

Has U.S. Agricultural Policy distorted International Trade? A Study on Planting
Flexibility Impact on U.S. Exports

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Abstract

Based on the cotton trade disputes between the U.S.A and Brazil, the paper studies the impact of the trade distorting U.S. domestic policy on international trade. The first part of the paper introduces this domestic policy on land input - the planting restriction. Using an econometric model to estimate the input redistribution between the grain crops (cotton included) and the non-grain crops. With the estimated results, a multi-input and multi-output simulation model is built in the second part of the paper to analyze how this domestic policy change could affect international trade. By assuming eliminating the domestic policy, the changes in land allocation will affect the production of both grain and non-grain crops and to further change the international trade. The paper finds limited policy change effects on grain producers, including cotton producers because of the detailed specification in the model setting. What is more important is the negative net producer surplus due to the policy change. These result could shed light on future domestic policy making to avoid unnecessary trade frictions under the WTO trade regime. The analysis method can be generally applied to similar trade disputes related to production input.