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The Climate for Further Reform of Agricultural Trade

Global Agricultural Market Developments

Agricultural markets and the context in which trade policy will be formed in the next round of trade negotiations will be very different from that which prevailed in 1986, at the start of the Uruguay Round. At that time, world markets were in acute disarray because domestic farm policies were essentially out of control. World prices were at their lowest in years, and farm program costs were at an all-time high. US agricultural exports had fallen dramatically from their peak in the early 1980s, and the European Union was picking up market share with aggressive subsidies. In effect, the United States and the European Union were in a trade war. Even agricultural ministers, often the last to admit the scale of the problem, became convinced that something should be done to improve the market, so that it would not collapse under the weight of unwanted surpluses. The mood was to "do something" about agricultural trade. As mentioned, the issue even made it to the agenda of the Tokyo Economic Summit in 1986, when President Reagan lectured his fellow leaders on the disarray in world agricultural markets.

Now, in the lead-up to the next round, the world market looks very different. Commodity prices are firm relative to the depressed levels of the mid-1980s. For most of the major commodities, strong growth in Asia has ensured that market outlets over the past five years have been adequate. In 1995–96, cereal markets reacted to a perceived shortage of stocks and sent prices to their highest levels in five years. Though down from those

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peaks, firm prices are expected to last so long as export demand from Asia does not slip too far from its current level. US exports of farm goods reached record levels in 1996, exceeding even those of the export boom in the early 1980s. Export subsidies are down below the allowable levels because of high prices and strong demand. Trade disputes between the United States and the European Union and between the United States and Japan continue, but the issues are now health and safety standards rather than market shares.

Agricultural trade reform faces a dilemma. Does this relative calm on world markets make it more or less likely that the reform process will continue? Can further steps only be taken if there is a crisis in agricultural markets or another explosion of spending on farm programs? It is possible that the crisis of the mid-1980s may have been needed to stimulate countries to undertake reform. Benign agricultural markets may reduce incentives to continue reform. Such complacency would be unfortunate. For reasons already given, the reform process is needed now as much as ever. A period of calm in world markets may actually be the best time to push ahead with the reform. This chapter addresses the issue of whether the conditions for further reform will be provided by the current state of agricultural trade.

Economic Reforms and the Trade Policy Climate

Several important developments in economic policy make the context for agricultural trade policy reform very different on this occasion from that of the early 1980s. The most important has been the wave of economic reform that has swept over almost all countries since the mid-1980s and radically changed the scope for reform of the agricultural trade system. Chapter 3 discussed the specific changes in agricultural policy. Here, it is only necessary to note the totally different context in which trade discussions will take place. By 1986, a few countries (such as Chile and New Zealand) had started down the road to more liberal policies, but most were still debating deregulation, privatization, structural adjustment, and macroeconomic reform. The Berlin Wall still divided Germany, and the Iron Curtain divided Europe. Centrally planned economies (CPEs) based trade policy on complete state control. In such circumstances, few would have hoped that countries pay much more than lip service to the Uruguay Round's call for more market orientation in agriculture.

By the start of the next round, most countries will have embarked on a reform program, either of their own making or at the suggestion of lending and financing agencies. Reform of international trade policies will continue to be a key part of those programs. Most former CPEs no longer try to control trade. No one questions any more the objective to introduce

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market disciplines to agriculture. Governments regularly call for the development of competitive agriculture sectors able to sell into world markets or hold their own against imports from abroad. Government assistance is often still needed for those who cannot achieve international competitiveness, but this assistance is tightly constrained by budget pressures and is usually of limited duration. Imports of farm products are still taxed, and often quite highly, but governments often claim that unfair competition from dumped products and the need for time to adjust to international competition motivate these taxes rather than the determination to keep out all competitors. In other words, most governments assume that agriculture must live by the same rules as other sectors. If competitive, it will flourish; if not, it must adjust or wither. Under these conditions, trade talks can be much more constructive. Of course, there will be tension between importers trying to slow the pace of market opening and exporters trying to push the markets open faster. But that differs from the emotional confrontations in earlier decades between those who considered domestic agriculture beyond the reach of international trade talks and those who thought otherwise.

Domestic policy reform has led to changes in trade policy that are contributing to the evolution of the trade system. One of the most far-reaching changes in agricultural trade in the past decade has been the proliferation of regional trade agreements. Such agreements almost always avoided agricultural trade; this is no longer the case. The changes have been every bit as profound as those brought by the URAA and they interact with those changes in interesting ways. How agriculture is treated in a world of trading blocs is likely to be more important in the future. In part, the blocs may begin to assume a role in the negotiation of agricultural rules. Such blocs will likely adopt uniform policies toward third countries, even if they remain free trade areas rather than customs unions.[1] But the most important link between regional trade agreements and the multilateral process may be through the impact of freer regional trade on the reform of national domestic policies. Countries will be under additional pressure to modify these policies so that they do not cause tensions among regional trading partners. In other words, regional agreements could stimulate and lock in the reform of domestic policies more rapidly than the multilateral process, thereby improving the prospects of further multilateral reform.

The multilateral trade system is also in much better shape than in the mid-1980s, when there were serious disagreements on whether even to hold a new round. The WTO, together with a stronger dispute settlement process and a policy coordination function, gives the trade system the

1. Josling (1993b) elaborates this argument.

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legitimacy that was lacking in the GATT.[2] Also, it covers more of world trade than did the GATT. The WTO is now in a much better position to chart the course for multilateral trade policy than was the GATT in 1986. Coupled with the free trade objectives of the regional trade agreements, the WTO can at last think about a target date for global free trade (Bergsten 1997b). The pieces are falling in place for a major push toward a liberal world trading system, where tariffs no longer block the movement of goods among countries. This time, it may be difficult to omit agriculture from the plans.

Asian Market Growth and Russian Agricultural Potential

The recent period of strong growth in China and several other developing Asian countries will also have an impact on the next round of trade negotiations. Despite the recent financial crisis, the developing countries of Asia have become over the past decade the "fourth major focus of commercial activity," after the United States, Europe, and Japan, and the fastest growing market.[3] Imports into the ten largest Asian developing markets in 1995 amounted to $750 billion, as compared to $770 billion for the United States and $740 billion for the European Union. The three largest of these markets (South Korea, China, and Taiwan) together imported more than Japan. These imports were, until hit by the currency turmoil, rising at 10 percent each year, outstripping both the overall growth in world trade and the export growth of these countries. Even with the devaluation of many of the currencies in the region and the problems in their financial institutions, the countries of Asia will remain major players in the trade system. By the time of the next WTO round, growth should have recovered to more normal levels.

In general, Asia's growing participation in world trade is favorable to further liberalization in agriculture, which is an integral part of this trade expansion. Whereas Africa and Latin America are still heavily biased toward exports of agricultural goods to Europe and the United States, Asia is developing considerable agricultural trade within the region. This rapid Asian growth has de-emphasized old agricultural issues of access to Western Europe (and even to Japan), which have been the object of past negotiations, and has begun to focus on the substantial markets of low- and middle-income countries. This has both raised the stakes for further

2. The dispute settlement process is so popular that the WTO has recently begun to consider the 100th dispute. Over half of the cases have been initiated in the past three years, and about 60 percent of them concern some aspect of food and agricultural trade.

3. This was the subject of an editorial in the *Financial Times* (30 March 1996), which concluded that "the principal industrial economies trade as much with Asian developing countries as with one another" and that the Asian developing countries need to be engaged in a "sustained dialogue on the management of the global economy."

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trade talks, with the prize a growing market for agricultural products in Asia, and given the talks some degree of urgency. This urgency is reinforced by the structural problems that many of these countries face in the wake of the financial crisis: the solutions to the structural weaknesses in the financial sector are similar to those changes needed in the agricultural and food industry. Just as China's accession to the WTO will have to be resolved shortly, trade rules are needed so that the Asian markets can develop and assist their recovery.

Some observers believe that the expansion of Asian trade threatens the trade system. China, in particular, might put too much pressure on the ability of the food system to provide basic grains (Brown 1995). Postulating potential shortages of arable land and water and assuming that China will face some of the same resource pressures that other Asian countries have faced at a similar stage of development, Brown foresees declining production that fails to meet expanding demand. China would rely more and more on imported grain as the next century progresses, squeezing out the needs of poorer countries. This prediction stimulated the development of models that led the International Food Policy Research Institute (IFPRI) to be cautiously optimistic that China's domestic production can expand enough to avoid this strain (Fan and Agcaoili-Sombilla 1997). Import demand for cereals could rise to 27 million tons by 2010 (as predicted by Huang, Rozelle, and Rosengrant 1997), or even to 32 million tons by 2005 (as predicted by the Economic Research Service of the USDA 1996), but would not approach 369 million tons in 2030 (as suggested by Brown 1995). If the more reasonable estimates prove the case, Asian demand may keep food prices fairly firm for a few years, but prices will eventually continue their decades-long downward march.

Added to this uncertainty is the situation in Russia and the Ukraine, where reform has been slow and output is barely back to Soviet levels. Tyers has estimated that the countries of the former Soviet Union could go from net importers of cereals to exporters of 30–50 million tons by the end of the 1990s (Tyers 1994). Russia could export 28–32 million tons in the year 2000, adequate to satisfy the expected Chinese import demand. These estimates are, however, premised on adequate domestic price incentives and favorable institutional and policy changes in the former Soviet Union. A recent IFPRI report is not optimistic that an efficient agricultural system will emerge in the near future. "Over the medium term, however, institutional constraints, friction in finance, land and labor markets, and infrastructure limitations will probably prevent strong response to incentives should they actually be offered effectively to farm producers and the processing sector" (von Braun et al. 1996). However, Russia and other parts of the former Soviet Union are trying to accede to the WTO and have a number of constructive reform measures on the books. President Yeltsin announced recently that Russia was expecting to export grain this year for the first time in the decade. These countries may well play an

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important role in agricultural markets in the next few years. However the market balance turns out, these countries should be incorporated swiftly within the increasingly liberal and open system of trade.

Commodity Market Structure and Price Stability

World markets have undergone a subtle but important structural change in the past decade. This has not happened by accident. Indeed, one objective of the reform of agricultural trade has been to change the behavior of agricultural markets and increase their stability. This change is still ongoing, but further talks that could complete the structural transformation of agricultural markets are now in sight. Although it is unlikely that we have seen the end of all "crises" in world food markets, governments can move to improve the stability of world prices.

Agricultural markets are chronically unstable for a number of reasons. They tend to adjust by price rather than quantity, because producers often cannot hold back a large crop, and storage is expensive. Also, consumers find difficulty in shifting consumption patterns in the short run, and agricultural products that are a raw material for further manufacturing may represent only a small part of the total cost. Adverse weather and disease are also a major cause of fluctuating market conditions. Governments have in the past exacerbated the price fluctuations needed to restore market balance by trying to stabilize the domestic price. Domestic price stability, when achieved through trade policies (increasing protection at times of low price and reducing it when supplies were short), came at the expense of the international market. Export subsidies, which expand at times of low world prices, also accentuated the price swings. Meanwhile, food aid became more scarce when prices were high.

But in recent years, prices have stayed firm, because stock levels have declined and the cushion of unused capacity has been much reduced. Export subsidies can no longer expand so much when market prices decline, because they are constrained under the WTO schedules both by expenditure and quantity limits. Also, consumption should increase when supplies are adequate, because trade barriers cannot be increased beyond the bound tariffs when world prices fall. When prices rise, more producers get the benefits of higher returns, and consumers adjust consumption patterns. However, some exporters still impose export controls and taxes when prices are high, exacerbating international price fluctuations. Taken together with the prospect of more open markets as a result of the Uruguay Round and domestic reforms, the curbs on export subsidies suggests that the periods of price depression that have characterized the agricultural markets for decades can be avoided. The counterpart policy, which avoids driving prices too high by restricting exports, is needed to complete the structural reform. Natural shocks could still cause

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price instability in the major agricultural markets, but man-made instability could be reduced by the reforms underway.

Suppose, however, that firm prices do not materialize. The agricultural trade reforms put into place in the Uruguay Round may not be immune to world market conditions. Indeed, a renewed crisis in world markets could actually undo some of the work of the Uruguay Round. A sudden fall in world prices could cause tensions between implicit domestic income guarantees to farmers and the commitments that countries made under the WTO to limit support. Some countries would be able to make use of the safeguards agreed on in the Uruguay Round or those that were already available under the GATT. But in other cases, any serious decline in domestic market prices could lead to an irresistible call for more protection. This is where a change in domestic policies can rescue the trade system. The URAA allows the use of green box policies, such as income insurance, subject to specified limits on their operation. If countries use such policies imaginatively to offset sharp temporary price declines, rather than buying up produce to maintain prices, the trade system will survive and the reforms will be strengthened.

How might the new trade system withstand shortages on agricultural markets? The danger of high prices is not so much that the system will collapse but that domestic interests will successfully argue that scarcity is the portent of future shortages. Exporters may be tempted to restrict sales, exploiting the current weakness in the rules on export restrictions. Import-competing sectors will request more protection to build up capacity to guard against such shortages. This protection is of course restrained by the WTO commitments, but countries could use a variety of devices to build up domestic production. Enthusiasm for trade liberalization would quickly evaporate, just as it did during the Tokyo Round in the 1970s. Caught between the twin dangers of shortage and surplus, the trade negotiators should focus on systemic improvements that will improve the performance of agricultural markets and stabilize them.

Changes in the Composition of World Agricultural Markets

Other structural changes in the agricultural and food markets of the world will also have a major impact on the next round of trade talks. One example is the intraindustry reorganization that can transform an isolated national market into a part of the integrated global system. Firms that seek to lower production costs by taking advantage of economies of scale drive this reorganization. It is also a consequence of the relaxation of investment and trade regulations. In other words, the food and agricultural sector is not escaping globalization. While agricultural products are rarely assembled from outsourced materials—farmers do not often move their activities offshore to take advantage of lower-wage labor—various more subtle changes are causing a quiet revolution.

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The most notable indication of this change is that the growth in trade in high-value-added products is much greater than that in homogeneous bulk products. In 1985, trade in high-value-added products was barely one-half of total agricultural trade. By the year 2000, it is estimated that this share will be around three-quarters of agricultural trade. Part of this is caused by rising incomes, as consumers shift away from unprocessed foods. But much of the growth in high-value-added goods is caused by increasing product differentiation, as producers and food retailers attempt to convince consumers of the merits of particular geographical locations, recipes, and brand names. Goods that were once considered nontradable have found a place in foreign markets for ethnic and exotic foods. Now that countries in Central and South America have freed foreign exchange markets, they have enthusiastically begun to trade. Product differentiation, market segmentation, and quality attribution—along with the growth of trade in nontraditional commodities—are the keys to the growth of agricultural exports from these countries. Trade in differentiated products is also behind much of the rise in US agricultural exports, including those to the old, saturated markets of Europe. Meanwhile, Europe is enjoying a minor export boom in the same types of commodities, breaking out of the trap that for years had made it focus on a few undifferentiated products that it could only sell with heavy subsidies, such as wheat, sugar, skimmed milk powder, and butter.

This shift in the type of trade raises new issues that need to be resolved, including intellectual property rights on seeds and genetic material, geographical origin protection, labeling of organic produce and of goods containing GMOs, and animal and plant health and human safety. Another round of trade negotiations might well be justified on these grounds alone, regardless of the old issues of market access and export subsidies. Significant tensions in this area will probably arise if rules are not clear and widely accepted. Indeed, the widespread use of crops that incorporate biotechnology may soon collide with the equally widespread fears that consumers, often encouraged by those with other agendas, have about their safety. Unless public authorities regain the public's confidence, trade rules that aim to facilitate trade can lose credibility in the public eye.

There is no indication that this shift up the value-added chain is likely to slow down soon. The emerging science and practice of biotechnology holds enough tantalizing promise to excite the most jaded imagination. Indeed, for many the key to feeding the world at a reasonable cost is to make full use of the new knowledge and skills in this area. The biotechnology industry is undergoing structural change, as large corporations search for the profitable products that will pass the scrutiny of regulators and not be rejected by the public. So far, the most important of these products have been cost reducing, appealing to producers, rather than taste enhancing. Such cost-reducing biotechnologies could increase the market share of those countries that allow or encourage these techniques.

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Hence, trade conflicts could involve discrimination among suppliers of similar goods depending on the method of production. But biotechnology also makes it possible to design foodstuffs to improve their marketability. This could lead to an increase in trade rather than trade friction, as producers attempt to meet new consumer tastes.

This shift toward trading more processed and differentiated foods also brings different actors into agricultural trade talks. Agricultural merchants and traders have always played a role and have generally favored more open markets. Agricultural processors have been much more ambivalent. In exporting countries, the processors favor expanded trade, but in importing countries, they have often been among the most ardent advocates of domestic self-sufficiency and high capacity. They have tended to take a rather narrow commodity-oriented view of agriculture and its development. But as these firms become more international, as their product lines expand, and as they compete with others that have lower raw material costs, they begin to recognize the benefits of allowing the price of raw materials to be determined by the market rather than by politicians. And as trade in consumer-ready foods increases, the desire to export intensifies. Firms can then take advantage of economies of scale in processing and manufacturing, further reducing costs.

Changes that complement these developments in the food sector are taking place in the agricultural sector. Farms continue to grow larger on average in Japan and Western Europe, as farm amalgamation continues. In Eastern and Central Europe, state farms are being privatized, but usually in parcels of reasonable size. Consolidation in wholesale trade often encourages farmers to cooperate either with each other or through contractual arrangements with their buyers. As price supports are weakened, the producer has a greater incentive to improve product marketing, through better quality and differentiation.

These changes are in the direction of a sophisticated agricultural industry that is aware that the future depends on satisfying a variety of consumer tastes and competing with other goods and services for the consumer's dollar. More actors become involved in the political process, and the center of gravity shifts perceptibly away from the primary producer. Policy becomes less commodity focused and the emphasis switches to adding value to the raw material and marketing the final product. These changes are crucial to the future of agricultural trade policy reform. If the market is an administered price supported by public purchasing agencies, free trade poses a real threat to the activities of those agencies. If farmers produce for the world market, improvements in access to overseas markets can compensate in part for more domestic competition. A freer agricultural market no longer means a collapse of prices and mass rural depression. Today, it is more likely to spark rural entrepreneurship and healthy market development based on response to the changing food habits of middle-class consumers.

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New Issues and Challenges for Trade Rules

Structural challenges faced by the trade system have been mounting in recent years. These challenges include the entry of China, Russia, the Ukraine, and other countries into the WTO; the future of preferential commodity agreements such as those run by the countries of the European Union and their former colonies; state trading, which has reared its head in a number of agricultural disputes; and trade in the products of biotechnology. Each of these has a strong agricultural component. The prospective new WTO members are major players, actual or potential, in agricultural markets. Under what terms they join the WTO will influence the nature of those markets. The preferential agreements are usually related to agriculture, and whether the countries that benefit from the current preferences can substitute other products for the traditional exports will be crucial to their transition. State trading is more widespread in agricultural markets than in other sectors, and it is more controversial. And an increasing number of biotechnology products are coming to market, ensuring that this challenge will grow in importance over the next few years.

Entry of China and Russia into the WTO

China's application to reenter the WTO (it withdrew from GATT in 1950) poses significant problems and enormous possibilities for agricultural trade. China's internal political and economic structure is problematic, because state-owned firms still produce much of output and the ability to trade internationally is still tightly controlled.[4] Meanwhile, China's huge market potential, amplified by recent strong economic growth, excites many would-be exporters to that country. China could become a major player in agricultural markets: But under what conditions and rules will such trade take place?

The negotiations have dragged on for nearly a decade, with alternating periods of optimism and pessimism. However, it now seems that accession could be agreed on sometime in 1998. Some transition period will no doubt follow before full application of all rules to China's trade, and the schedule of tariffs for China may be phased in. The main issues are the degree of import protection and the activities of China's state-owned sector. The height of the agricultural tariffs that China binds will help to determine the attractiveness of the import market and have an indirect impact on the pressure for import liberalization in other Asian countries. In particular, a China with a relatively open market for agricultural goods could lead the way toward a more liberal regime in several other countries in the region. How state trading firms for agriculture such as Cofco

4. Morici 1997 discusses some of the major issues in the debate on China's entry.

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are treated will also be an important part of the overall arrangements for dealing with state trading in the WTO.

Russia, along with the Ukraine and several other countries of the former Soviet Union, has also requested to join the WTO. Negotiations for the accession of these countries will face some of the same problems that China has faced in its negotiations. Current WTO countries will be concerned with the role of the state and the extent to which exports can be subsidized or imports restricted by nontransparent state action. However, these former Soviet countries have made major political reforms that make them open and less likely fundamentally conflict with WTO rules. Negotiations with these countries might even be faster than those with China. When the next round of agricultural talks conclude, Russia and some other former Soviet countries might be WTO members.

Commodity Preferences for Developing Countries

The world market for agricultural products is littered with commodity-specific preferential access schemes left over from the postcolonial period. The system of nonreciprocal preferences, designed to help the development of newly independent countries, has probably run its course. The preference systems tend to direct trade along particular channels. These channels may have had a historic justification, but now they discourage innovation and diversification. The degree of preference will be reduced over time with liberalization, possibly leading to perverse arguments for maintaining high protection as a form of aid. Principles of nondiscrimination are likely to be more rigorously enforced in the future, requiring frequent applications for waivers for schemes that favor particular groups of developing countries. Strengthening the application of Article XXIV of the GATT, under which free trade areas and customs unions are allowed to violate the most favored nation (MFN) principle of the WTO, will also put pressure on nonreciprocal preferences. If the preference schemes are enshrined in TRQs in the WTO schedules, there will be a tendency to expand those TRQs as a part of trade reform, thus further diluting the benefits to the targeted countries.

The change from the present preferential system to one that grants the countries concerned no preferences could be painful. The preferential quotas certainly have a value to the producing country, one that cannot be easily passed up. The sale of bananas from the Windward Isles to the United Kingdom is facilitated by an elaborate licensing system that allows firms that participate in that trade also to sell more profitable bananas from Central America. Sugar from Jamaica and Trinidad would not be nearly as viable if it were sold at world market prices. However, full access to the EU (and US) markets without quota limitations could be even more lucrative, because domestic prices are kept high through

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protection at the border. And in the medium run, as price supports are cut back, compensation for lost preferences in the form of investment guarantees could be as beneficial to the overseas banana and sugar supplier as compensation was to the Mexican corn producer or direct payments to the Japanese rice farmer could prove to be.

A generally acceptable approach within the WTO to allow these preference schemes to wind down as part of the general process of trade liberalization would be beneficial. Rules similar to the green box for payments are needed. These would substitute for the transfers currently generated by preference schemes without introducing the trade distortions of the transfers. A solution to the "banana problem" and a long-term reform of the world sugar market may both depend on such a scheme. This issue may not come up in the new round, but it will be discussed by the European Union and the countries concerned The issue could influence the trade environment for some countries more than the multilateral talks.

State Trading

State trading poses another set of issues for WTO members as they prepare for a new round of negotiations on agriculture. Tariffication has highlighted the difference between import systems based on private trade, in which tariffs directly influence trade decisions, and parastatal import arrangements, in which the decisions are made on other grounds.[5] On the export side, the specification of export subsidies has made more apparent the difference between private trading and government-sponsored export monopolies. This has surfaced in recent months with regard to the Canadian Wheat Board, a state-controlled sole selling agency for much of Canada's grain ("single-desk" selling), which is thought to have some commercial advantage over private traders in world markets. The entry of China, Russia, and the Ukraine to the WTO brings with it the fear that these countries have state control of imports (and in some cases exports), which will frustrate attempts to reform the trade rules. Therefore, the issue of state trading will be high on the agenda at the multilateral level. There will clearly be an attempt to regulate the use of market power in trade by parastatals. However, two questions remain: What can be done? And how can it be done?

That the parastatals are significant economic entities in trade is not in doubt. Table 13 gives the trading position of the top nine parastatal importers of agricultural products. With the exception of CONASUPO, which has lost most of its functions but still imports milk powder into Mexico, all the other large parastatals are in Asia. Cereals and oilseeds

5. The introduction of TRQs has also increased the scope for state trading, because the lucrative quota rents can be distributed to parastatal organizations.

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Table 13 Major state trading enterprises: importers

Country	STE	Commodity	Annual purchases (US$ million)
Pakistan		Rice	1,437
China	Cofco	Wheat	1,286
		Oilseeds	1,140
		Cotton	758
Japan	JFA	Wheat	1,238
		Rice	507
Indonesia	Bulog	Wheat	608
Mexico	CONASUPO	Skim milk powder	442
South Korea	LMPO	Beef	412

Source: Economic Research Service, USDA.

dominate these parastatals, reflecting the trading patterns of the region. All have strong political support in their country but are suspected by exporters of undersupplying the domestic market to boost prices. The value of trade of the major state export agencies is shown in table 14. The eight largest each has exports of over $300 million. With the exception of China, these are all in developed countries that claim to be efficient exporters with an interest in open markets.[6]

The first choice faced by those wishing to regulate state trading is whether to attack the existence of the state trading agencies, regulate their behavior, or change the competitive environment in which they operate. Despite widespread adoption of neoliberal trade policies, in particular in Latin America, it seems implausible that WTO members would opt for an outright ban on managed trade. Too many countries would have to abandon too many powerful domestic agencies.[7] Currently, WTO articles try the second approach, though without notable success. Article XVII of the GATT, clarified by but not essentially changed in the Uruguay Round, states that the WTO should be notified of the existence of such state trading enterprises. These enterprises are expected to make decisions based on commercial considerations. Besides the ambiguity of what constitutes a commercial consideration (after all, making use of market power is intrinsically commercial), the admonition is somewhat unrealistic. If a government establishes a state trading monopoly, it probably intends to use its monopoly power. Given that market advantage, a state trader is unlikely to act the same way that a private firm would. As one might expect, little use has been made of this article to modify the behavior of parastatal agencies.

6. With the exception of Pakistan, the largest importer and exporter STEs are in an APEC country, which suggests that this forum would be particularly appropriate for discussing the problem.

7. The most one could hope for is an agreement, in principle, that such agencies should not be created without some form of compensation to affected parties.

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Table 14 Major state trading enterprises: exporters

Country	STE	Commodity	Annual sales (US$ million)
Canada	CWB	Wheat	2,900
	CWB	Barley	301
New Zealand	NZDB	Dairy	1,800
Australia	AWB	Wheat	1,400
(Queensland)	QSB	Sugar	925
(New South Wales)	NSW	Rice	361
China	Cofco	Corn	704
		Sugar	368

Source: ERS 1997.

Just as tariffication has exposed state importing, it might also have clarified its solution. In particular, the abolition of nontariff barriers has reduced the legitimate functions of the parastatals. A little-used article in the GATT, Article II(4), states that no markup from a state trading importer should be larger than the bound tariff. In the past, countries were able to circumvent this by claiming that the parastatal was administering a nontariff barrier. In any case, relatively few agricultural tariffs were bound. In a regime of bound tariffs and no nontariff barriers, this defense collapses. It should be straightforward to compare markups with bound tariffs in the future and require state traders to sell imports on the domestic market at no more than the border prices plus the tariff.[8] Moreover, countries are obliged under GATT rules to abide by the language of the Havana Charter, which mandated full disclosure of import costs and profit margins of state import firms and stated that the agencies must import supplies adequate to meet "full domestic demand" for the product. A strict interpretation of this provision would make it difficult for countries to use such agencies for substantive protection of the domestic market.[9] This approach may not require further negotiation, because it rests on the vigorous application of current trade rules.

A third way to reduce the incidence of managed trade by parastatals is to challenge the source of their power rather than their existence or behavior. For instance, the parastatals' monopoly on imports could be ended. They could continue to exist but not have exclusive import rights. Countries could, for instance, allow private firms to compete with the state

8. This approach highlights the importance of reducing high tariffs: there is little point in holding state traders to such disciplines if the tariffs are too high to allow any trade.

9. This would move far beyond the binding of the markup as already incorporated for countries such as Japan and South Korea in the Uruguay Round schedules. Indeed, tariffication should have already done this for most countries. So long as the quantities of imports do not respond to the reduction of the tariff or markup, the benefits are not felt by other countries. Only the size of the transfer between domestic consumers and taxpayers is affected. But by comparing import and domestic prices and requiring imports to enter until the difference does not exceed the bound tariff means that the state importer acts as if there were private trade over a fixed import tariff.

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trading body. Incidentally, this would improve the ability of other countries to monitor the performance of parastatals and generate some vested interest in liberal trade within the importing country.

Yet another way to reduce the market power of a state importer is to expand the quantity of imports until the monopoly power has no effect. Expanding the TRQs, for instance, could prove effective. The key is to expand the TRQs beyond the quantity that the state trader would choose to import. Expanding TRQs weakens the parastatals' ability to keep prices high, and the lower tariff of the TRQ becomes the determinant of the quantity imported. Moreover, the TRQs arising from tariffication and the minimum and current access provisions could be allocated to the private sector and not to the parastatals. Parallel imports would erode the quantity control aspect of managed trade.

Despite the trade frictions that seem to surround exporting state traders, such as the marketing boards for wheat and dairy products, the application of current trade rules should be even more straightforward in this case. The concern about state trading exporters that is likely to be high on the agenda for the next round arises from the suspicion of covert subsidization of exports. The resolution should therefore be a straightforward matter of measuring and restricting export subsidies. Financial assistance to exporter boards is explicitly included as an export subsidy in the URAA, and the sums involved in the past should have been entered into the schedules. Countries can continue to subsidize up to this level with impunity. If these expenditures are further restricted, then the issue of the subsidized marketing board will vanish. Some state export activity arises from state importers and some from export subsidies in other countries. Removing the monopoly power of the importing parastatal and curbing export subsidies may reduce the attractiveness of the export board as a marketing device. Somewhat more tricky are marketing boards that define "domestic" and "export" grades as a way of charging a higher domestic price. Such two-price schemes, along with price pooling and other devices, were supposed to be included as export subsidies and, therefore, controlled. But some clarification may be needed either to the URAA or in a subsequent code on parastatal exporter behavior.

Agricultural Trade and Biotechnology

Agricultural trade reform must proceed in the context of other issues, related but not central to production agriculture. These include the differences in labor laws and environmental regulations and disparate standards and technical norms. Every now and then, an issue emerges that cannot be easily accommodated. Whether the public will accept the products of biotechnology is one such issue. As more and more crops incorporate some form of genetic modification, the greater is the likelihood of a major confrontation between trading partners. The question seems now to

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revolve around a simple but fundamental choice: Should consumer sentiment (as opposed to hard scientific evidence) be considered when setting import (and domestic) standards?

The two sides of the argument are clear. From the point of view of trade policy, any rule-based system has to guard against implementation that reacts to the headlines of the day and pressure from those groups looking to manipulate consumer opinion for other purposes. The SPS agreement appeared to put in place the principle that scientific evidence is required to justify a stricter standard than those in international use. From the point of view of politicians, however, consumer confidence and voter sentiment are not unconnected. It may not be wise to appear to be bowing to a ruling from a panel of trade policy experts (themselves possibly swayed by evidence from vested interests) in the face of adverse public opinion. Politicians take their cues from the public and are not answerable to trade dispute panels. A third interest is the business firm in the exporting country, which prefers not to hurdle inconsistent standards in each country, but is not averse to differentiating the product to gain a higher price from the more discriminating part of the market. A fourth participant in the debate is the domestic firm that stands to gain from the trade restriction.

How might this clash be resolved? The trade system needs to maintain credibility and support from politicians and even the public. To go against public sentiment would be to risk this support. But national politicians should also explain to the public the benefits of a rule-based trade system. Some degree of objectivity is a small price to pay to avoid the chaos of hundreds of seemingly arbitrary regulations. These politicians would, after all, have no trouble explaining the same concept if it were suggested that each city have its own trade rules.

The circle can be squared for the products of biotechnology by ensuring that each national regulatory body has the confidence of consumers and the public and is neither influenced by local producers nor captured by political movements that have agendas broader than public safety and information. These national bodies should help to disseminate information that reflects scientific consensus. They should also assist in the development of international standards that they can recommend to governments to accept. They should work with the industry to devise labeling systems that would give consumers the choice when controversy surrounds the properties and consequences of particular foods. In other words, if the national regulatory agencies adopted a science-based approach, the problem would not show up as a trade friction. However, this approach is likely to be adopted only if those bodies are free of direct influence from vested interests (on both sides of the issue) and have their independence guaranteed by governments.[10]

10. Of course, how the participants in these national agencies (e.g., the US Food and Drug Administration) are chosen will be important in determining whether they will really solve the dilemma.

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