

The first casualties of Trump's trade wars are Texas cattle ranchers

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Staff Photographer

KYLE, Texas - If the first casualty of war is truth, then the first casualties of trade war are the working man and woman. And first among them is about to be the iconic Texas rancher.

Here in the rolling pastures of bright, green spring grass at the edge of the Texas Hill Country, the handful of large spreads prosper from a wet winter. The short-horned Charolais breed, imported from France via Mexico, grow thick and wide, their white coats bright in the sunshine of impending spring. The Charolais makes for some of the finest grass-fed beef in the world. Now that a years-long drought has broken, ranchers can count on trucking in less of that expensive coastal grass they require in the dry months.

But the Texas cattle rancher now faces a new threat: the Trump administration's blundering, blustering trade policy. By threatening a trade war with Mexico within days of inauguration, the president helped trigger a slide in cattle futures. Mexico is a major export market. By sinking the Trans-Pacific Partnership, the new administration cut off long-sought access to the Japanese market. Now banks have raised the conditions for collateral for loans for ranchers.

Texas ranchers, though, will not be alone for long. Beef producers from Nebraska to the Dakotas face the same problems. So do grain farmers in Kansas and the snow-covered corn fields of Iowa, just like tomato farmers in California and Florida and autoworkers in Michigan, longshoremen, truckers and railway workers in Miami and Houston and Long Beach. These will be the first casualties of a trade war.

Trump fired his opening salvo right after his inauguration by threatening a 20 percent tax on Mexican goods coming into the United States, the funds would ostensibly fund the border wall. That led to Mexican President Enrique Peña Nieto to cancel a summit with the new American president. Trump's was an artillery shell delivered for effect. Peña Nieto answered in kind. Within days, both beat a hasty retreat though, putting their diplomats behind closed doors with the Canadians to work out a new trade agreement.

By then, however, the collateral damage was done. It was clear that the Trump administration would at least re-write trade agreements if not scuttle them. The first to go down was the Trans-Pacific Partnership. And re-writing the rest means, at the very least, injecting uncertainty into what the new rules of trade look like. At the worst, it means that the trade wars will resume in earnest. No state in the country has more exposure to economic damage in each scenario than Texas.

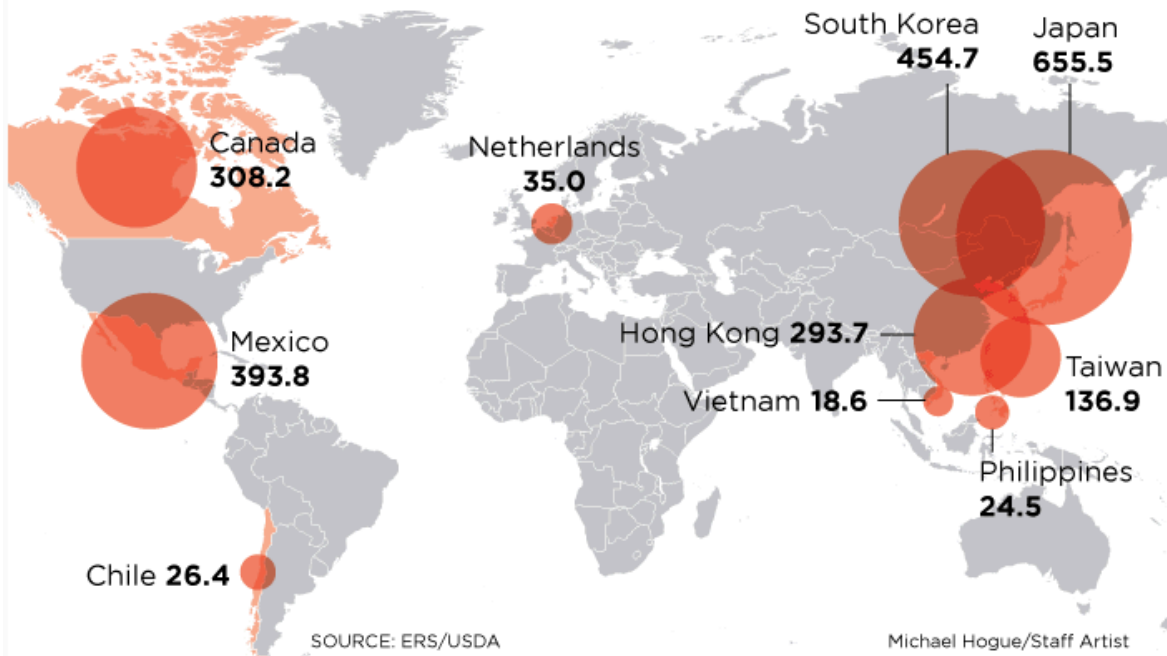
Texas doesn't remotely fit the mold of Trump's enfeebled America that is losing jobs to competitors overseas. Texas is the largest exporter among the 50 states with nearly \$280 billion in exports, according to state data. The top destinations: Mexico, followed by Canada, Brazil and China, three of which are now embroiled in trade disputes with Washington even as Texas exports oil, coal, petrochemicals, heavy machinery and transportation equipment. That means Texas is home to some of the nation's busiest ports, such as Laredo, El Paso, Houston and Galveston. More Texans work in trade than in oil and gas. Nearly a half-million work for foreign-owned companies, which have pumped more than \$20 billion annually into the economy.

Now all that is at varying forms of risk. Sinking the Trans-Pacific Partnership may have been popular with Trump's supporters, but it was not popular with cattle ranchers. They have been building herds for years and anticipated shipping beef products -- some of which are not exactly popular among American consumers -- to Japan as tariffs fell from 38.5 percent to just over 9 percent. Now that opportunity is gone. Instead, other cattle-producing nations like Australia will try to seize the Japanese market on a bilateral basis.

Last week, Texas ranchers shipped 1,430 cattle to Mexico, most to slaughter and to market. On an annual basis that's 74,000 head, part of a brisk two-way business that sees hundreds of thousands of Mexican cattle coming north to be fattened in Midwestern feed lots. But in the event of a trade war, all bets are off. A tariff here means retaliation by the Mexican government there, and the last time that happened, it was the United States that surrendered. In phasing in NAFTA in the early 2000s, Congress abruptly interrupted the movement of Mexican trucks north. The Mexicans retaliated with a crippling tariff on American tomato growers. The Republican Congress caved and today, Mexican trucks head north freely.

Top ten countries in U.S. beef exports

2016, in millions of pounds



Ranching is a tough business. Even in good times, a margin is thinner than barbed wire. A spike in feed costs here or a change of government policy there and the year is a bust before it's begun. Already cow-calf operators aren't coming close to breaking even on their calves. But ranchers wouldn't be alone. A variety of studies and forecasts show that Iowa corn farmers would find themselves in huge trouble; they are highly dependent on exports to China and to Mexico. So are grain farmers on the High Plains.

The interruption of supply chains between Mexico and Detroit would be felt by autoworkers. Americans export cars, after all, for sale in Mexico -- not just assemble parts of them there. Even shippers are in trouble. Citigroup warned investors about five companies with exposure in Mexico recently. One was Kansas City Southern, whose rails connect Mexico and much of the United States. The stock price plummeted. But that was only after Citigroup cut its own exposure in Mexico first, of course.

Now, even the investor class is starting to feel the headwinds of economic war. Despite a rally at the stock market, the president's policies are now proving logically incoherent when they're put together. The border wall was to be budget-neutral, meaning no new taxes or spending, but now it turns out to cost an estimated \$20 billion, which the Mexicans will, in fact, not pay. That means increasing deficit spending or raising taxes, both of which seem non-starters.

A wall and a spending spree on infrastructure will not, it turns out, be free because debt-to-productivity ratios are climbing. Banks are tightening lending conditions,

anticipating a profitable credit crunch. Fitch Ratings has warned that the president's erratic foreign and trade policy is causing so much uncertainty that even foreign government debt is starting to look shaky.

"The Trump administration represents a risk to international economic conditions and global sovereign credit fundamentals," according to Fitch. "U.S. policy predictability has diminished, with established international communication channels and relationship norms being set aside and raising the prospect of sudden, unanticipated changes in U.S. policies with potential global implications."

The irony, of course, is that states like Texas, the plains states and Michigan all helped put Trump in office. But the cows in pasture don't care about politics. And cowboys rightly don't care about irony, even if they are to be its first casualties.

Richard Parker is the lecturer-of-practice in journalism at Texas State University.
Twitter: @richardparkertx