

Trade and Investment Liberalization in the APEC Food System

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I. Introduction

The emerging global food system poses new opportunities and new challenges for countries both within and outside the APEC region. The opportunities arise from the fact that it is now increasingly possible for countries to develop competitive and technically sophisticated food and agricultural sectors with the appropriate combination of trade and investment policies. The challenge lies in the bold and constructive decisions which will have to be taken at the multilateral and regional level to facilitate such developments. A continuation of the progress made at the Uruguay Round to establish rules governing both agricultural trade and domestic farm programs, together with advances in the harmonization of health and safety regulations and improvements in the climate for foreign investment would bring the world closer to the goal of a trade system for agricultural goods that would support rather than confound such domestic objectives. Support for and encouragement of this process by APEC countries would be an important stimulus to such action.

The Uruguay Round Agreement on Agriculture (URAA) marked a turning point in agricultural trade policy. Prior to the Agreement national policies went unchecked. Non-tariff barriers were the norm, implying a lack of transparency in trade and little incentive for the development of competitive exports. Export subsidies made it difficult for competitive exporters to develop markets. Domestic subsidies tilted the playing field in favor of less efficient producers at home and limited the scale of specialization. The Agreement established new rules which radical

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improvement in the agri-food trade system. Non-tariff barriers have replaced by bound tariffs. Export subsidies have been limited both in the expenditure and the quantity which can benefit from subsidies. Domestic support is now categorized as to whether it is minimally distorting (green box) or output-increasing (amber box), and the latter is subject to agreed limits. The next step, already mandated in the Agreement, is to hold further negotiations to continue the reform and market liberalization process. These talks are to start by the end of this year.

In addition to the Agreement on Agriculture, countries negotiated in the Uruguay Round an Agreement on Sanitary and Phytosanitary Standards (SPS Agreement) which was aimed at the misuse of regulations guarding animal, plant and human health for purposes of protecting the incomes of local producers. By requiring scientific justification for standards higher than those agreed by international bodies, the SPS Agreement has had the effect of encouraging countries to re-examine their practices in this area. But even in this area there are issues which remain to be clarified before trade can flow unhampered by questionable health barriers.

The question facing APEC is how its own activities in these areas fit in with those of the multilateral process. Is the direction of change at the multilateral level compatible with the path chosen by APEC leaders? How can the APEC process assist the multilateral talks? Are there actions that can be taken in advance of the WTO negotiations? Are there parallel actions that could supplement the multilateral trade liberalization process? These are the questions that will be addressed in this paper.

II. The Trade Policy Environment for the Global Food System

The globalization of the food and agricultural sectors which has taken place over the past two decades has changed the policy environment in crucial ways. It was possible to maintain the traditional farming systems by a combination of basic research into yield-increasing technology, guaranteed markets for undifferentiated raw materials, fixed and profitable margins for processing activities which tended to locate near the production base, and various parastatal marketing agencies in case markets were oversupplied. Trade policy acted as handmaiden to

these domestic policies. Tariffs and non-tariff barriers were used by governments as instruments to protect domestic markets from competition from abroad. Globalization brings new challenges and requires new policy approaches. Moreover the old policies often get in the way of those that are needed for the new food system. Nowhere is that more clearly seen than in the trade policies.

The main focus of international trade policy has traditionally been the conditions of access into markets. As globalization has progressed so the scope of trade rules has expanded. The new trade policy environment has a number of different elements. These include the health, safety and environmental rules that ensure quality and acceptability in discriminating markets; codes for the treatment of foreign direct investment; the regulation of conditions of competition; and the codification of the rights granted to the owners of intellectual property. These various facets of trade policy are discussed below.

A. *Trade Rules*

The core of any global industry is the ability to ship raw materials and products from one country to another as determined by consumer tastes and production costs. Once the industry is established at a global level, trade impediments caused by government policies become irritants to the system. What previously appeared to be a reasonable device for sheltering a rural family from the shocks of a hostile world market becomes seen as an obstacle to the rational development of the food system. Over time, governments in many countries have shifted their focus from farm income maintenance to food system development. This change was the key to enacting new trade rules that limited what governments could do to protect farmers in their own markets.

Improving the conditions for market access remains the keystone of any trade negotiation. Such negotiations will be more straightforward for agricultural goods than in the past. This will be the first set of agricultural negotiations where the level of agricultural protection (at the border) is visible and quantified. Tariffication, as was intended, has made the conditions of market access in agricultural trade significantly more transparent. What is now visible is the high level of protection for long hidden by non-tariff barriers. This level of protection in agricultural markets is exposed as very high relative to the trade barriers in manufactures.

B. Health Safety and Environmental Standards

Though the trade system is being driven largely by those that seek access to wider markets and less expensive sources of raw material, there is another set of trade policy issues that have emerged as the process of globalization has proceeded. As the traditional trade barriers fall so other trade impediments become visible, like rocks in an ebbing tide. Many of these are a result of different regulatory regimes that developed at the time of autarchic national markets. The global economy cannot thrive with significantly different regulations in different countries. On the other hand, legitimate differences may exist among the objectives of regulation and among the sensitivities of national markets. The resolution of this dilemma is still being worked out: the agri-food system happens to be at the center of the controversy and has a lot at stake in the outcome.

One particularly contentious issue that is directly relevant to the global agri-food system is the extent to which the use of genetically modified organisms (GMOs) is harmful to the environment or indeed to consumer health. Concerns with transgenic crops, such as those with herbicide resistance built into their genetic make-up, have centered around the possibility of unpredictable crosses with wild species and hence the development of herbicide resistant weeds. Clearly there needs to be vigilance to avoid the undesirable side-effects of otherwise useful technology. Other fears are that consumers that suffer from plant-related allergies may react to the presence of genes from those plants to which they are allergic (IPC, 1997). The most commonly recommended remedy for preventing such problems is adequate labeling, but even this creates problems for public policy.

With the growing internationalization of the food industry, new products emerging from the mastery of biotechnology, and the firming up of trade rules for agricultural products, trade conflicts over food safety issues are becoming more common. Most of these conflicts arise from differences in regulations which are imposed on food trade for the ostensible reason of protecting plant, animal or human health from disease or other affliction as a result of trade. The Agreement on the Application of Sanitary and Phytosanitary Measures (the SPS Agreement), adopted as part of the Uruguay Round package, attempted to make it easier to distinguish between legitimate (science based) regulations and those which appear to be protecting producer interests. It in

effect also rules out those regulations which reflect irrational consumer fears not based on scientific evidence (Roberts, 1998).

The reaction of the authorities to rising consumer concerns has been to review food safety policy “from plough to plate” (EU Commission, 1997, FDA, 1997, Ministry of Agriculture, 1998). One aspect of this comprehensive approach is the widespread adoption of the concept of Hazard Analysis of Critical Control Points (HACCP). This approach is based on the identification of those stages in the food chain where contamination can take place and the focus of remedial controls on those points. Supply chains of a contractual nature have to develop their own type of HACCP procedure as an overall part of quality control.

Though public agencies must always take the lead in protecting health and safety, private standards also have an important place in the global system of commerce. Firms selling differentiated goods in overseas markets rely on repeat business. No longer can producers hide behind the anonymity of international trade. Once again, supply chains have pioneered the way by developing systems of accountability of producers and traceability of supply. Basically, in the modern food chain, many consumers like to know where foods come from. This means that they are willing to pay for some amount of information and will remember if they are dissatisfied. Supply chains can cater to those consumers as well as those less concerned about the origins of their food ingredients.

C. Investment Codes

The global system, whether in agri-food products or in automobiles or computers, depends on investment. Capital accumulated in one country is invested in others, to the mutual advantage of both economies. But global investment also requires rules, and these are not yet fully developed. Several issues are at stake in the area of investment. One is the assurance by the investor that the assets owned by foreigners will not be expropriated, that earnings from investments can be taken out of the country, and that there will not be undue restrictions (such as requirements to use domestic inputs or to export a share of outputs) on the foreign operation. Firms have alternatives, and countries that maintain policies that are not investment-friendly may lose the opportunity to participate in the global division of labor. The global reach of food retailing and processing similarly requires the assurance that facilities abroad will not be expropriated and that undue

restrictions are not placed on the repatriation of earnings. Supply chains also need the environment of predictability that comes from an open investment policy.

Some start to the forging of an investment policy was made in the Uruguay Round. More recently, the OECD countries have been trying to work out a Multilateral Agreement on Investment (MAI). At present the MAI is moribund, a victim of both bad publicity and unfavorable reactions from the non-OECD countries. But the EU has promised to raise the issue again for inclusion in the next Round of trade talks. The continued growth of the global food industry depends to an extent on the satisfactory resolution of this issue.

D. Competition Regulations

A global trade system needs global competition laws. This apparently uncontroversial conclusion has had little effect so far on trade policy discussions. Whilst some are calling for full scale negotiations on international competition policy, others maintain that the most you can do is to make sure that each trading country has its own anti-trust policy in place. But the minimalist approach is unlikely to be satisfactory by itself. The best policy for curbing misuse of market power in any one country is an open trade system. But the very openness of the trade system allows large firms to develop market power in the world market. Global competition policy should be more about market power in world markets than about enforcing competition policy in each national market.

An emerging competition issue is the concentration of market power in the agri-food distribution chain. This has two separate but related aspects. One is the use of market power by public agencies or by parastatals given the ability to act in a restrictive way. This issue of “state trading” is coming to the fore in trade talks. At one extreme it represents a concern among those countries which do not practice state trading that those that do can gain an “unfair” advantage through hidden export subsidies and import barriers. At the other extreme are fundamental systemic issues such the behavior of the state trading entities in China and indeed the extent to which the government controls, albeit indirectly, all trade decisions in that country. As a major player in agricultural trade markets, the terms under which China should be allowed into the World Trade Organization (WTO) will have a significant impact on the rules that can be set for other countries with parastatal agencies active in the market.

The issue of competition also is at the heart of another potential problem facing the agri-food system. Concentration of economic power is not confined to public agencies given monopoly rights in importing or exporting. Private firms can have significant market power to influence prices. Should there be any rules relating to the use of market power in international markets? What are the dangers that the rules are trying to prevent? Is the problem the withholding of supplies to raise the price of commodities? This seems relatively unlikely in the case of basic foods, but could happen with vital supply components. Or is the problem one of dumping and market disruption? The incorporation of anti-dumping rules in a set of more comprehensive competition regulations is the object of many trade economists. Whatever is agreed will have significant implications for global agriculture.

E. Intellectual Property

Among the newer aspects of international trade policy is the setting up of rules regarding intellectual property. The emergence of international rules predates the GATT Uruguay Round, with the establishment of the World Intellectual Property Organization (WIPO), but there was insufficient incentive for countries without intellectual property protection to join. But the breakthrough came in the Uruguay Round when the negotiating countries signed the Trade Related Intellectual Property (TRIPS) agreement. TRIPS brought a degree of harmonization to the disparate treatment of patents, copyrights and trade-marks in various trading countries.

One important area of the food and agricultural sector where the rules on intellectual property are significant is in the input industries. The seed sector, in particular, has already made use of such international facilities to try to reclaim some revenue from farmers. The ability to patent plant varieties has been controversial topic for some years. Now one has the possibility to patent particular manipulations of genetic material such as is at the root of biotechnology. This would give a much greater chance for companies to license new varieties to others to plant.¹ This is of concern among some who fear that the highly concentrated seed industry could extract

¹ Though plant breeders rights have been recognized since the 1930s in the US, it has proved impossible to patent improvements that come through selection in the field (landrace crosses) and not easy to see the justification for doing so. But when the improvement comes in the laboratory, as a result of using particular genetic material in a biotech process, the case for restricting unlicensed use increases.

considerable profits from farmers world wide, as they would have to pay from season to season for planting even their own retained seed.

III. APEC and the Liberalization of the Food System

The concept of APEC rests on the development of cooperation among participating countries. This cooperation extends to the agricultural and food sectors of the APEC countries. The Bogor Declaration, to work toward free trade and investment, covers these sectors. This was made even more explicit at Subic Bay, where suggestions to exclude agriculture were rejected. Though it was agreed that the process and timing of changes in agricultural policy would differ from country to country, the end point remained unequivocal. Later, at Vancouver, the APEC ministers included the “food” and “oilseeds” sectors in the fifteen (EVSL) areas for priority action. Though both sectors were absent from the list of six sectors agreed on at Kuala Lumpur for urgent action, they are among the remaining nine sectors awaiting a decision. A clear blueprint of how the agri-food sector can move toward its goals is urgently needed so as to take advantage of this possibility and not lose momentum.

Coupled with the imminence of the WTO talks and the ambitions of the APEC timetable, the need for action to restore growth in the Asian region also suggests urgency. A well-constructed food and agricultural strategy could play a vital role in the economic recovery. We know that there is a tendency to avoid market-opening actions at a time of weak domestic growth and employment. However, the stimulus given to growth by freer trade and investment operates in the food and agricultural areas as well as in manufacturing. Protection protects inefficiency, and inefficiency inhibits growth. A food strategy for the Asian APEC members should be based on increasing productivity, measured in terms of output valued at international rather than artificial prices, and the development of competitive food sectors. Keeping the price of agricultural raw materials high penalizes the processing sector and the food industry. Though some farmers might appear to gain from such a policy, their efforts are misdirected toward less appropriate production patterns and the inevitable adjustment is delayed.

The alternative to protection is a strategy based on a package of measures anchored in liberal trade and open investment but including rural development assistance and the transfer of modern food technology. Coupled with stable macroeconomic policies and infrastructural development,

these policies should allow the agri-food sector to be a constructive part of the solution to the current crisis. Trade liberalization is vital to this package. Without it there will be no incentive to investment in cost reduction and much less spread of technology. Rural development will be based on artificial incentives, and the regressive consumer “food taxes” implied by high prices will perpetuate poverty problems. With trade liberalization the domestic sectors will adjust to market conditions, if necessary with some temporary income compensation, and compete with unsubsidized imports. It is true that the share of imports of agricultural goods and food products could rise in most countries, though their export shares will also increase with more specialization. But this would represent a natural aspect of growth and need not imply more vulnerability or food insecurity.²

These actions would involve declarations, decisions and negotiations at various levels. At the level of the APEC ministerial, it might be helpful if countries were to signal their own long run expectations in the area of agricultural trade. They obviously could not agree initially on modalities, but, if they could agree on a set of principles, this would give a framework for other countries to consider when formulating their own positions. The ideal signal from the APEC would be to agree to a four-part statement of principles, along the lines of the following:

(i) That competition in agricultural markets should be free of manipulation by subsidies, cheap credit, abuse of public or private market power. To this end the use of export subsidies should be phased out, export credit terms should be made compatible with the OECD code, export taxes and quantitative restrictions should be subject to strict limits under the WTO, and public and private exporting agencies should be encouraged to compete to best serve the interests of farmers and consumers.

(ii) That access into markets for imports be improved until entry was no more restricted for agricultural and food goods than for non-agricultural goods. This would involve significant

² In the case of manufactured goods, the share of imports in consumption roughly doubled, from 10 to 20 percent, over the first 50 years of the GATT. Over this period, tariffs fell from about 40 percent on average to less than 5 percent. Agriculture finds itself in much the same situation now as manufactures were in the immediate post war period. Average tariffs are around 40 percent and imports account for approximately 10 percent of consumption. Should agricultural tariffs drop to the extent experienced in manufactured markets, imports could easily reach 20 percent of consumption. This would in no way imply the elimination of domestic agriculture nor the dangerous exposure of consumers to external events. It would merely represent a mutually advantageous degree of specialization in one of the worlds largest and most vital sectors.

lowering of tariffs, the removal of any remaining non-tariff import barriers, the acceptance of the responsibility by those countries using public importing agencies to maintain access to domestic markets.

(iii) That domestic farm programs should continue to evolve in the direction of the use of less trade-distorting instruments. This means that programs should be developed that are decoupled from commodity production and are well-targeted at particular categories of farmers, types of farming practice, or regions that merit support.

(iv) That national regulations governing food safety, animal and plant health, and the safety of farm workers be formulated in a way that minimizes the chance of their use for purposes of protection of economic interests and the restriction of market access. This involves developing credible regulatory agencies that are separate from those with responsibility for farm support programs. It also requires further efforts at devising acceptable multilateral standards and encouraging the spread of mutual recognition and equivalency agreements. Labeling to give consumers choice among products along with information about their attributes would in many cases be the least trade-disruptive solution.

IV. The WTO and the Trade and Investment Agenda

A new round of agricultural negotiations will be launched in late 1999. Whether or not these agricultural talks are part of a major Round has yet to be decided. Though this may influence the speed and scope of the talks, the agricultural agenda is largely set. It is widely accepted that the Agreement on Agriculture did little to liberalize trade in agricultural products and improve market access. Tariffs on agricultural goods are on average about three times as high as on manufactured goods and continue to distort trade.³ The process of “tariffication” has produced a number of tariffs bound at such high levels that it is difficult to see any profitable trade developing in their shadow. Where tariff rate quotas were negotiated to prize open these markets a little, the prospect of quota rents has led governments to agree to a network of bilateral deals which guarantee continued state involvement in trade for years to come. This has in turn

³ The gap for industrial countries is even greater, where the ratio of agricultural to industrial tariffs is closer to ten-to-one.

exacerbated the problem of competition between state trading enterprises and the private trade. Export subsidies still exist, and are in effect legitimized to the extent of their incorporation in country schedules. The domestic farm policies of the major industrial countries have been required to make only relatively minor changes to bring them into conformity with the Agreement. Thus the time is ripe for initiating another set of multilateral talks to complete the job started by the Uruguay Round.

The agenda will in all probability follow closely in the steps of the URAA. Issues that are sometimes thought of as “new” fall conveniently within the familiar framework of market access, export competition and domestic support. The question of the allocation of TRQs is clearly one of market access, and can be addressed under that agenda item. Countries have indicated a wish to confront the issue of state trading in agriculture, but that topic can usefully be separated into the components of market access (state trading importers) and export competition (state trading exporters). The use of export restraints may also be challenged in the next round, in part as a reaction to the concern over food security in importing countries. But this also can be subsumed under the heading of export competition. Thus by expanding somewhat the definition of the three major agenda items one can incorporate the “new” as well as the “old” issues.

A. Market Access

The major market access question for the next round is what process can one initiate that would lead to a removal of this discrepancy in a reasonable time period. How does one get from tariffs of 100-200 or even 300 per cent to the levels of 5 - 15 per cent found in most other areas of trade, or to zero if tariff-free trade is agreed for manufactured goods? This looks to be a tall order: it implies a continued period of significant tariff cuts extending well into the next millennium. But the next Round of talks will not be a success unless a substantial step is taken to reduce these high levels of agricultural tariffs.

The TRQ system is also a major concern for the health of the agricultural trade system. A total of 1366 tariff rate quotas were notified to the WTO Secretariat under the reporting requirements of the Uruguay Round. Such arrangements are particularly common in the markets for fruits and vegetables (350), meat products (249), cereals (215), dairy products (183) and oilseed products (124). Thirty-six countries undertook such commitments in their Uruguay Round schedules.

Among those administering the greatest number of such quotas are Norway (232), Poland (109), Iceland (90) and the European Union (85). One worrying feature of the TRQ system is the degree of “underfill” of the quotas. The simple average quota “fill” for the years 1995 and 1996 was 64 percent and 63 percent, respectively, suggesting that the allocation mechanism is not yet adequate, that parastatals are effectively keeping imports out or that within-quota tariffs are too high to allow imports to compete. Though one can still argue that the TRQs are in most cases an improvement on the non-tariff barriers that were in place before the Round, they pose a potential threat to the further liberalization of trade.⁴

An alternative way to tackle the problem of the high levels of tariffs resulting from tariffication is to expand the guaranteed market access which forms a part of the provisions of the Agreement on Agriculture. One possible approach is to continue the process of expanding minimum access as a proportion of consumption. An increase in TRQs, say, of one per cent of the level of domestic consumption in each year over a five year period would remove much of their restrictive effect. In most markets the quotas would become non-binding before the five-year period was over. In effect, tariffication would have taken place at the level of the reduced tariff applicable to the TRQ.⁵ The main political objection to this could be that the “within quota” tariffs were generally left to the discretion of the importing country to fix at levels which they judged would attract the guaranteed access quantity. This implies that some form of re-negotiation might have to take place on the level of these tariffs.⁶

The issue of state trading enterprises that have special or exclusive rights in import markets can be thought of as an extension of the problem of market access. Under WTO articles, state trading importers are not supposed to grant more protection than that given by the bound tariff (Article II:4, GATT 47). Countries could however go further than just ensuring that state trading importers do not give more protection than the bound tariff. It would be possible for instance to link the administration of the TRQs with the import operations of state traders, perhaps

⁴ Data from WTO Secretariat based on the first two years notification to the Committee on Agriculture.

⁵ It would also be possible to devise a way to give countries the option of TRQ increases or tariff decreases, as both lead to the same desirable end..

⁶ This of course also offers a possibility to start such tariffs for within-quota trade at a reasonable level in relation to other goods. All “within quota” tariffs could be bound at (say) 20 percent, and not reduced until they became the operative tariff for the bulk of agricultural trade.

converting the TRQ into an obligation to import rather than an opportunity. This could reduce the suspicion that STEs might be responsible for the under-fill of the quotas. At the other extreme one could mandate that all (or a share) of the TRQ be marketed through private channels, thus providing some competition for the STE and allowing price and markup comparisons to be made.

B. Export Competition

If the high level of protection sets agriculture apart, the widespread use of **export subsidies** is perhaps the most disruptive element in the operation of world markets. The practice of subsidizing exports of agricultural products has been constrained by the Uruguay Round, but most of the subsidies are allowed to continue in a reduced form. Countries that import agricultural products have been the gainers in economic terms from the subsidies, but even among these countries the disturbance of the domestic market has often caused problems. In the next round of negotiations, it will be more difficult than ever to persuade countries who export agricultural goods with little or no subsidy to allow countries such as the EU and the US to continue their market-distorting practices. A further push to rein in these subsidies is therefore likely to be high on the agenda of the Cairns Group. Similarly, the use of export credits has continued despite efforts to negotiate within the OECD some restraints on the benefits that some exporters get from such schemes.

The Uruguay Round made a solid start to the process of removing export subsidies in agricultural trade. For the first time there can no longer be any doubts as to what (maximum) level of export subsidies a country can grant in agricultural trade. However, several problems remain in the area of export competition. The question of single-desk selling agencies for agricultural products is tied up with the issue of export subsidies. Different marketing practices among exporters are inevitable, and not in themselves undesirable. But international guidance is needed as to which practices of parastatal export agencies are consistent with agreed conditions of competition and which distort that competition. Now that the more clear-cut kinds of export subsidy have been identified and included in the country schedules of allowable subsidies, the next task is to clarify the definition as regards the actions of state trading exporters. This would ensure that such actions, if deemed to be hidden subsidies, could be counted against the schedule for that country.

The practice of export taxes and export restraints through quantitative controls also needs to be addressed in the New Round, and can conveniently be included under the heading of export competition. Within the GATT export controls are generally disallowed, though export taxes are deemed innocuous. Article XI of GATT 1947 prohibits quantitative export restrictions but makes an explicit exception for “export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting party”. There is a clear conflict between the ability of exporters to withhold supplies to relieve domestic shortages and the reliability of the world market as a source of supplies for importers.

The simplest way to continue the process of reducing the incidence of export subsidies would be to extend the schedule of reductions agreed in the Uruguay Round. As with the market access improvement, this could be done using the same base. This would imply constraining the expenditure on such subsidies by another 36 percent, thus removing 72 percent of the subsidy expenditure that was used in the base period. Continuing the quantity restriction would imply that 40 percent of the volume of subsidized exports would have been removed from the market over the two periods of reform. But since the remaining 60 percent would have to be subsidized with only 29 percent of the expenditure, the disruption that could be caused by such subsidies would be significantly reduced.

The continuation of the process of reduction would be constructive, but may not be very ambitious. Elimination of export subsidies altogether would clearly have significant advantages. The pre-requisites for dispensing with export subsidies are a renewed confidence in world markets, with firmer and more stable price levels for the major products, and reduced dependence on intervention buying in domestic policies. The former condition depends on the success of the Agreement in increasing trade and reducing protection. As for domestic programs, it is possible that practice and sentiment in both the US and the EU may have moved away from the use of market support policies to other instruments by the turn of the century. If that were the case it could be politically easier to get effective curbs on the use of export subsidies by the time of the New Round. A new set of negotiations could, say, set the target to phase out export subsidies over a five year period, by 2005.

In the Uruguay Round the issue of export credits was found to be a form of export subsidy, but it did not prove possible to agree on constraints. The OECD countries have negotiated a code for

non-agricultural export credits which puts limits on credit terms and the length of credit extension. It has not been possible to include agriculture in this agreement. This leaves this topic as one to be dealt with in the next Round. It should be possible to agree on the allowable terms for such credit, and hence be able to calculate the magnitude of the subsidy which is involved if softer credit terms are offered. The best way to deal with the subsidy equivalent of such concessionary credit is to charge it against the export subsidy constraints in the schedules.

The quantification of export subsidies and their reduction has left more visible the distinction between those countries where exports are privately sold from those where a parastatal controls such exports. There is widespread concern in those countries where trade is by private firms that the state trading enterprises can obtain cheap credit from their governments, offer better terms to buyers, and generally compete unfairly with the private trade. To the extent that these practices could be labeled as export subsidies, the issue is one of monitoring and transparency. But some commonly used devices such as price pooling (giving the producer an average price over several destinations or time periods) are also seen as giving the producer an unfair advantage. It might therefore be a matter for negotiation as to whether any constraints need be placed upon STEs with regard to their producer pricing policies.

In the next Round, importers are likely to lead a movement to constrain the ability of exporters to restrict supplies. After all restraints on exports are no less inconsistent with an open trade system than restraints on imports. Export taxes should be included under the same qualifications as quantitative restrictions. The argument has already surfaced in connection with the Food Security Declaration appended to the Uruguay Round Agreement (the Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Program on Least-Developed and Net Food-Importing Developing Countries). It seems inconsistent to leave in place the possibility of export taxes and quantitative restrictions that have an immediate and harmful impact on developing country food importers.

C. Domestic Support

It is one of the ironies of the Uruguay Round that, although the biggest conceptual breakthrough was the acceptance by countries that **domestic policies** were a legitimate concern of trade talks, the actual disciplines imposed on those policies through the reduction of the Aggregate Measure

of Support (AMS) were rather weak. The key question for the next Round is therefore whether to strengthen or abandon the attempt to constrain domestic policies. The fact that the AMS constraints have not been binding for the large majority of countries does not mean that the constraints on domestic support have been ineffective. The process of re-instrumentation of domestic support programs, away from those that most impede trade, has begun. The AMS constraint on domestic policy puts useful pressure on countries to continue this process.

The attraction to countries of adopting “green box” policies is both to guard against challenge from trading partners and to avoid being counted toward the AMS. The slow but fundamental changes that are taking place in the agricultural policies of the major industrial countries need the encouragement and underpinning of international agreements. The changes in these policies have generally been in the direction of improving the climate for agricultural trade, in contrast to the policy changes in the nineteen-sixties and nineteen-seventies which led to more trade conflicts. The Uruguay Round was able to take advantage of these changes, such as the 1992 Reform of the EU’s Common Agricultural Policy (CAP) and to get firm commitments on future policy directions and support levels. But this process of reform is still at an early stage and needs to continue in order to avoid a swing back toward the costly and ineffective policies of earlier times.

The constraints on domestic support through the Aggregate Measure of Support (AMS) are acknowledged to be the least effective of the Uruguay Round bindings. But this does not mean either that they will not be useful in the future or that a continued reduction would not be appropriate. A continuation from the same base would be a relatively modest move, and yet even that will eventually result in 40 percent of the “coupled” domestic support having been removed or converted into less trade-distorting types of program. But it would be even more effective to “catch up” with the reductions in import barriers and export subsidies. Thus one could envisage an agreed reduction of (say) 52 percent in the expenditure on price-related policies.

The ‘blue box’ containing the US and EU direct payments which were granted exemption from challenges under the Blair House Agreement was a creature of its time, necessary to get agreement to go ahead with the broader Uruguay Round package. It is, however, still a somewhat awkward bilateral deal not appreciated in other parts of the world. Such an anomaly can surely be removed in the next round. The policies of the US and the EU themselves are changing for

internal reasons. The US Fair Act goes further than ever before to make the payments to farmers decoupled from output and therefore compatible with the green-box. The EU is considering a similar move as a continuation of the reform started in 1992, as a way of making the CAP consistent with enlargement. The task for the New Round will be made much easier if the EU and US have both modified their payments such that they meet the conditions laid down in the green box. The “blue-box” can essentially be emptied and locked.

The green box presently contains a number of policy instruments that, while probably less trade distorting than price or income supports still encourage an expansion of output. Sometimes they are related to such otherwise sensible programs such as crop insurance, but incidentally increase the incentive to produce by reducing risk. Other programs may be indirectly linked with production even though the main reason for payment is not output. This might be true of certain environmental payments, which could lead to an increase in output. But to re-open the definition of the green box might, however, allow countries to argue that it be expanded, to include food security policies and barely-decoupled support schemes designed to keep farming in certain areas.

This appears to be where much of the pre-negotiation rhetoric is targeted. The argument is usually shrouded in terms of the “multifunctionality” of agriculture. The concept of multifunctionality is not in itself particularly novel, as agriculture has always played a complex role in rural societies, and rural areas have a vital place in national social and political life. The question is “what does this mean for trade policy?” On the one hand it could merely be a recognition that a variety of programs will be maintained in most societies which target specific aspects of rural life. For the trade system to be seen to rule out such programs would seem to be as risky as seeming to go against concerns of human health and animal welfare. On the other hand, if trade restricting policies were to become the accepted instrument for maintaining multifunctionality then that would signal a regression to the time of expensive commodity market distortions. The green box was intended precisely to deal with such rural concerns. It would be better to confirm the criteria for the green box and encourage multifunctional policies to conform rather than opening the green box up to be a repository for an assortment of production related payments. If some production-related policies were felt to be the only way to achieve domestic objectives (including food security, perhaps) then the blue box, with its emphasis on limiting production increases might be more an appropriate location.

One constructive change in the constraints on domestic support could be a decision to make the AMS specific to individual commodities. This was the original intention in the Uruguay Round: it was at the Blair House negotiations between the US and the EU that the notion of aggregating the AMS over all commodities was introduced – essentially to weaken its impact. The AMS could thus be made more binding at a stroke by defining commodity specific amounts of “coupled” price support expenditure that could then be reduced over time.

V. APEC and the WTO Agenda

The APEC ministers have frequently confirmed their commitment to the multilateral process and their desire to use the APEC process to further the goal of multilateral trade liberalization. How can APEC countries advance the WTO agenda on agriculture outlined above?

One obvious but useful action would be to reaffirm the willingness of all APEC countries to pursue speedy talks to implement the continuation of the reform started in the Uruguay Round. In one sense this should be little more than a formality. If APEC members have firmly in mind the elimination of barriers to trade and investment by 2010/20 within the Asia-Pacific region, and to extend this treatment to other WTO members on an MFN basis, then the much more mild step of continuing the process of reform under the WTO should cause no problems. But in practice it might still be difficult for some APEC countries to enter into the next round of agricultural trade talks with an advance commitment to substantial liberalization. The advantages of a strong endorsement from APEC would be two-fold. First it would indicate to other trade partners such as the European Union that they cannot rely on disagreements within APEC to slow down the pace of multilateral reform in agriculture. Specifically, it would be made clear that countries such as Japan and Korea which have had reservations in the past about trade reform in agriculture could not be counted upon to oppose further liberalization or delay reaching a decision. A commitment within APEC to work toward a liberal agri-food trade system at the global level would put pressure on the EU to embrace the concept or risk splitting the global food market into a high-price and a low-price zone.

The more specific question is how APEC can help develop and promote the agenda of the WTO for the next round of agricultural trade talks. This could take the form of suggesting overall goals for the talks or could involve attempts to resolve issues at the APEC level in a way that could be

extended to the multilateral level by adoption in the WTO. On the overall goals, one major issue to be faced is the pace at which tariffs bound in the Uruguay Round and reduced by up to 36 percent from their base period (1986-88) levels should be further cut. An APEC suggestion of, say, a fifty percent cut in these bound tariffs across the board over a seven year period would be a powerful opening position which would be difficult for other countries to resist.

As important as taking the lead in setting the overall goals for the WTO talks is the role of APEC in setting precedents for the WTO. This should involve actions that are not in contradiction with WTO rules. Countries can, without fear of WTO challenge, reduce tariffs unilaterally so long as these reductions are not discriminatory. Countries can also decline to give export subsidies on sales to overseas markets: in this case there is no obligation to avoid discrimination among customers. It would on the other hand be difficult for a country to refuse to purchase subsidized agricultural products (or impose a surcharge on such imports), even if it could identify such purchases at the time of entry. If non-discriminatory, this would violate conditions of market access; if discriminatory against certain suppliers this would violate MFN principles. Anti-dumping or countervailing duties aimed at particular export subsidies would be difficult to maintain if the subsidies in question were legitimate under WTO schedules. Domestic support can be modified in a trade-friendly direction without fear of WTO challenge.

This suggests the following options for “WTO consistent” actions by APEC which would set precedents for others to follow:

- Zero-for zero agreements in particular sectors involving coordinated unilateral moves, extended to all WTO members on an MFN basis. The scope of such agreements depends crucially on the willingness of non-APEC countries (and in particular the EU) to match the offers. Without such willingness the cost of free-riding could be enough to jeopardize the agreement. The obvious sector for such a deal would be oilseeds.
- An agreement for an “export-subsidy free” zone in the Asia Pacific region. This would represent a different approach to the elimination of export subsidies from that tried within the WTO. Instead of (or rather in parallel with) the ratcheting down of expenditure and quantities on a global basis, this approach would designate certain areas as free of export subsidies.

- An agreement for assured supplies within the region. This would prohibit embargoes and put strict constraints on export taxes. Europe would be encouraged to join the agreement which could then be transferred to the articles of the WTO.
- The APEC countries could agree on the rules for certifying genetically modified foods. Once considered safe these could circulate freely in the APEC area. Other regions would be welcome to join the process. In this way, APEC agriculture could forge ahead with the beneficial technical advances subject to rigorous certification procedures to prevent negative side-effects.
- The APEC region could lead the way in such area as intellectual property rights in agriculture and food products. Within the constraints of the WTO and the TRIPS agreement, the Asia Pacific region could clarify procedures and avoid problems which threaten trade flows.
- Conditions of competition in the food and agricultural sector should be discussed at the APEC level and the principles incorporated in an APEC food system. These would be in advance of similar discussions at the WTO level if they are included in the next round. Issues of state trading in agricultural produce could be resolved at an APEC level, as a large part of the state trading activity takes place in APEC members, both on the importing and the exporting side.

VI. Next Steps towards Reform in Domestic Policy

The next step towards reform could, perhaps, be led by the APEC countries. An open food system in the Asia-Pacific region would set an example for other areas of the world and could lead rapidly to an open system at a global level. If countries could be persuaded to move down this path (and it is already explicit in the APEC target of free trade and investment for all countries in the region), then this could be the most important driving force behind global

agricultural trade reform since the repeal of the Corn Laws by the English Parliament in the middle of the last century.⁷

The structural problems faced by many of these countries in the wake of the financial crisis reinforce this urgency: the solutions to the structural weaknesses in the financial sector are second-cousins to those changes needed in the agricultural and food industry. Just as the issue of China's accession to the WTO will have to be resolved shortly, so the trade rules under which the Asian markets can develop need to be put in place as soon as possible to assist their own recovery.

The advanced industrial countries in Asia, Japan, Korea and Taiwan, who have already experienced a period of high price supports, have not yet undergone the same transformation in the agricultural policy paradigm as have the Americas. Direct payments are a much smaller part of farm support. The question is whether it is reasonable to expect these countries to follow suit or to take a different path. One key to this lies with the future of Japanese policy. Japan has a reputation for having one of the most protective agricultural policies in the world. And yet these policies are of relatively recent origin, stemming from the 1960s, and are beginning already to be modified. A bold move toward decoupling of income payments from commodity output would send the signal that that country was prepared to allow imports to compete with domestic output, even if that meant that existing farmers were to be indemnified against income loss. The message that imports are a legitimate source of food for consumers and that a country best guarantees its food supply with a healthy economy and an integrated trade system, rather than with high cost staples, would have considerable impact on emerging countries in the region.

A decision by Japan to continue the deregulation of the wholesale and distribution channels and to allow private firms to import all agricultural goods would also send a strong message to its Asian neighbors. Obviously, countries may well differ in the role chosen for the government to play in the agricultural and food system. But this role is rarely going to be the subjugation of private marketing in the name of administrative control of domestic prices. Modern food systems are far too complex for such administration by government agency. Japan has taken so long to

⁷ The repeal of the protectionist Corn Laws, which themselves bore a resemblance to the EU's CAP for grain a century later, led after an interval to the expansion of agriculture in the "New World". Those European countries that did not take advantage of cheaper overseas grain fell behind in the process of industrialization. (See Tracy, 1964)

free up its distribution system not because the country needs the paternalism of state-distributed food but because powerful interest groups could continue to make money and exercise control through the parastatal mechanism. Parastatal agencies still permeate the agricultural and food sectors of a majority of Asian countries. If the trend toward deregulation and privatization in Japan were to continue, then one can expect other countries in the region to join the train.

These two strands will of necessity come together over the next few years. If Japan, Korea and Taiwan do indeed move to free up imports, shifting the burden of support to targeted payments from the tax base and at the same time encouraging private trading of basic foodstuffs, then the developing countries of the region will know that they have markets that they could penetrate if they can meet required quality standards. China and Thailand have already begun to exploit these opportunities. Japanese and Korean investors in turn could invest in the growing agricultural and food processing sectors in those countries, as could US and European companies. Conversely, a lack of willingness to open markets and maintenance of tight control over internal food markets will discourage others in the region from developing competitive farm sectors of their own.

VII. APEC and the WTO Process

Regional trade agreements have not significantly hampered the process of trade reform in agricultural goods. Indeed there is the possibility that the pace of liberalization of agricultural trade may be in the future set by the regional agreements and processes. A liberal trade system may come about quicker from the incorporation of agriculture in the timetable of the regional agreements and supra-regional blocs than in the traditional negotiation of reductions in high tariffs within the WTO. Most present inter-continental agricultural trade flows will be internalized within these supra-regional pacts. Moreover, the pacts themselves are likely to use similar modalities to deal with agricultural trade issues, so as to avoid the proliferation of different trade rules for countries such as the US that are participants in more than one pact.

Supra-regional trade agreements such as APEC 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 prize were the continued success of APEC. Removal of export

subsidies on agricultural products may be possible in the context of a transatlantic deal with the EU.⁸ Even domestic subsidies may be forced to conform with subsidy and competition rules within the supra-regional agreements. In all these cases the threat is of exclusion, and the cost of such exclusion will be high. Despite some obvious dangers in this emerging trade architecture, it does seem to offer a parallel and perhaps speedier path to a goal of free agricultural trade within a generation. In short, the growth of supra-regional blocs such as FTAA and APEC may be just the institutional structure needed to tackle the issues of agricultural trade and protectionism.

The potential role of APEC in agricultural trade reform cannot be denied. 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 that 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 did such a commitment come to be made and how credible is it as an indication of what will actually happen.

The decision to move to free trade and investment among APEC members by 2010 for the developed and 2020 for the developing countries is itself of historic importance. If it remains on track it will represent the triumph of collective courage by heads of government over the politics of protection. Presumably, having decided to go above the heads of special interests and ministries on the industrial side, it required little more reach to include agriculture. But 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. 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.

⁸For a discussion of this possibility see Tim Josling, Agriculture in a Transatlantic Economic Area, in Bruce Stokes (ed.), 1996

This immediately raises the issue of credibility. 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? But it is precisely the novelty of the situation that may give some hope. If one holds onto protective policies and lays them reluctantly on the table, only a few advances will be possible. But if one starts with the commitment to remove all trade barriers, then the issue becomes one of timing rather than principle, and the need to balance “requests” and “offers” is diminished. This in effect brings the advantage of a regional approach to a broader, plurilateral arena. Of course, in the absence of a credible commitment 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.

VIII. Conclusion

Any APEC action has to be acceptable to all its members. In particular, developing countries should be a full partner in the continuation of agricultural trade reform. As major producers and traders of agricultural products, they need to feel that they are beneficiaries of this reform. But in addition these countries must also participate more actively in the market opening by bringing down the high ceiling bindings and giving up the remaining non-tariff trade barriers. For their part the developed countries need to continue the process of domestic policy reform to allow market access. This means further use of direct income support, compensation for price drops or insurance schemes. This would also involve assurances by these countries to resist policies which cause market disruption and threats to food security. Preferential schemes for commodity exports also need to be consolidated within regular trade agreements and differential treatment rules revised to encourage full participation in trade liberalization as soon as possible. The next round should focus as much on the integration of developing countries fully into the trade system as the more traditional conflicts among industrial countries.

The potential conflicts between regional and multilateral trade agreements need to be resolved. In the case of agriculture the next WTO round should integrate global and regional liberalization

processes. This could be done by establishing targets for multilateral agricultural trade liberalization that are consistent with those already announced within the regional and supra-regional groups. Negotiations could even be facilitated by the adoption of collective positions by regional blocs, though one would need to avoid the proliferation of different stas in the negotiations themselves. The multilateral talks could incorporate these supra-regional negotiations as ways of achieving the global targets and focus on the relationship among such groups and between those groups and outside countries.

The same general principles and procedures outlined above for the APEC could be adopted by other regional negotiating groups, such as the FTAA, with the additional proviso that their internal liberalization should go hand in hand with reductions in external protection. Such regional groups should concentrate on developing agricultural sectors within their regions that are competitive with low-cost producers in other parts of the world. Similarly, regional standards should be formulated in a way that is consistent with other regions. The supra-regional negotiating processes have already indicated targets of liberal trade and investment. But they can go further to incorporate measures which need to go hand in hand with liberalization. A particularly constructive step in this process would be for APEC to announce that its own plans for free trade and investment by 2010/2020 need to be accompanied by measures to assist rural development, open trade and investment in foodstuffs and offer assurances of food security.

Trade and Investment Liberalization in the APEC Food System

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Paper presented for discussion at the Pacific Basin Food and Agriculture Strategy Conference, supported by the Pacific Basin Economic Council (PBEC) and the APEC Business Advisory Council, Asian Institute of Management, Manila, Philippines, March 11-12, 1999