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Introduction

The successful completion of the Uruguay Round trade negotiations marked a historic turning point in the reform of the agricultural trade system. The Uruguay Round Agreement on Agriculture (URAA) puts in place rules that will improve the conditions under which agricultural goods are traded. Bound tariffs have replaced nontariff import measures, export subsidies have been curbed, and domestic programs have been codified on the basis of their potential to distort trade. The agreement did little, however, to liberalize trade in agricultural products and improve market access. Many export subsidies are allowed to exist and are, in effect, legitimized. The domestic farm policies of the major industrial countries have required relatively minor changes to conform with the agreement. Tariffication[1] has produced a number of tariffs bound at levels so high that it is unlikely that profitable trade will develop in their shadow. Where tariff rate quotas[2] were negotiated to pry open these markets, the prospect of quota rents has led governments to agree to a network of bilateral deals that guarantee continued state involvement in trade. This has in turn exacerbated the problem of competition between state trading enterprises and private trade. Thus, it is time to initiate another set of multilateral talks to complete the job started by the Uruguay Round.

1. "Tariffication" refers to the replacement of nontariff import barriers with equivalent bound tariffs.

2. Tariff rate quotas provide for the entry of a specified quantity of a product at a reduced tariff rate. Quantities in excess of the specified quantity are allowed to enter but are subject to a higher tariff rate.

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The Uruguay Round and the World Trade Organization (WTO) (established to replace the General Agreement on Tariffs and Trade [GATT]) have not been the only forums for negotiation on agricultural trade in the past few years. Regional trade institutions have also begun to grapple with the issues of agricultural trade liberalization. Though there has been a tendency to avoid politically sensitive sectors such as agriculture when negotiating regional trade pacts, free trade areas and customs unions have recently become more adventurous in dealing with agricultural protection. In the Americas, the North American Free Trade Area (NAFTA) agreement included agriculture as a central element, setting the scene for a relatively free market in farm products between the United States and Mexico at the end of the transition period. Agriculture has been featured in the Mercosur agreement, opening up trade between Argentina and Brazil. It is also included, somewhat cautiously, in the new "Europe Agreements" between the European Union and the countries of Central and Eastern Europe and in the Euro-Med Agreements between the European Union and the countries of North Africa. Other trade groupings in Europe and the Americas also include agriculture. Among them are the Baltic Free Trade Area and the Central European Free Trade Area in Europe and the Andean Pact, the Central American Common Market, and the Caribbean Common Market (Caricom) in the Americas. Plans for broad supraregional trade structures, such as the Asia Pacific Economic Cooperation (APEC) forum and the Free Trade Area of the Americas (FTAA), have also dealt with the inclusion of agricultural trade. Set against the scenario of unfulfilled promise of liberalization at the multilateral level, these regional initiatives have begun to look like useful building blocks for the future of the agricultural trade system.

These agricultural trade policy developments have taken place against the backdrop of some remarkable changes in domestic agricultural policy. In developing and middle-income countries, these agricultural policy reforms have been part of economic policy changes induced by a combination of external pressures and long-term paradigmatic change. It is remarkable that politicians over the last decade did not shy away from the inclusion of agricultural markets in economic policy reform. In most cases, difficult decisions were made in the face of opposition from rural constituencies, and governments showed considerable fortitude in pursuing economic policy reform in agriculture. Domestic reforms then allowed countries to include agriculture in trade policy reforms, generally by removing nontariff barriers and setting low fixed tariffs against imports.

In the industrial countries, agricultural policy reform has languished in the face of domestic opposition. The farm policies in these countries had become so entrenched that they seemed almost immune to external pressures. However, the reform of the European Union's Common Agricultural Policy (CAP) in 1992 and the 1996 Farm Bill in the United States significantly changed the direction of farm policy and ushered in a new era

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of relations between government and the agricultural sector. Even in Japan, the government's role in agricultural markets is being reduced in favor of privatization, though the task of bringing domestic prices down has hardly begun. The industrial giants still have some way to go, but, at last, they seem to be following the lead of the middle-income countries by adapting their agricultural policies to the new global realities.

This study takes these changes in domestic, regional, and multilateral policies in the agricultural sector as a starting point and looks at the tasks ahead as countries continue to reform the agricultural trade system. Chapter 2 discusses the case for further reform in light of shifts in the global market for agricultural goods. Chapter 3 describes the new Agreement on Agriculture negotiated in the Uruguay Round, the implementation of that agreement, and the developments in domestic policies that have made further action on the trade side possible. Chapter 4 considers the context of this reform and the new issues that have arisen since the Uruguay Round. Chapter 5 discusses the alternative paths—domestic, regional, and multilateral—that would lead to trade reform in the agricultural sector. In conclusion, chapter 6 points to ways that coordination could be achieved between these alternative paths and proposes substantive activities to promote agricultural trade reform.

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