8	0.0	9.6	5.0	
LAC (ex Mexico)	54,539	55.1	32.3	2.9	23.5	3.1	0.0	9.1	6.3	
Mexico	26,161	8.3	5.4		72.2	7.4	0.1	6.5	5.5	
United States	113,776	20.0	11.3	15.9		18.7	0.5	20.4	24.5	
Canada	33,347	10.4	4.1	4.0	61.5		0.2	12.2	11.7	
Japan	65,133	9.9	1.0	1.3	25.4	6.9		15.8	40.8	
European Union	134,154	32.2	6.8	0.9	8.8	2.0	0.2		55.9	

Source: United Nations COMTRADE database, accessed through WITS, and authors' calculations.

1. Countries are ordered as found in figure 1 to reflect the main FTAs in the region – MERCOSUR, Andean Pact, CACM, CARICOM, and NAFTA.

of their agricultural goods from the United States (column 6) than they do from their Latin American FTA partners. None of the Latin American countries look to the EU for a majority of their agricultural imports, and only the four original MERCOSUR countries import a larger share from the EU than from the United States, led by Brazil at 17.3% (column 9). With the exceptions of Argentina (12.8%) and Brazil (14.2%) no country in the LAC region buys more than 6% of its agricultural imports from countries outside the Americas and Europe (column 10).

These trade patterns reflect country size, geography, and product specialization, in addition to the existence of FTAs. Exports of wheat, corn, soybeans, meat, and sugar from the large countries in the Southern Cone would not find markets if confined to the LAC region. These countries are competing with North America and Australasia for global markets. Nevertheless, the importance of these countries as import markets

for their regional neighbors underlines the significance of moving towards more open markets. Smaller countries also sell on world markets, particularly products such as tropical beverages and fruits, but local markets take much of the agricultural output from these countries. Further regional integration could improve farm incomes and enhance food security.

Possible Implications of the TPP on LAC Agricultural Exports

Negotiating trade agreements that involve many countries from different regions is a relatively recent phenomenon. Indeed, its current popularity is associated with the slow progress in the WTO Doha Round and the lack of enthusiasm by many politicians and businesses for the agenda of those talks. Negotiations among groups of countries can be concluded faster, focus more on mutual

trade priorities, and address other interests including political and security concerns.

Trans-Pacific Partnership

The Trans-Pacific Partnership (TPP) had a modest origin in a four-country agreement known as the Pacific Four (P4) (Gao 2012). Chile, New Zealand, and Singapore held initial talks on the sidelines of an APEC meeting in 2002 and announced an agreement at the 2005 APEC meeting.¹⁰ Brunei Darussalam joined as one of the founding four countries. The main impetus for the P4 came from the difficulty in transforming the APEC from a convivial forum for considering unilateral trade reforms into a true FTA. The door was deliberately left open for new members to join the talks (and membership was not restricted to APEC members). The United States joined the talks in 2011, along with Australia and Peru; Vietnam and Malaysia also indicated a willingness to participate in what became the TPP negotiations. Later, Canada, Mexico, and Japan joined the negotiations, and the current talks include 12 countries with the Pacific Rim. The inclusion of Japan has added particular importance to the agricultural component of the TPP talks, as that country has long had political difficulties with liberalizing trade in several farm commodities (Cooper and Manyin 2013).

The intention of the parties concerned has been to complete a “high-level” trade agreement that eliminates tariffs on virtually all trade in goods and opens up service markets across the region (Krist 2013; Petri, Plummer, and Zhai 2012; and Williams 2012). The scope of the talks includes intellectual property as well as concerns about supply chains, small businesses, labor, and the environment. Though the negotiating documents are not available to the public, it is clear that most agricultural products would eventually have duty free access in the participating countries. However, critical talks are still underway (as of November 2014) to determine the access of TPP members into the protected Japanese

market for agricultural products (particularly for dairy products, grains, beef, pork, rice, and sugar). It is this liberalization of the agricultural market within the TPP that is likely to be of most interest to other countries.¹¹

Empirical analyses of the TPP agreement on Latin American members suggest that potential overall impacts could be small but positive. For example, results of a recent analysis of full elimination of tariffs among TPP members suggest minimal effects on 2025 GDP, ranging from zero for Australia to 0.1% for Vietnam. Among Latin American countries, only Mexico is reported to have experienced a non-zero gain in real GDP, but this gain is only 0.01% of GDP (Burfisher et al. 2014). Besides the small economic welfare enhancement, the study finds a net increase in trade among the member countries under the TPP, with annual agricultural exports to TPP partners estimated to increase by \$142 million for Chile, \$99 million for Mexico, and \$85 million for Peru. This analysis did not address potential changes in non-tariff barriers (other than some foot-and-mouth trade restrictions) that, if included, might be expected to show greater potential enhancement in measures of potential benefits.

While this study indicates that the TPP agreement has the potential to enhance trade among the member nations in the dynamic Asia-Pacific market area, the largest economy in the region, China, is not a party to the negotiations. How the inclusion of China in the TPP agreement would change the dynamics of the agreement and the distribution of trade gains was the focus of a recent study by Li and Whalley (2013). These researchers used a global general equilibrium model to examine three different trade liberalization scenarios: a TPP without Japan or China; a TPP with Japan but not with China; and a TPP with both Japan and China as members. In each case, the total elimination of tariff and non-tariff barriers was compared to an elimination of tariffs only, and to a scenario of tariff elimination combined with a 50% reduction in non-tariff barriers. The results of the analysis are consistent with other studies indicating a small but positive economic impact of the TPP on real per capita income.

¹⁰ The Asia-Pacific Economic Cooperation (APEC) process was launched in 1989, largely on Australia's initiative. The first meeting of heads of state took place in 1993 at a time when the Uruguay Round was proving difficult to conclude; APEC currently has 21 members but has relied heavily on national (unilateral) trade policy changes rather than formal tariff-cutting agreements. The process has, however, proven useful for exploring possible ways to reduce trade impediments.

¹¹ In addition to increasing trade of goods, the TPP could significantly impact the trade of services, expanding investment opportunities and regulatory issues in food and agricultural trade.

China loses if they are not part of the agreement and gains if they join. Countries that are not a part of the agreement lose under all scenarios.

While the abovementioned studies address the broad issues of economic and trade impacts, they have difficulty in reflecting the changes in competition in individual markets for agricultural products. In the Burfisher et al. (2014) study, for example, the non-TPP LAC countries are included in the “rest of the world” group, and so changes in the conditions of market access for individual LAC countries are not revealed. The results are expressed as a percentage change from the baseline projection for 2025, which hides the dynamic process of market penetration. The Li and Whalley (2013) study does not focus on agricultural products and relates largely to the effects on China. So the present analysis complements the broader analysis by examining the changes in preferences in important markets for agricultural products exported by LAC countries.

TPP Countries and Trade Agreements

The fact that there are many existing trade agreements among TPP candidates will reduce the economic impact of the agreement, and in many ways the TPP will act as a consolidation of these FTAs. However, this does not mean that there will be no impact from the mega-regional agreement on other countries. Indeed, where there are existing agreements the issue becomes one of changes in the nature of competition within the free trade zone. Moreover, the impacts are felt on the import side as well as in export markets. The impact also depends on rules of origin (ROOs), which can make a significant difference regarding what trade is encouraged by the FTA (see Abreu 2013; Evans 2009; and Benton 2011).

In practical terms, one can group countries into those that are participating in the TPP negotiations, those that have some form of preferential access into those countries that are participating, and those that have no such preferential access. The first group will gain access over and above that accorded by existing FTAs. One would expect to see significant trade creation (such as the opening up of the Japanese market for agricultural products) and some redistribution of the rents from trade diversion (the benefits of preferred access into protected markets). The second

group of countries will find that the degree of competition in the TPP markets change; they will lose some part of the trade diversion rents from their previous preferred access. The importance of this erosion of preferences will depend on how many other competitors will gain preferences in that market as a result of the TPP. The height of the tariff in the importing country will determine both the extent of trade creation and the rents to be shared from the trade diversion. The third group of countries, with no preferred access into the TPP markets, will not be in line to gain from trade creation and will take the brunt of any (additional) trade diversion from the establishment of the TPP. Accordingly, the next section will further examine the major markets in the TPP countries for the commodities of greatest interest to the countries of the region.¹²

Competition in Major TPP Markets for LAC Agricultural Exports

This section looks at the possible increase in competition for the three major import markets—Japan, Canada, and the United States—that are of key interest to exporters in the LAC region. The share of imports that originate from TPP countries are compared to the imports from LAC countries not presently engaged in the TPP talks to identify LAC countries that may face increased competition should TPP come to fruition. The ad valorem equivalent (AVE) duty levels covering each commodity group for each country are also considered as an indication of the degree of preference available to TPP members.

One notable feature of FTAs involving LAC countries is the relative lack of agreements with Japan. Japan, considered to be the big “agricultural” prize in the TPP negotiations, has only negotiated FTAs with Mexico, Chile, and Peru, that is, the three Latin American countries that are part of the TPP negotiations.¹³ These three countries have also signed agreements among

¹² Many of the LAC countries export tropical beverages and fruits, most of which are imported into countries outside the tropics at low or zero tariffs. The discussion is therefore focused on temperate zone products and sugar and citrus that are produced in both tropical and non-tropical regions.

¹³ In the cases of these LAC/TPP countries, the extent of the benefit of the TPP will rest on whether further liberalization can occur in those agricultural products where reduction is limited, or in the case of total exclusion of Japanese agricultural tariffs in the current FTAs. In this context, including a projected chapter

themselves, as well as with the United States and Canada. As a result, the TPP may only produce limited additional incentives to expand trade between these three Latin American countries and their TPP partners. For the remaining Latin American countries, which currently face a combination of MFN and somewhat lower GSP tariffs in the Japanese market, the TPP would make their exports vulnerable to increased competition from large agricultural exporters such as Australia, Canada, and the United States once the agreement's reduced tariffs were implemented.¹⁴

In 2012, Japan imported the majority of the selected commodities from potential TPP partner countries, notably Australia and the United States (table 5). Among the LAC TPP countries, Chile and Mexico provided meats, citrus, and some dairy products to Japan. Brazil was the only non-TPP LAC country with a substantial role in the Japanese market, supplying 12% of Japanese maize imports and 20% of soybean imports. Argentina supplied small amounts of maize (4%) and dairy products (2%). Other non-TPP LAC countries (Guatemala, Uruguay, and Bolivia) supplied small amounts of dairy and sugar. Overall, Japan maintains relatively high AVE's for all the selected products with the exception of maize (6%) and soybeans (duty free). The existing zero tariff on soybeans would suggest that the TPP would have no impact on Brazilian exports to Japan. A reduction in the Japanese tariff on maize imports could lead to enhanced U.S. shipments at the expense of imports from non-TPP LAC countries, Brazil, and Argentina. However, should the TPP result in increased imports of beef, pork, and dairy into Japan, this could lower demand for imported feed. Lower tariffs for TPP partners on dairy products and sugar would also provide an opportunity for increased trade volume at the expense of the non-TPP LAC countries.

Canadian agricultural imports in 2012 reflect strong ties with NAFTA partners; the United States is the primary supplier of most of the selected commodities (table 5). Mexico, Peru, and Chile provide a small share

of the Canadian market for meat, corn, and citrus fruit. Colombia, as a non-TPP country that already has an FTA with Canada, has a small share in the sugar market in Canada. Sugar imports do provide a major trade link to non-TPP LAC countries. Canada's sugar imports originate primarily from Brazil (76%), with lesser amounts supplied by Guatemala (12%) and Nicaragua (3%), as well as the Caribbean.¹⁵ Low tariff levels for bovine meat and sugar suggest that an increased preference for TPP partner countries would likely have little effect on current trade levels with non-TPP LAC countries.

Canada has some highly protected sectors in agriculture that have until now been excluded from trade agreements. These include products from the dairy and poultry sectors that are subject to supply control within the Canadian market. Canadian dairy imports face extremely high AVE duties, averaging 120.2%. Any reduction in the duties on those products would likely benefit TPP partner countries at the expense of the already low market shares of non-TPP LAC countries. The significance of TPP for those countries seeking market access will depend on the extent to which Canada allows increased imports of these sensitive commodities. The LAC-TPP countries (including Mexico) could gain significantly if tariffs were lowered or TRQs increased. Non-TPP countries in the LAC would be further disadvantaged in competitive terms, though the amount of trade is at present small.

U.S. imports of the selected commodities in 2012 also originate primarily from NAFTA partner countries and other countries currently included in the TPP negotiations (table 5). Canada exports meat and meat products to the United States, reflecting the degree of integration of the cattle and hog sectors in North America. Further, Mexico holds an important share of the U.S. sugar market as a result of NAFTA having integrated the Mexican and U.S. agricultural markets. U.S. imports of citrus fruits from Chile and Peru are also significant, benefiting from preferential access under the respective FTAs. Imports from LAC countries that have existing preferential trade agreements with the United States but that are not currently

on Sanitary and Phytosanitary measures in the TPP would also have an impact on access to the Japanese market.

¹⁴ Tariffs under the Japanese "Generalized Scheme of Preferences" (GSP) are reduced for low-income countries. Several LAC countries are eligible for these preferences. The value of these preferences could be reduced as other countries are granted tariff-free access to the Japanese market.

¹⁵ All countries in LAC non-TPP are preferential partners with Canada under that country's GSP scheme: these countries account for 92% of Canadian sugar imports at a zero tariff rate under GSP.

Table 5. Imports into Major TPP Countries from TPP Partners and LAC Countries, Selected Commodities, and AVEs (2012)

Country	Commodity	Total Imports (,000 \$)	Main suppliers from TPP countries and share of imports (% of total imports)	Share of Imports from LAC (non TPP) countries that benefit from preferences in importing country (%)	Share of Imports from LAC (non TPP) countries without preferences (%)	Average AVE Tariff (%)
Japan	Sugar	\$861,759	Australia (32%)		Guatemala (3%)	55.7
	Citrus	\$445,322	U.S. (70%), Australia (9%), Chile (3%), Mexico (3%)			11.3
	Dairy Products	\$1,648,011	Australia (27%), New Zealand (22%), U.S. (15%)		Argentina (2%)	35.7
	Maize (corn)	\$5,126,527	U.S. (76%)		Brazil (12%), Argentina (4%)	6
	Beef	\$2,760,057	Australia (58%), U.S. (30%), New Zealand (6%), Mexico (4%), Canada (2%)			38.5
	Pork	\$5,122,442	U.S. (40%), Canada (22%), Mexico (6%), Chile (4%)			64.5
	Rice	\$468,103	U.S. (47%), Australia (10%), Viet Nam (3%)			702.6
	Soybeans	\$1,810,802	U.S. (62%), Canada (16%)		Brazil (20%)	0
	Wheat	\$2,155,634	U.S. (53%), Canada (28%), Australia (19%)			146.2
Canada	Sugar	\$621,323	U.S. (1.2%)	Colombia (2%)	Brazil (76%), Guatemala (12%), Nicaragua (3%), El Salvador (2%)	5.7
	Citrus	\$467,041	U.S. (46%), Mexico (4%), Peru (3%), Chile (2%)		Argentina (3%)	0
	Dairy Products	\$516,837	U.S. (49%), New Zealand (7%)			120.2
	Maize (corn)	\$318,457	U.S. (95%), Chile (2%)			0
	Beef	\$1,167,818	U.S. (83%), New Zealand (8%), Australia (6%)		Uruguay (4%)	13.3
	Pork	\$519,702	U.S. (92%), Chile (2%)			0
	Rice	\$304,189	U.S. (51%)			0
	Soybeans	\$157,931	U.S. (78%)			0
	Wheat	\$33,234	U.S. (99%)			31.8

Continued.

Table 5. Continued

Country	Commodity	Total Imports (,000 \$)	Main suppliers from TPP countries and share of imports (% of total imports)	Share of Imports from LAC (non TPP) countries that benefit from preferences in importing country (%)	Share of Imports from LAC (non TPP) countries without preferences (%)	Average AVE Tariff (%)
US	Sugar	\$2,380,362	Mexico (36%), Australia (4%), Peru (2%)	Guatemala (8%), El Salvador (7%), Dominican Rep (7%), Nicaragua (4%), Costa Rica (3%), Colombia (2%)	Brazil (10%), Argentina (2%), Paraguay (2%)	28.8
	Citrus	\$598,861	Mexico (38%), Chile (23%), Peru (4%), Australia (3%)			1.8
	Dairy Products	\$2,174,898	New Zealand (17%), Canada (8%), Mexico (4%), Viet Nam (2%)		Argentina (7%), Brazil (2%), Uruguay (2%)	22.1
	Maize (corn).	\$1,017,675	Chile (30%), Canada (29%), Mexico (3%)		Brazil (25%), Argentina (10%)	0.4
	Beef	\$3,487,785	Australia (31%), Canada (23%), New Zealand (22%), Mexico (15%)	Nicaragua (4%)	Uruguay (3%)	11
	Pork	\$1,015,313	Canada (76%), Mexico (2%)			0.2
	Rice	\$719,080	Viet Nam (4%)			3.2
	Soybeans	\$348,863	Canada (61%), Chile (5%)		Argentina (5%), Uruguay (3%)	0
Wheat	\$851,035	Canada (93%)			2	

Sources: COMTRADE data of United Nations and WTO Tariff data.

Note: Shares of 1% or less omitted from table.

engaged in the TPP negotiations have a relatively small role in the supply of selected commodities, mainly in sugar and beef. The LAC countries that have neither a preferential trade agreement with the United States nor are part of the ongoing TPP negotiations provide a significant share of the U.S. imports of sugar (10% from Brazil) and corn and smaller shares of rice, beef, and dairy products. Reductions in relatively high AVE duties for bovine meat (11%), sugar (28.8%), and dairy products (22.1%) that could result from the successful conclusion of the TPP talks could lead to an erosion of the current import market share for this group.

The impacts on TPP trade flows are therefore largely dependent on the degree of liberalization of the Japanese and Canadian markets, as well as an opening up of the U.S. sugar market. Any improvement in market access will initially benefit the other TPP countries. In the case of temperate-zone agricultural products, one would expect the United States, Canada, Australia, and New Zealand to increase exports to Japan, and the United States and Australia to pick up market shares in Canada.¹⁶ This preference under the TPP will mainly affect the Southern Cone countries that will increasingly find themselves at a disadvantage in the major Asian markets.¹⁷

Possible Implications of the T-TIP on LAC Agricultural Exports

Negotiations on the Transatlantic Trade and Investment Partnership (T-TIP) are somewhat less advanced than those for the TPP. Talks began in 2012 and there have been seven negotiating rounds. Though the original plan was to complete the negotiations by 2015, it now seems doubtful that this date will be met. The nature of the T-TIP agenda is somewhat different from that of the TPP, given the importance that the United States has placed on non-tariff measures in the

EU. Though the EU regime governing food safety and quality is unlikely to undergo major changes as a result of the T-TIP, some convergence and mutual recognition of standards between the EU and the United States will no doubt emerge. Among the most contentious issues in the T-TIP talks are those relating to hormone use in cattle production in North America, the United States' use of "pathogen reduction techniques" such as chlorine wash for poultry, the slow approval of GMO varieties by the EU, and the greater protection of Geographical Indications (GIs) in the U.S. market. In addition, the EU would like to see a relaxation of costly regulations on imported milk products that qualify as "Grade A" dairy products under U.S. law (Joslting and Tangermann 2014).

The outcome of the T-TIP negotiations on these issues is of significant interest to agricultural exporters in Latin America given that trade from the Southern Cone countries to the EU has benefited from the difficulties posed for U.S. exports. So any resolution could reduce this trade or could influence LAC countries to adapt U.S. production practices in order to compete (i.e., using hormones or expanding the use of GMOs). But the talks could also result in a convergence of practices by the EU and the United States that could lead to de facto international standards (Trachtenberg 2012). This establishment of common standards for the United States and the EU could in certain cases benefit third-country exporters, who would no longer have to satisfy two sets of standards. Costs could be reduced for all exporters if the regulations governing imports were more uniform in major markets.

The potential benefits of the T-TIP have been the object of study in the recent past. An analysis by Global Economic Dynamics (GED) of the impact of a total elimination of tariffs between the United States and EU member countries estimated an increase in long-term real per capita income in the EU of 0.27% (Felbermayr, Heid, and Lehwald 2013). Under a more ambitious scenario, including a reduction of the regulatory divergences, the mean gains are 23 times higher, at 4.59%. For the United States, the GED study reports an increase in the long-term real per capita income of 0.8% in the tariff elimination scenario, and a 13.4% increase under the more ambitious scenario. In a recent report to the European Parliament, European Parliament analysts estimated

¹⁶ The recent agreement between Canada and the EU (the EU-Canada Comprehensive Economic and Trade Agreement, or CETA) would significantly improve access to the Canadian market for some agricultural goods, but not for dairy and poultry products. Thus, TPP countries could jump ahead of the EU if these products were included in the tariff elimination schedules of that agreement.

¹⁷ The significance of China joining the TPP would be including a market where the Southern Cone countries already have a significant market presence.

that a 25% reduction in non-tariff measures when combined with a full phase out of tariff protection would increase EU food exports to the United States by 60% and U.S. food exports to the EU by 120% by 2025 (European Parliament 2014).

The results of studies of the economic effects of T-TIP on Latin American countries are not encouraging. The GED study reports that tariff reductions and more ambitious trade liberalization could have negative effects on Mexico, Central America, and South America. For example, in their tariff reduction scenario, Mexico experiences a 1.1% decline in long-term GDP and Argentina a 2.0% decline. Under the more ambitious liberalization scenario, Mexico's decline in long-term GDP is forecast at 7.2%. As the authors suggest, such results imply that these countries would be motivated to seek elimination of tariff and non-tariff barriers, or to enhance their existing agreements with the EU and the United States. These options will be discussed in the next section.

T-TIP and Trade Agreements

Several of the LAC countries already have free-trade agreements with both the United States and the EU. This includes Mexico, Chile, Central America (including the Dominican Republic), and the Andean Community countries of Colombia and Peru. The major impact of the T-TIP on these countries will depend on the pattern of U.S.-EU trade. The effect could be significant for some commodities. The United States would have better access into EU markets and could thus add to competition and erode LAC countries' preferential advantage from their existing FTAs and GSP preferences. Similarly, the EU could compete with these countries in the U.S. market, thus eroding their existing preferences. Aside from those potential impacts, the effect is likely to be moderate as benefits will come from harmonizing regulations and additional growth in the T-TIP countries.

Countries that do not have agreements with either the United States or the EU, such as Brazil and Argentina, can still be influenced indirectly by the T-TIP. This impact will come from the changes in the trade patterns that the T-TIP may promote. Better access for agricultural products into the EU market for U.S. producers would, in principle, have a negative impact on Latin American producers, but in some cases the United States

may divert exports from other markets to the EU, thus allowing other countries to fill these markets.

Competition in T-TIP Markets for LAC Agricultural Exports

The share of LAC and U.S. exports of agricultural products in EU imports is shown in table 6. Many LAC countries already have important shares in the EU market; there will, however, be a change in their competitive position. The EU currently imports a large share of its beef (73%), soybeans (64%), pork (43%), and citrus (31%) from LAC countries. Though the EU imports a relatively larger share of the selected commodities from LAC countries than from the United States, those LAC countries with existing regional agreements play a more limited role in supplying EU imports for the selected product categories.¹⁸ Bovine meat is supplied primarily from LAC countries that are not part of an FTA with the EU: Argentina (28%), Brazil (24%), and Uruguay (20%) have significant market shares.¹⁹ However, each of these countries benefits from lower tariff rates under the EU country-specific TRQ for bovine meat products arising from the Uruguay Round. Soybeans, which have duty-free access to the EU, are also supplied in large part by LAC countries, primarily by Brazil (47%) and Paraguay (13%). The United States also participates in the lucrative EU soybean market (\$6.9 billion), supplying 18% of imports in 2012. With the exception of soybeans, other products face relatively high AVE duties. For countries like Mexico and Chile (and the Caribbean), that already have preferential access to the EU market, the potential costs and benefits of a T-TIP agreement are clear: the agreement may erode the benefits these countries currently enjoy for their exports.

The development of harmonized or mutually recognized product standards in the T-TIP would impact LAC countries as they faced more competition from the United States in the EU market. This would be particularly true if a resolution is found regarding the use of hormones in U.S. (and

¹⁸ One exception is pork imports from Chile, with a 43% market share, albeit in a small value market (\$64 million) relative to bovine meats (\$1,842 million).

¹⁹ It should be noted that a small market share in a large market can still represent an important volume of trade for a small exporter.

Table 6. Imports into EU from T-TIP Partner (U.S.) and LAC Countries With and Without Preferences, Selected Commodities, and AVEs (2012)

Commodity	Total Imports (,000 \$)	T-TIP partner (U.S.) share of EU imports (% of total imports)	Share of EU Imports from LAC countries that benefit from EU preferences (%)	Share of EU Imports from LAC countries without EU preferences (%)	Average AVE Tariff (%)
Sugar	\$2,703,091		Guyana (4%), Jamaica (3%)	Brazil (25%), Cuba (5%)	96.1
Citrus	\$1,758,224	U.S. (3%)	Mexico (4%), Peru (3%)	Argentina (15%), Brazil (5%), Uruguay (3%)	22.7
Dairy Prod.	\$1,338,868	U.S. (5%)	Mexico (5%)	Argentina (6%)	73.7
Maize (corn)	\$2,505,919	U.S. (2%)		Argentina (6%), Brazil (4%)	16.1
Beef	\$1,842,127	U.S. (11%)		Argentina (28%), Brazil (24%), Uruguay (20%)	108.9
Pork	\$64,315	U.S. (21%)	Chile (43%)		25.8
Rice	\$1,068,700	U.S. (5%)	Guyana (2%)	Uruguay (5%), Argentina (3%), Brazil (2%)	40.8
Soybeans	\$6,884,341	U.S. (18%)		Brazil (47%), Paraguay (13%), Uruguay (3%)	0
Wheat	\$2,077,569	U.S. (18%)	Mexico (3%)	Brazil (3%)	52.5

Sources: COMTRADE data of United Nations and WTO Tariff data.

Note: Shares of 1% or less omitted from Table.

Canadian) beef, chlorine wash in poultry, and more rapid acceptance of biotech varieties. This could well mean increased competition from U.S. beef, poultry, soybeans, and corn.²⁰ Over time, however, LAC producers could adopt U.S. production practices if these allow them to compete on a more equal footing.

With regard to competition from the EU in the U.S. market, the countries of the LAC region have relatively open market access through the FTAs. However, the EU is a major supplier of citrus fruits, dairy products, and pork to the U.S. market (table 7). In the case of citrus products, it is likely that the EU will erode some of the current preferences held by Chile and Mexico. Argentina and Brazil are small suppliers of dairy products to the United States, but this share could fall as the EU dairy sector gains better access to the U.S. market.

Trade Policy Responses for Latin America

Additional competition in overseas markets as a result of the conclusion of the two mega-regional agreements prompts consideration of the possible avenues that Latin American countries could take to counter any negative impact on their agricultural exports. The main choices (besides inaction) are to expand trade relations with regional partners, with the countries of North America, with Asia, or with Europe. This section will discuss some of these various options.

Regional Integration and Reliance on WTO for Extra-regional Market Access

The strategy that requires the fewest new initiatives is to focus on completing integration within the region and relying on the multilateral trade system to reduce the probability and magnitude of trade diversion. This would imply further reducing barriers within LACs and pushing for the completion of the Doha Round, thereby reducing tariffs on a multilateral basis.

There remains ample scope for further development of FTAs among these countries. The smaller countries of the region

²⁰ Not all impacts from the T-TIP are likely to be negative for agricultural exporters. To the extent that the T-TIP does bring faster economic growth to the partners, the LAC countries that have access to these markets would be in a good position to gain.

Table 7. Imports into United States from T-TIP Partner (EU) and LAC Countries With and Without Preferences, Selected Commodities, and AVEs (2012)

Commodity	Total Imports (,000 \$)	TTIP partner (EU) share of U.S. imports (% of total imports)	Share of U.S. Imports from LAC countries that benefit from U.S. preferences (%)	Share of U.S. Imports from LAC countries without U.S. preferences (%)	Average AVE Tariff (%)
Sugar	\$2,380,362		Guatemala (8%), El Salvador (7%), Dominican Rep. (7%), Nicaragua (4%), Costa Rica (3%), Colombia (2%), Mexico (36%), Peru (2%)	Brazil (10%), Argentina (2%), Paraguay (2%)	28.8
Citrus	\$598,861	EU (15.3%)	Mexico (38%), Chile (23%), Peru (4%)		1.8
Dairy Products	\$2,174,898	EU (43.3%)	Mexico (4%)	Argentina (7%), Brazil (2%), Uruguay (2%)	22.1
Maize (corn)	\$1,017,675	EU (1.2%)	Chile (30%), Mexico (3%)	Brazil (25%), Argentina (10%)	0.4
Beef	\$3,487,785		Nicaragua (4%), Mexico (15%)	Uruguay (3%)	11
Pork	\$1,015,313	EU (20.4%)	Mexico (2%)		0.2
Rice	\$719,080	EU (2.4%)			3.2
Soybeans	\$348,863		Chile (5%)	Argentina (5%), Uruguay (3%)	0
Wheat	\$851,035	EU (6.3%)			2

Sources: COMTRADE data of United Nations and WTO Tariff data.

Note: Shares of 1% or less omitted from table.

have been reluctant to negotiate free trade agreements with agricultural exporters in the MERCOSUR group, and the countries of that group have not prioritized pursuing such agreements. The tables in this paper suggest that excluding agricultural products from complete elimination of trade barriers within FTAs has hampered the integration of these markets; high tariffs within the region remain. A newly-compiled dataset by the Inter-American Development Bank (IDB) highlights this situation.²¹ With the exception of Chile and Mexico, protection at the border is the main way avenue through which LAC governments support their agricultural sectors. In contrast, Mexico has used subsidies in place of high tariffs (that were in any case reduced under NAFTA). Chile has focused on investments in infrastructure and research as a way of increasing competition. A decision to complete the opening of regional markets to neighbors could be facilitated if accompanied by a reform of farm support policies to substitute targeted payments for tariff protection.

Not all countries in the region agree on the form that such integration should take. This is highlighted by the split between those who consider free trade agreements to be economically advantageous and those who emphasize social welfare and mutual aid and maintain a role for bartering. Cuba and Venezuela have established such an “alternative” agreement, known as ALBA (Bolivarian Alliance) and eight countries (mostly in the Caribbean region and Central America) have signed on to the trade agreement of the Alliance – the ALBA-TCP.²² This movement is unlikely to offer a way to unite countries with more orthodox trade policies.

Further Integration with North America

A second possible strategy might be to build a firm bridge between the LAC regional trade agreements and NAFTA. This possibility may have been given more credibility in light of the talks between the countries of the Pacific Alliance and MERCOSUR. These

two groups would include the most important economies of the LAC and could act as a catalyst for talks with the United States and Canada, even leading to a revival of the FTAA (Free Trade Area of the Americas) agenda.²³

Such a fresh approach could have some support from the United States and Canada. It would make sense that, after already having looked east and west for major new trade agreements, both should look south for additional market access. The challenge that the TPP and T-TIP pose for Brazil to maintain market share in these countries is perhaps more likely to persuade it to negotiate deals with the United States, Canada, and the EU. Further, the period of higher prices in agricultural markets since 2007 has made it possible for these countries to contemplate more open trade in basic commodities.²⁴

An initiative by the Pacific Alliance and the MERCOSUR to coordinate with NAFTA might have widespread appeal among the countries in the LAC. The initiative would need support from the thirteen countries that are currently members of the three agreements. Such an agreement (for convenience, defined as an Americas-Trade and Investment Partnership, or A-TIP) would have as its core the complete elimination of tariffs for goods over a defined period. As with the TPP, it could include services and investment as well as intellectual property issues. Importantly, there should be agreement on rules of origin such that a product using inputs from any A-TIP country would be eligible for duty-free entry into any other member. And, as with the TPP, the option could be left open for other regional countries to join, which is a move that many might consider unavoidable if not outright appealing.

Closer Ties with the EU

Another possible strategy would be to complete and expand the scope of the MERCOSUR-EU FTA talks to include other LAC countries. Restarting the stalled negotiations on an FTA between the EU and

²¹ The data on producer support for about 20 LAC countries is available in the IDB Agrimonitor database (www.iadb.org).

²² These countries have also agreed to use a common unit of account (the sucre) to settle some financial transactions among themselves.

²³ Both the U.S. and Canada have been admitted as observers to the Asia-Pacific meetings and Canada has reportedly shown an interest in joining.

²⁴ In 2004, when the FTAA talks expired it was thought likely that the Doha Round would have lowered tariffs and further curbed price-based domestic support.

MERCOSUR has been discussed in recent months in light of the difficulties of concluding the Doha Round. But the process would be given a major push if the TPP negotiations were to be successful: the EU would then be more keen to firm up relations with the LAC region to leap ahead of the United States in this part of the world. And whether or not the T-TIP was successfully negotiated, the EU might look to Latin America as a place where the many bilateral agreements could be pulled together into a “21st Century” agreement.

The core of such a LAC-EU FTA would be the addition of MERCOSUR to the network of agreements already in place with the EU and Colombia, Peru, Chile, Panama, the Central American countries, and the Caribbean countries. Excluding the United States from such an agreement would in itself be a significant incentive, as it would give the EU better access to many Latin American markets than that afforded to the United States.

Integration with Asia-Pacific Countries

A fourth possible action would be for more LAC countries to “sign on” to the TPP insofar as it is an “open access” agreement. If a country on the Atlantic coast were to request membership, then it would be subject to the agreement by existing TPP members who would want to maintain the integrity and credibility of the partnership as a high-quality agreement.

This strategy could be particularly attractive for Brazil and Argentina to maintain and improve access into the major Asian markets, including Japan. This, in turn, would provide a strong incentive for the remaining MERCOSUR and Andean Community countries to join. The interests of the Central American countries and the Caribbean are less clear. With existing trade ties to the United States and the EU, the lure of access into Asian markets is perhaps not as strong.

If China were to join the TPP, then the situation might change radically. The incentive to join for LAC countries (and the costs of not joining) would be increased considerably. The prospect of a limited number of LAC countries having access to the largest agricultural market in the emerging world would certainly help drive the political calculations. Even if China does not join the TPP in the foreseeable future, Brazil and Argentina might find it advantageous to follow the lead

of New Zealand and Australia and negotiate free trade agreements directly with China.²⁵

Conclusions

Despite the long history of free trade agreements in Latin America, the degree of integration of agricultural markets in the region is still uneven. With the exceptions of Mexico and Chile, the countries in the region still have high levels of protection for their farm sectors. Infrastructure is often a constraint to intra-LAC trade, but tariffs have also proven difficult to remove. The list of excluded products from tariff elimination in the region is impressive. The acceleration of integration through intra-regional trade would strengthen the agricultural sectors in the region by allowing better use of resources and transportation facilities. It would also increase food security and reduce food costs for consumers. Moreover, it would help to prevent the splitting of the regional market into those parts that are linked through FTAs with Asia and those that have closer trade ties with the United States or with the EU.

South-south trade has been expanding rapidly in recent years. Much of this is accounted for by the growth in exports to China. Countries such as Brazil, Argentina, and Chile have taken full advantage of these opportunities, and investment by China in the LAC region has supported the trade flows. But smaller LAC countries have focused on local markets or on traditional trade flows to the United States or the EU. No single path will be optimal for all countries in the region, but trade agreements open up opportunities to participate in an increasingly competitive world market.

The TPP and T-TIP negotiations come at an interesting time for the LAC. Those LAC countries already involved in the TPP talks (Chile, Mexico, and Peru) stand to gain market access ahead of their regional competitors. Others may find their current market shares reduced in the face of increased competition from those who join the TPP. The T-TIP negotiations pose similar problems, though the issues are less complex: the United States will be in a strong position to increase its market share in the

²⁵ The strategy of negotiating an FTA with China does not of course preclude joining the TPP, as Australia and New Zealand are demonstrating.

EU (and vice-versa), at the expense of those who currently export to that region. Much of that growth in market share will depend on modifications to import regulations in the EU (and the United States) rather than the reduction of tariffs. The LAC countries could lose access through regulatory trade diversion, with higher-cost imports outcompeting lower-cost sources because of regulatory mutual recognition agreements, though outside countries' agricultural sectors could also gain somewhat from a greater conformity of U.S. and EU standards.

In response, the countries of the LAC (individually or collectively) must decide on a trade strategy if the mega-agreements come about. The choices considered above are as follows: a) to complete the integration of the LAC region, focusing on the removal of tariffs and the improvement of infrastructure; b) to join NAFTA, MERCOSUR, and the Pacific Alliance together in an Americas Trade and Investment Partnership (A-TIP); c) to solidify relations between the LAC and the EU by consolidating current FTAs and concluding the MERCOSUR-EU discussions; or d) to intensify relations with the Asian and Pacific countries through acceding to TPP, with or without the inclusion of China in that agreement. It is tempting to think of a preferred strategy for the region, but this could prove elusive. Any coordinated strategy is made difficult by the differing orientation of trade of the various countries of the region: each of the four strategies may be attractive to different countries. Indeed, one of the consequences of the mega-agreements might be that it fractures the regional market that has developed since the 1960s.

The existence of better data on regional trade agreements and the extent to which agriculture plays a part in economic integration makes it possible to contemplate further research topics. Indeed, there is a rich area of investigation into the ways in which the agriculture of the LAC region can make the best use of opportunities arising from shifts in the global trade architecture, and thus avoid any negative impacts that might occur.

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