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# Forces Shaping Trade: The WTO, Trade Agreements, and Market Integration

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International trade is of major importance to US agriculture, with exports accounting for 25% of all harvested acres and nearly one third of farm cash receipts in most years. Since March 2000, the members of the World Trade Organization (WTO) have been engaged in negotiations to reform agricultural and trade policies among all 148 members. Furthermore, the WTO Dispute Settlement Body issued findings against the US cotton program and export credit guarantees in March 2005. Additionally, the United States has implemented eight trade agreements and is now negotiating eight others. The Central American Free Trade Agreement–Dominican Republic (CAFTA-DR) is presently being considered by the US Congress and will likely be voted upon this summer. In addition, the North American Free Trade Agreement (NAFTA), implemented in 1994, has spurred market integration among businesses and communities in Canada, Mexico, and the United States.

This issue of *Choices* provides an overview of these major forces, emphasizing the present status of each, prospects for the outcomes and likely implications for the future of US farm and trade policies. Progress and prospects for a successful Doha Round of multilateral trade negotiations are examined. Although WTO negotiations have been tenuous at times, some progress has been made. The Doha Work Program, agreed to in July 2004, provides that export subsidies must be eliminated and that total allowable trade-distorting domestic support must be reduced 20% in the first year of implementation. The elimination of export subsidies alone would be significant, absent other reforms.

The WTO cotton case against the United States, DS-267, is discussed, along with an overview of the findings and implications for US farm programs and trade policy. The Step 2 component of the program was ruled to be in violation of WTO rules along with export credit guarantee programs. It is likely that the process to bring both of these programs into compliance must begin by July 1, 2005. Restrictions on planting fruits and vegetables on program acres were ruled to render direct payments to US producers out of compliance with WTO Green Box criteria. Marketing loan payments and other major program payments were also ruled to depress prices and cause damage to cotton farmers in Brazil. These and other elements of the case are examined and discussed.

With a congressional vote on CAFTA-DR likely this summer, the trade agreement article examines the major provisions of the agreement, the likely impacts on US agriculture, and prospects for the future. Costa Rica, El Salvador, Dominican Republic, Guatemala, Honduras, and Nicaragua are members of this regional trade agreement. Although CAFTA-DR has modest near-term potential, its long-term prospects depend on income growth, development of infrastructure, and economic growth in the region.

Despite the discovery of bovine spongiform encephalopathy (BSE), outbreaks of avian flu, numerous antidumping petitions, and other disruptions to trade, North American agricultural markets are more closely integrated

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than in the past. Although many attribute this to NAFTA, evidence indicates that the trend toward developing a single agricultural market began in the mid-1980s, as US companies invested in feedlots and packing facilities in Canada. Greater market integration, however, has exacerbated the negative impacts of recent animal disease outbreaks and called into question the extent to which deep integration will continue in North America.

Contributors to these articles were Timothy Josling, Darren Hudson, Jaime Malaga, John Robinson, Mickey Paggi, Lynn Kennedy, Fumiko Yamazaki, and Flynn Adcock.

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