The Impact of Regional Trade Agreements on Canadian Agriculture

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Introduction

The recent growth of regional trade pacts poses both a significant challenge and a possible opportunity for Canadian agricultural trade policy. The challenge arises from the fact that the expansion of regionalism could slow down the process of multilateral trade liberalization upon which the future of Canada's export agriculture rests. On the other hand, Canada, as a member of the North American Free Trade Agreement (NAFTA), an active participant in the Asia Pacific Economic Cooperation Process (APEC), the instigator of a free trade agreement with Chile when the US was unable to move in that direction, and an ardent advocate of closer Transatlantic links has its feet firmly planted in the regionalism camp. As such it is in a good position to benefit from better access in all the major regions of the trading world.

This paper looks at the benefits and costs of regional approaches to agricultural trade liberalization in an attempt to evaluate whether it is in the best interests of Canadian agriculture

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to pursue the course of regional agreements. These benefits and costs rest in turn on the changing role which agriculture is beginning to play in the regional agreements and the changing nature of the agreements themselves. This changing role is discussed in the second section of the paper. This is followed by an examination of the specific regional agreements in which Canada is a participant, relating these agreements to the multilateral trade system. Some conclusions follow on the overall benefits of regionalism to Canadian agriculture.

The Economic Costs and Benefits of Regionalism

The heart of the economic dilemma posed by regional trade pacts is the relative importance of two different trade impacts, usually referred to as trade creation and trade diversion. To this should be added a third, trade deflection. The impacts of including agriculture in the terms of a free trade agreement rest in large part on the magnitude of these three effects. Empirically, the costs and benefits to Canadian agriculture can be quantified in terms of the magnitude of trade diversion and trade creation, though that is not attempted in this paper.

Including agriculture in a free trade area or common market has benefits for the importing countries within the region, as protection is reduced on supplies from the partner countries, and for the exporters in the region who find their market expanding. The reduction in protection in the importing country *creates* trade, and moves in the direction of multilateral liberalization. Canada, for instance, benefits from the reduced protection for its less efficient sectors by granting better access for US products under NAFTA. Though the political popularity of this improved access may not be great, the main benefits are as a result of increased imports as a result of lower prices.

The major drawback comes from the fact that the partner country which gains better access may not be the most efficient supplier. As a consequence, desirable trade may be *diverted* from other suppliers in favor of the preferred source. This limits the benefits to the importing country and can on occasions negate any economic advantage from the partial liberalization. Trade diversion also hits suppliers in other countries, as existing exports can be displaced by the preferred supplies from the partner. Canada could benefit from trade diversion in the US market, for instance, if preferences under NAFTA gave it an advantage over (say) Argentina. Similar diversion can occur with regional agreements on trade and investment rules, where the increased investment may be channeled in directions which are less productive than would have occurred with a multilateral liberalization of investment. Finally, any regional agreement on standards also risks making it easier for high cost regional sources of supply to meet the requirements, thus potentially diverting trade from more efficient suppliers elsewhere.

The potential distortions in trade patterns arising from trade diversion have been the main reason why regional trade agreements are treated with caution by economists and others taking a global view of trade. From the viewpoint of Canada, granting access to US grain and oilseed production is likely to have rather limited trade diversion effects. The US will tend to sell grain and oilseed products at somewhat close to world market prices. For other products the picture is not so clear. For dairy and poultry products the US exporter benefits considerably from the higher Canadian prices for the limited quantities that can be imported under NAFTA. Trade diversion in this case takes the form of foregoing the tariff revenue and paying a higher price in foreign exchange than would be the case for imports from third countries.

Trade deflection refers to the channeling of goods into a country through a partner with a lower tariff level. This possibility leads to the establishment of rules of origin, which seek to limit free access to goods produced in the partner country. Theoretical treatments of free trade areas commonly assume that rules of origin work. A little reflection casts severe doubt on that assumption. First, with homogeneous commodities the problems of enforcing rules of origin are likely to be formidable. But even if every grain of sugar or bushel of wheat was labeled as to its origin, increased imports for domestic consumption in the low-tariff partner would allow exports to the high-tariff partner (legal deflection) up to the level of domestic production. Thus living next to a large, more liberal trading partner may essentially imply taking on the price levels in that market. Canada is unlikely to be able to maintain prices higher than those in the US if it were to give unrestricted access to US imports. Rules of origin demonstrating that the goods are indeed from the US do not inhibit such trade deflection.

The notion of trade deflection can be extended somewhat to include the impact of arbitrage on domestic policy instruments. The indirect link between regional agreements and agricultural policy reform is through the impact of the partial opening of borders on the effectiveness rather than the administration of policy.[1] In some cases this will lead to harmonization, in other cases to common policy instruments. In a few instances policies will become so ineffective that they

[1] This argument is developed more fully in Josling (1998).

may have to be abandoned. Once again it is the smaller partner that is going to be most affected. Thus the Canadian domestic policy set may look very different after a few years of adjustment to the realities of NAFTA.

The impact of different export policies is a clear-cut example of trade deflection. If one partner has an export subsidy, then free regional trade will encourage imports from neighbors either (illegitimately) for re-export or (legitimately) to replace the exported quantity on the domestic market. Given the constraints on export subsidies within the WTO, this may become increasingly an irritant in bilateral relationships.[2] This is the underlying cause of the conflict between the US and Canada on the growth of exports of Canadian wheat to the US. In addition, export subsidies on internal trade are often outlawed within a free trade area, as representing obvious distortions of internal competition - as happened in the case of the Free Trade Agreement between Canada and the US which preceded NAFTA.[3]

Such inevitable weakening of national policy instruments is chiefly through the arbitrage possibilities of regional free trade. The same effect tends to limit “domestic” policy instruments as well as those that operate at the border. One good example is that of supply control, as used in Canada, which aims at restricting supplies onto the domestic market to raise the price. It has long been recognized that some form of border protection (usually in the form of an import

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[2] Export restrictions are also difficult to maintain for the same reason.

[3] It can however be argued that there is little economic or political logic to the exporting members of the FTA selling to partners at a higher price than to third countries, nor to the importing country buying subsidized goods from third countries but not from the partner. Hence, in the NAFTA, export subsidies are allowed within the market if the importer does not complain and if the exporter needs such subsidies to remain competitive with subsidized imports from outside.

quota) is needed to make supply control effective. If the regional trade agreement removes such external protection, then the domestic supply control will eventually be rendered ineffective.[4] This indirect impact through arbitrage may in the longer run prove to be the most significant link between regional trade agreements and the changes in Canadian domestic agricultural policies.

Agriculture and the New Regionalism

To see how these thee trade effects are likely to influence the prospects for Canadian agriculture, some description of the development of regional agreements is necessary. Three distinct periods of "regionalism" can be identified in the post-war period. The first is represented by the British Commonwealth and its associated preference system and the similar colonial and post-colonial preference schemes operated by the other European countries with overseas territories, notably France, Portugal, Belgium and the Netherlands.[5] The remnants of this system of preferences can be seen in the Lomé convention which governs preferential trade between the European Union and the African, Caribbean and Pacific countries (the ACP). Canada still has an agreement covering the importation of goods from the Caribbean countries, CARIBCAN, which originates from these Commonwealth links. Agriculture was central to the preference agreements of the colonial and post-colonial era. In fact, Canada itself still had a strong trade link with the UK in the post-war period as a result of historical ties. Certain

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[4] This same reasoning applies to policies that try to stabilize the domestic market, such as by holding public stocks. Such policies are made less effective or more costly by the existence of a free intra-regional market.

commodities, notably sugar and bananas, still reflect the preferential linkages of the post-war period, though the proportion of agricultural trade covered by such schemes is by now rather low.

The countries of continental western Europe, with the encouragement of the United States, experimented with a second type of post-war regionalism, economic integration as a step towards political integration leading to the formation of the European Economic Community (EEC). In the context of rapid reconstruction of the war-torn economies, this regional integration played a strong role in the recovery of the European economies. Agriculture was included in the development of the internal market, but with high levels of external protection. As a direct result of the apparent success of the EEC in the late 1950s, a new wave of regionalism was initiated in other parts of the world. This included the European Free Trade Association (EFTA), the Central American Common Market (CACM) and the Latin American Free Trade Area (LAFTA). This latter agreement included almost all the countries of South America as well as Mexico. But the spread of regional trade pacts in the 1960s did not have much impact on agriculture. At that time, most regional trade agreements (with the notable exception of the EEC, as mentioned above) left agricultural goods out of their free-trade provisions, or included them only in limited ways, in deference to the political sensitivity of the sector and the potential for conflict with domestic policy objectives (WTO, 1995).

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[5] It was the existence of the Commonwealth that required the inclusion of Article XXIV, allowing free trade areas as an exception to the non-discrimination principal, in the GATT in 1947.

We are now in the midst of a third wave of regional trade agreements, dating to the late 1980s. The situation with respect to the treatment of agriculture is rapidly changing I these agreements. In the Americas, MERCOSUR, the revived Andean Pact and the strengthened CARICOM all include agriculture in their free trade provisions, with relatively few exceptions.[6] NAFTA also envisages a free market in agricultural goods between the US and Mexico, though for several products (such as sugar, dairy products and poultry) Canada would not be part of this market.

In Europe the same trend is noticeable, though the issue is vastly complicated by the existence of the Common Agricultural Policy (CAP). The countries of Central and Eastern Europe have included agriculture fully in the Baltic Free Trade Area (BFTA) and in a more limited way in the Central European Free Trade Area (CEFTA). The Europe Agreements which aim for free trade between the Central and Eastern European countries and the EU also include agriculture, albeit with quantitative limits on products which threaten the operation of the CAP. As and when these countries become members of the EU, they will fall within the orbit of the CAP.

In agreements involving the EU and non-members, agriculture is still treated as being outside the realm of unrestricted free trade. The Euro-Med agreements now being finalized between the EU and the countries of North Africa have so far avoided including sensitive agricultural products, as does the customs union which was negotiated with Turkey. The negotiation of a free trade agreement between the EU and South Africa has been held up by the reluctance of the EU to

[6] MERCOSUR at present leaves out sugar, but includes other agricultural commodities. Moreover the Common External Tariff (CET) is relatively low for agricultural products.

grant improved access to goods which would have directly competed with those covered by the CAP. Similarly, talks between MERCOSUR and the EU, as well as those between the EU and Mexico are finding it difficult to overcome the problems which improved access to the EU market would seem to pose for European agriculture. The EU is in the process of renewing its trade agreements with the African, Caribbean and Pacific countries (ACP). One option is to turn these non-reciprocal agreements into full free trade areas, but these negotiations are also hampered by consistency with the CAP. Thus agreements with the EU, other than those leading to membership, have a more uncertain influence on agricultural trade liberalization. In so far as they eventually force changes in the CAP they will have been successful in furthering trade reform, but that outcome is by no means assured.

In Asia the process of including agriculture in free regional trade has gone even less far: the countries of ASEAN have to date been unwilling to incorporate primary agriculture as an integral part of their planned free trade area (AFTA), though some food commodities are included in the preferential tariff scheme. The financial crisis in several countries of the region has probably delayed further bold steps toward liberalization in agriculture. However, the Closer Economic Relations Agreement (CER) between Australia and New Zealand does now fully include agricultural goods, even requiring some changes in domestic policy to make it possible.[7]

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[7] Australian dairy marketing regulations were modified to allow New Zealand dairy exports to enter as if they were produced in Australia.

It is clear that the regional trade liberalization process itself is significantly influencing the terms of access to major markets around the world. Whether or not agriculture is included in such regional agreements has therefore become an important issue for the global trade system, and by extension for Canadian agriculture. To the extent that these agreements do include agriculture, this gives them a new significance, for better or worse, in the process of liberalizing agricultural trade. It also necessitates some coordination with the multilateral process in order to avoid detracting from the more fundamental objective of multilateral trade liberalization. To the extent that agriculture is excluded from these agreements, different concerns apply. The sector is likely to remain protected by domestic and trade policies for even longer if it can resist improved access to regional trade partners. The agricultural and food processing system will tend to remain localized in such cases, servicing domestic production often at a high cost and being protected from international competition. For exporting countries such as Canada, such isolated, nationally-based food industries are not a constructive part of the global food system.

Free-Trade Networks and Agriculture

Regional trade agreements themselves are not static institutions, nor are they passive participants in world trade. Few have kept the same membership for long, and all have evolved as a result of both internal and external dynamics. One such external force began to emerge piecemeal in the early 1990s. This was a new set of trade pacts which could be called free-trade network (FTN) arrangements, which link free-trade areas by means of treaties among the blocs. The best known case was the European Economic Area (EEA), between the EU and the EFTA countries, which granted free movement of goods (except agricultural products), services and factors between the two blocs. The structure was intended as an alternative to EU membership for the EFTA countries at a time when these countries had foreign policy objections to joining the Union.[8]

The major architectural innovation of the mid-1990s was to transform these networks into (actual or potential) trade agreements that span the continents. This new breed of supra-regional FTNs includes both APEC and the FTAA. These are different from traditional regional trade blocs in that they have overlapping membership (several countries participate in both) and hence join rather than isolate continents. The fact that a country can be a member of more than one such agreement is the key in this regard: such a country can hardly discriminate against itself. Moreover, they can include both countries and existing trade agreements as components. In this way they build on current agreements (FTAA) or be neutral toward them (APEC, which includes members of ASEAN, the CER, Mercosur and NAFTA, as well as countries that belong to no bloc, such as Japan). Though they differ among themselves in certain crucial ways, in particular in their treatment of trade with third countries, they both represent new ways of negotiating reductions in trade barriers.

Canada, as was mentioned earlier, is right in the thick of such FTNs. It belongs to the APEC, is a key supporter of FTAA and was among the first to suggest a Transatlantic trade agreement.

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[8] This idea of a network was suggested in some quarters as an approach to Asian trade integration, with the components being NAFTA, the CER and ASEAN (see Holmes and Falconer, 1992). Another variation on the same theme is the Latin American Integration Association (ALADI), the descendant of the original Latin American Free Trade Association (LAFTA). Regional groups are encouraged within ALADI, subject to

It has shown a willingness to discuss trade agreements with MERCOSUR, and developed trade ties with Chile. It has even contemplated joining the remnants of EFTA, along with Norway, Switzerland and Iceland. It is therefore worth exploring these FTNs with respect to the costs and benefits of regional trade agreements discussed above.

It is notable that these free-trade networks seem at the present to include agricultural trade. The Free Trade Area for the Americas (FTAA), which is intended to consolidate the regional pacts in the Americas, is scheduled to include agricultural products and thus lead toward a single market in the Hemisphere. A separate negotiating group on agricultural trade has been set up as part of the FTAA process to guide this process. For countries such as Argentina and Brazil, inclusion of agriculture is imperative. Canada, as a proponent of the FTAA, will be confronted with the need to include agriculture despite the domestic sensitivity in some sectors.

Perhaps more surprisingly, the Asia Pacific Economic Cooperation process (APEC) seems to be having some impact in persuading countries in Asia to contemplate the opening up of agricultural markets. The decision was made by APEC to move to a free trade and investment area by 2010 for the developed countries (and 2020 for the developing countries) while extending those benefits to all other WTO members so long as they were prepared to reciprocate. Those that wanted to exclude agricultural goods from this target did not succeed, though it was acknowledged that the pace of liberalization would be determined by domestic

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common rules, but in addition individual member states can enter into economic cooperation agreements with each other and give limited preferences for imports from other members.

factors. As an active member of APEC, Canada has a direct interest in how well these commitments are followed.

In economic terms the FTNs appear to be an improvement over narrower regional blocs. They are large enough to contain low-cost suppliers of most products. Thus the problem of trade diversion is likely to be less. Moreover, they can absorb new members easily and hence will tend to lead to competition within the blocs. So far each has bent over backwards to be compliant with the WTO, and hence include agriculture and avoid the imposition of new trade barriers to third countries. In this sense they are each examples of “open regionalism”.

It is in terms of the management of the multilateral trade system that they do, however, still provide a strong challenge for global institutions. This challenge is summed up in their application of the “most favored nation” principle. If they negotiate free trade among members and do not “multilateralize” the tariff reductions to other countries then they are behaving as regional blocs writ large. The FTAA is in this category, as are the networks being negotiated by the EU. But if they do extend the benefits to all WTO members they are in effect conducting multilateral negotiations, to the delight of “free riders” who pick up the gains but don’t have to contribute to the tariff reductions themselves. Some have suggested that APEC adopt this “unconditional MFN” position. They would then in effect be conducting multilateral negotiations at the expense of the WTO. Hence, there is a significant concern among trade economists and trade policy professionals that the WTO process will be weakened. In reality, it is more likely that the MFN treatment will remain conditional on all beneficiaries contributing to the reduction of tariffs.[9]

Whatever the modality of negotiations, these networks seem to have galvanized countries into making fairly precise commitments to future liberalization. The recent agreements on information technology and telecommunications owe their existence in part to this type of negotiation strategy. For this reason the multilateral system needs to come to terms with this new architecture and make use of its potential to go further than each of the component countries and trade blocs.

The new type of supra-regional FTN architecture is particularly interesting from the perspective of trade reform in agricultural markets. The supra-regional networks which span the regional blocs will not be able so easily to dodge the issue of agricultural trade rules. The problems of agricultural trade will tend to be internalized by the nature of the processes. Canada, for example, could become a member of at least three trade pacts (the Americas, Asia-Pacific and Transatlantic) together covering all the major markets for its goods. The way in which it is included will also tend to be liberalizing for agricultural trade on world markets, putting additional pressure on agricultural protection in Asia and Europe. It is also likely to lead to harmonization of trade regulations, as other exporters would quickly have to conform to standards and procedures in order not to lose out in the major markets of the world.

[9] Thus APEC will offer to extend negotiated trade access to (say) Europe so long as Europe offers similar liberalization. If Europe agrees (along with other non-APEC countries) then the liberalization will have been "multilateral": if Europe declines the liberalization will have proved to be regional in scope. (See Bergsten, 1997b).

Supra-regional trade networks do not in themselves solve the problem of the reluctance of importers to open up their markets. However, the political calculus might change enough for some serious liberalization to occur in agricultural markets as a result of such blocs. The US, for instance, will be in a stronger position to suggest major changes in farm product access in Asian countries if the carrot were benefits negotiated in APEC. Canada would benefit from such improved access. Even domestic subsidies may be forced to conform with subsidy and competition rules within the supra-regional agreements such as the FTAA, giving Canada better access into the US market. In all these cases the threat is of exclusion, and the cost of such exclusion could be high. Despite some obvious dangers in this emerging trade architecture, it does seem to offer a parallel path to the goal of freer agricultural trade.

Canadian Agriculture and the Americas

NAFTA in many respects set the stage for the incorporation of agricultural markets in the process of free trade within regions. Agriculture figured in a limited way in the US-Canada Free Trade Agreement (CUSTA) and then more extensively in the agreement with the US and Mexico in the NAFTA. Canadian agriculture has been significantly influenced already by this regionalization of the agricultural markets. Export sectors have found better access beneficial, not least because US export subsidy programs provided an additional market opportunity in the US domestic market. The Mexican market is small but useful to Canadian grain and oilseed exporters. Sectors that compete with imports have to face the prospect of greater competition in domestic markets. This has in particular had an impact on the dairy sector, where imports of processed dairy goods has threatened the domestic processing sector. In economic terms such pressures are not necessarily bad, though in the case of dairy production it might be better to encourage imports from lower cost suppliers such as New Zealand and Australia rather than from the US.

The bold but optimistic target set by the countries of the Americas at the Miami Summit calls for a Free Trade Area of the Americas (FTAA) by 2005. This would include removing agricultural trade barriers. This is not out of line with the plans of the individual regional trade agreements. By the year 2005 there should be virtually no agricultural trade barriers left between the US and Mexico, though Canada will have to catch up with that schedule by means of steep reductions in intra-NAFTA tariffs for some sensitive agricultural commodities. The same would be true in Latin America, Central America and the Caribbean, if current timetables for liberalization are followed.

The development of integrated regional agricultural markets in the Americas is in general a healthy outcome of the process of national trade and agricultural policy reform in the region, coupled with the formation or strengthening of regional trade agreements of the “open” variety. The degree of uneconomic trade diversion has been kept low by the reduction in external protection in many of the countries, particularly in Mexico and Latin America. External protection is also falling in the US and Canada, though this will need to be accelerated to assist the process of developing competitive industries on a regional basis. The region-wide development of agricultural markets is finding institutional expression in the FTAA discussions which started in April 1998 in Chile. Freer trade within the region should itself have a profound impact over time on the structure of the agricultural sector in the Americas and the policies that are employed to regulate and support it.

The task ahead for the FTAA in the agricultural area will involve some degree of coordination of domestic policies to prevent conflict in the region. But more important than coordination is agreement on the overall strategy to be pursued. This agreement should perhaps include the commitment to continue individual national reforms to free agriculture from the excessive attentions of the state; to stick to or accelerate the timetables established for intra-regional trade liberalization; to pursue the path of integration of the individual trade agreements in the Americas; and to develop a common approach to multilateral agricultural trade issues. The integration of agricultural markets in the Americas will take imagination and political skill to line up support and overcome the opposition to such liberalization.

Canadian Agriculture and the Transatlantic Agenda

One of the most important tasks for the Transatlantic partnership may be to define and improve commercial relationships between the US and Canada and the EU. This issue has recently been revived by Canada, worried about the asymmetry between European and Asian trade policy trends and picked up by a Europe concerned that the US was drifting into isolationism or an obsession with Asia. As a result, there has been considerable discussion in the past decade on the need for a new Transatlantic Treaty to keep the US engaged in Europe. This Treaty, by common agreement, would have to have an economic component. What this economic component could be is less clear. Some have argued at various times for a

Transatlantic Free Trade Area (TAFTA), but Governments have not been willing to go this far.[10] Instead the EU and the US signed at the end of 1995 a joint declaration for a New Transatlantic Agenda, including an Action Plan which promises action on economic as well as security issues. More recently the issue has opened up again, with Sir Leon Brittan's call for a renewed push for a TAFTA and Ellen Frost's suggestion of a North Atlantic Economic Community (NATEC), an economic counterpart to NATO.[11] This latter formulation would apply the APEC approach to trade negotiations, encouraging others to join in the agreed liberalization to avoid the introduction of preferences from which they would be excluded. Canada has been kept informed of these agreements and has attempted to mirror agreements of its own with the EU to maintain as good an access as the US is granted in the European market.

Could such a Transatlantic trade agreement include anything meaningful for Canadian agricultural trade? In agriculture any discussion of US-EU relations carries with it the fear of failure and frustration, borne of the experience with the Uruguay Round and the previous twenty years of tension. The temptation to leave out agriculture from any transatlantic trade agreement will be great. Agriculture would obviously represent a possible sticking point in any FTA discussions. But difficult trade issues must be faced rather than avoided if the transatlantic agenda is to be credible. Political support for an agreement that omitted agriculture would be difficult to secure in Canada. However, the opportunity should not be lost for an

[10] Presumably, the enthusiasm for a TAFTA will rise and fall with the prospects of an APEC that achieved trade liberalization within the Asia-Pacific region to the exclusion of Europe. The EU is unlikely to be willing to accept less favored access into the US market than that enjoyed by Japan.

[11] See Brittan (1998), Frost (1997) and also Stokes (1996).

improvement in trade relations in such an important area. Indeed, if domestic policy trends continue in both the US and the EU, there could be the opportunity for dramatic change in trade relations in agriculture in the not-too-distant future. This could take the form of an agreement to mutually forswear the use of export subsidies in those markets where the two compete; an agreement on domestic policies that would make them consistent with the Green Box category of "decoupled" support; and an agreement on the mutual development of quality and health standards and on mutual recognition of each others sanitary and phytosanitary measures.[12] However, care will have to be taken to resist the temptation to establish new trade preferences across the Atlantic, unless as a part of full FTA with very low levels of external protection.

Canadian Agriculture in the APEC Process

In the Asia-Pacific region, the APEC (Asia-Pacific Economic Cooperation) process calls for "coordinated unilateral" trade liberalization, extended to non-APEC members through the "most-favored nation" rule of the WTO, by 2010 for developed and 2020 for developing countries (Bergsten, 1996). By that stage APEC itself could have expanded to include several more Latin American countries and may even have spread to South Asia. Agriculture is deliberately not excluded from this process, though some countries will have to change their levels of agricultural protection rather rapidly if this target is to be met.

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[12] These ideas are developed further in Josling (1996)

The potential importance of APEC for agricultural trade reform should not be underestimated (Johnson, 1996). By setting a date by which free trade is to be achieved, and by specifically rejecting the attempts of some members to exclude agriculture from the commitment, the APEC process has raised its sights beyond those of the WTO. When APEC was first discussed, few would have thought it likely that any meaningful agreement could have been negotiated in the area of agriculture. The questions that therefore arise are how credible is it as an indication of what will actually happen.

The decision to move to free trade and investment among APEC members represents the triumph of collective courage by heads of government over the politics of protection. Having placed the issue at a broad strategic level, above that of special interests and ministries on the industrial side, it was logical to include agriculture. But it still required significant soul-searching on the part of Japan and Korea to agree to this step. The way in which the free trade goal is to be reached is even more unusual. The process relies heavily on coordinated unilateral action (the APEC National Action Programs) rather than the bilateral negotiations (afterwards multilateralized) of the GATT. The aftermath of the financial crises in the region has put at risk this whole approach to trade liberalization.

How does the inclusion of agriculture fit in with this process? It implies, in effect, that each APEC country will have to bring to the table plans for the unilateral liberalization of agriculture. So far, commitments under the APEC umbrella have not gone far beyond an acceleration of Uruguay Round obligations and agreement on specific sector liberalization plans. The food sector was identified as one of the fifteen areas where the voluntary program of liberalization was to be pursued, along with oilseeds and products. This at least suggests some continued willingness to move into sensitive waters.

Why, if agricultural policies are so difficult to shift, would one expect countries to be able to “give” them away in an APEC-inspired negotiating session? Perhaps it is the novelty of the negotiating method that may give a glimmer of hope. If governments are determined to hold onto protective policies and lay them reluctantly on the table one-by-one, only a slow advance will be possible. But if one starts with a commitment to remove all trade barriers by a certain time, then the issue becomes one of method rather than principle, and the need to balance “requests” and “offers” is diminished. Of course, in the absence of a credible commitment to the timetable the process yields nothing more than loosely coordinated unilateral action: this is not likely to be a good position for agricultural liberalization. But if the goal is credible, and countries behave as if it is possible, then the technique may work. APEC would have successfully avoided the confrontational aspects of trade liberalization by emphasizing the common property (public good) benefits of a liberal trade and investment system over the desires of individual sectors for protection. Canada would be among the major beneficiaries.

Conclusions

What are the benefits in terms of market access for Canadian agriculture in the development of regional markets? What should be the role of regional trade blocs in preparing the less efficient Canadian agricultural sectors for eventual competition in an open multilateral system? How does one avoid encouraging uneconomic trade and investment flows based on regional preferences that might later inhibit the establishment of a global system? Which aspects of trade liberalization should be left to the multilateral level and which might be easier accomplished at the regional level? How does one deal with the potential overload of trade negotiations, particularly on small countries which may find it difficult to service both regional and global institutions? And is there a risk of expending political capital in persuading the farm sector to support open regional policies which might be more usefully employed in furthering global liberalization? These are the types of questions that need to be addressed in developing a regional trade strategy for Canadian agriculture.

The spread of regional integration is likely to continue for the next few years. Mercosur, the European Union and ASEAN all have plans to expand membership. Some deepening of existing regional trade groups is also likely, as the EU develops it's own monetary identity and other groups develop common external tariffs and coordinated trade negotiating positions. Regional trade groups are also likely to redefine their relationship to other groups and to the world trade system. The FTAA, APEC and the New Transatlantic Agenda are manifestations of the search for wider structures into which individual countries and regional groups can fit. The EU will also develop its own relationship to MERCOSUR, to Mexico, to South Africa and to the seventy countries now covered by the Lomé Convention.

Agriculture now seems firmly included in the process of regional trade liberalization. As such, market access opportunities will open up for exporters such as Canada. The dangers of having to purchase high cost supplies from regional partners are not likely to be a major problem for

Canada, though some overseas markets could be lost as a result of trade diversion in other regional blocs, such as Europe.

The best guarantee against trade diversion is the reduction, either unilaterally or in global negotiations, of external protection. Canada has a number of industries where some reduction of high levels of tariffs would reduce the costs of trade diversion. Trade deflection and its accompanying arbitrage impacts on domestic policy are likely to force changes in Canadian policies. However, in many areas, Canada has already changed its agricultural policies to conform with the WTO green box, and that will be enough to resist the impact of pressures from regional trade flows. Canada should still be concerned with the systemic impact of the growth of regionalism and of free trade networks on the global trade system, but the economic costs of regionalism to Canada are unlikely to be severe and the benefits could be substantial.

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