

# **ECONOMIC FRICTION IN ASIA-PACIFIC AGRICULTURAL TRADE: ROLES OF STATES AND MARKETS\***

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## **Introduction**

Agricultural products are important components of international trade among several Asia-Pacific economies. The APEC economies<sup>1</sup> together contributed 39% of total world agricultural exports in 1996. For wood and pulp, around 60% of world exports originate in the region, as do half of global fish and cereals exports and one third of global exports of meat and fruit and vegetables. APEC economies also account for 40% of global agricultural imports, including 60% of fish and wood imports, one half of global imports of textile fibres and 40% of cereal imports (Table 1). Agriculture comprises 64% of New Zealand's total exports, and for Australia, Chile, and Papua New Guinea the share is between 30% and 50% (Table 2). On the import side, agricultural products account for 20% of Japan's total imports.

Sustained strong economic growth in the region, and multilateral, regional and national policy reforms have significantly increased the importance of intra-regional trade in Asia and the Pacific. Over the twenty years up to 1995, the share of APEC total exports that were sold to other APEC members rose from 54% to 73%. For agricultural products, 49% of APEC exports were sold to APEC countries in 1975, but by 1995 this share had reached 70%. Of APEC's exports of processed foods, around 75% are now destined to other APEC economies (Table 3).

Continued trade protectionism elsewhere has also contributed to increased Asia-Pacific integration. Europe was formerly a major destination for agricultural exporters in Australia and New Zealand for example, but following the expansion of the EU to include the United Kingdom and other countries, Australia and New Zealand have looked closer to home for markets. These countries now sell 76% and 61% of their agricultural exports, respectively, to APEC countries (Table 2).

Japan has long been the region's (and the world's) leading importer of agricultural products. Her imports of almost US\$30 billion in 1996 exceeded those of the USA by US\$5 billion. The latter country is APEC's leading agricultural exporter however, with an excess of exports over imports of about US\$7 billion. Economic development, urbanisation and westernisation of diets are some of the factors contributing to the emergence of other APEC economies, such as Korea and Taiwan and the ASEAN group, as significant importers of agricultural commodities. Shifts in consumption patterns to high-protein value-added foods has established a considerable demand for animal feedstuffs that the land-scarce economies of Northeast Asia,

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but also increasingly those of Southeast Asia, cannot satisfy from their own resources. And where domestic livestock production has difficulty keeping pace with domestic demand growth, imports of meats and dairy products also develop. But while Korea and Taiwan are net importers of agricultural goods, ASEAN along with Australia and New Zealand are net exporters. China has also been a net exporter of agricultural products up till now, to the tune of US\$3 billion in 1996. Most projections foresee this economy becoming an increasingly important importer of grains in the future (Fan and Agcaoili-Sombilla 1997), and also perhaps for animal products (Anderson et. al. 1997; Rae and Hertel 1998).

Changes in countries' trading patterns can reflect underlying forces that drive international competitiveness, as well as barriers to trade that governments and industries might erect. On the former, the 'revealed' comparative advantage indices of Table 4 measure agriculture's share of a country's exports as a ratio of agriculture's share of world trade. For Japan, Korea, Singapore and Taiwan, this ratio has fallen substantially over the past two decades and is now well below unity. These economies are also natural-resource poor relative to other countries in the region as indicated by their land/population ratios. The revealed comparative advantage indices have also steadily declined for the more richly-endowed ASEAN economies and China. Only in the countries with the highest land-to-population ratios, such as Australia, the US, Canada, New Zealand and Chile, have the ratios remained steady and above unity, or actually increased as in the cases of Chile and New Zealand. While the land-to-labour ratio is only part of the explanation of changing comparative advantage, those economies whose agricultural competitiveness is in strong decline are also those where capital is accumulating relatively rapidly and which are internationally competitive in industrial and services trade.

### **Origins of Economic Friction in Agricultural Trade**

Almost without exception, national governments intervene in agriculture. There are many explanations of this. Objectives pursued through such intervention include:

1. To improve the level and distribution of rural incomes
2. To stabilise domestic agricultural markets
3. To enhance food self-sufficiency and security
4. To raise revenues
5. To protect and preserve the rural environment
6. To enhance food safety and nutrition
7. To 'correct' for distortions elsewhere in the economy
8. To correct for market failure

While many of these objectives are laudable, the particular instruments adopted by governments have often worked to the detriment of other domestic objectives (within agriculture and without) and also on international markets and therefore the agricultural sectors of other countries. Thus what originated as domestic concerns finish up as international concerns and trade frictions.

Two of the most prevalent interventions have been the support of output prices and the subsidisation of input costs. Governments have viewed these as direct ways of raising

farmers' incomes, of seeking equality between rural and urban incomes, of stabilising inherently volatile agricultural markets and of increasing agricultural production. But while they may have helped to raise rural incomes on average, this approach often worsened the distribution of incomes within the rural sector, since supported prices provide the greatest benefits to those who produce the greatest output – i.e. the larger farmers. This has occurred even when a stated objective of government was to assist 'small' farmers. The payment of input subsidies, under certain conditions, can result in benefits being captured by the input manufacturing sector at the expense of the farmer purchasers. Governments have also sought better farm incomes through direct intervention in marketing, for example through the establishment of marketing boards and orders, and other monopoly state trading organisations. In many if not most cases, such state organisations have actually increased distribution costs through inefficiencies and lack of competition, and have impeded adjustments within agriculture that would have increased farmers incomes in the future. Self-sufficiency has not always been enhanced through such interventions, either. Especially for foods with high income elasticities of demand, such as many livestock products in developing countries with rapidly rising incomes, demand growth has outpaced the supply expansion capacity of the domestic farm sector, even in the presence of government support. Despite the adoption of some of the highest levels of farm protection in the world, Japan's self-sufficiency in agricultural commodities has steadily declined through time. And while self-sufficiency has been achieved for rice, it has come at the cost of consumers paying up to seven times the world price and taxpayers supporting farmers to diversify out of rice. Thus governments face a choice between escalating domestic prices and budget expenditures, or increased imports. The supposed link between self-sufficiency and food security is also tenuous, as illustrated most recently by events in North Korea. Governments have also found such approaches to supporting agriculture to be fiscally unsustainable. Policy reforms in several regions, including the USA, the EU, New Zealand and some countries of Northeast Asia, have been driven by the perceived need to reduce government spending and through recognition of higher priority public expenditures.

To what extent have agricultural markets been distorted, and farmers' incomes assisted, through such policies? The OECD has for some time made estimates for its member countries. The producer subsidy equivalents measure the total value of transfers to agriculture resulting from agricultural policies, as a percentage of the total (farm-gate) value of output. They may loosely be interpreted as the portion of farmers' revenue that is delivered via the State. These vary substantially amongst OECD countries around the average value of 36%, from 3% in the case of New Zealand to 71% for Japan (Table 5). This measure of farm subsidisation has declined recently for some of these countries (Canada, New Zealand, Mexico and the USA) but a downward trend is less noticeable in Japan. The nominal assistance coefficients (Table 6) focus on the wedge between domestic and world prices that is created by the State through agricultural policies, and expresses the domestic price relative to the world price. Thus we see that in 1996, Japanese producer prices for rice, wheat and milk were respectively 5.5, 7.2 and 4.2 times as large as the world price. Milk producer prices in Canada and the US were about double the world price, as were poultry prices in New Zealand.

Comparable estimates of protection in other Asia-Pacific economies are more difficult to find, but Tyers and Anderson (1992) give data on domestic-to-world price ratios for the early 1980s. These averaged 2.6 and 1.7 for South Korea and Taiwan respectively. Domestic prices were 30% above world prices for Indonesia, but they were comparable to world levels in the case of China. Somewhat more recent estimates for South Korea (Kim 1995) indicated that in 1988 average farm prices were more than double world levels, particularly for commodities such as rice, beef and dairy products, for example over five times as high in the case of rice. The USDA has estimated the producer subsidy equivalent for Korea in 1991 at 71% on average, and at 69% and 76% respectively for milk and beef. Rae et. al. (1992) give domestic-to-world price ratios for certain livestock products for some Southeast Asian countries covering the late 1980s. For meats, domestic prices in Indonesia were often below world levels, but for Malaysia, the Philippines and Thailand domestic-to-world price ratios often ranged from a little over 1.0 to in excess of 2.0. Such wedges between domestic and international prices could not be maintained were it not for the barriers to trade that have been erected and maintained by governments.

Such state interventions in agriculture may not be of concern to other countries were it not for their repercussions on international markets. The linkages are clear and direct. For many price support policies to function, controls must be put in place at the border. Otherwise, foreign suppliers would be encouraged to enter the high-price market, and prices would soon be driven down to world levels. Controls over imports, such as quotas, bans and tariffs, reduce the volume of imports, international prices and export revenues of other supplying countries. Stabilised domestic markets that are sheltered from international events increase the volatility of international markets. Generous support prices and rapid technological gains produce outputs surplus to domestic requirements and encourage governments to provide further subsidies in order to dispose of such surpluses on international markets, with consequent reductions in world price. For such reasons, Johnson (1991) and Tyers and Anderson (1992) have described world agriculture as being in a state of disarray. Food production and productivity have been increasing more rapidly in countries with a comparative disadvantage in agriculture, than in regions with a comparative advantage. Food prices vary widely amongst countries leading to worldwide resource misallocation, consumers are forced to pay higher prices for food than would otherwise be the case, governments use public funds to subsidise the export of food surpluses that resulted from government interventions in the first place, and the downward trend in global food prices is exacerbated as are their variability. Hence to a large extent, the frictions that arise in international agricultural trade can be traced to the ways in which the State has chosen to pursue domestic food and agricultural objectives.

Economists and others have long been arguing for governments to seek and adopt alternative policy instruments that could achieve national objectives but with reduced negative effects on international markets and trade. For example, rather than supporting prices and subsidising costs to raise farm incomes, why not provide a direct income supplement to farmers? From a political economy point of view, governments' reluctance to use such an instrument in the past is understandable. Farmers often comprise a tightly-knit group, represented by powerful political organisations, who can use a variety of approaches to make their voices heard. Direct income payments may be viewed by such farmers' organisations as 'social welfare handouts' and therefore as unacceptable to them. Such payments would also appear in government

budgets and hence would be more noticeable to the rest of the populace than is the support 'hidden' in retail prices. On the other hand, consumer groups are generally nowhere near as powerful as those representing farmers, and individual consumers may not even realise the extent to which retail food prices have been raised through more politically-expedient direct price supports.

### **Uruguay Round Agreements Affecting Agricultural Trade**

The eighth round of multilateral trade negotiations under the GATT was launched in Uruguay in September 1986. Known therefore as the Uruguay Round (UR), it was due to be completed by 1990. For various reasons, the negotiations continued through until December 1993 and the Final Act was signed off in April 1994. The UR was distinct from earlier Rounds in that reforms in agricultural trade regulations were to be seriously pursued. This objective had been vigorously promoted by the Cairns Group<sup>2</sup> of agricultural exporters, whose combined agricultural trade at the time represented about 25% of the world total, and also by the USA. Several of the Agreements have implications for trade in agricultural products, but perhaps the most significant are the Agreement on Agriculture, the Agreement on the Application of Sanitary and Phytosanitary Measures and the Agreement on Textiles and Clothing. Each will be briefly reviewed (see, for example, Raworth and Reif 1995 for further details).

At the time the UR began, the international agricultural trading environment was one of depressed prices, large surpluses of many commodities and increasing protection of food production in the industrial world. Initial negotiating positions on agriculture ranged from complete removal of trade distortions (the Cairns Group and the USA) to a managed approach that would have been more consistent with the European Union's Common Agricultural Policy (CAP). In the end a compromise was reached that recognised both the objective of reducing trade barriers and that of achieving a degree of consistency with the reforms to agricultural trade that the EU had already determined for its internal agricultural policy.

The Agreement on Agriculture<sup>3</sup> has three main pillars – export subsidies, market access and domestic support. Agreed conditions are being implemented over the six years from 1995. On a commodity basis, budget expenditure on export subsidies will be reduced by 36% and volumes of subsidised exports will be reduced by 21% of base values. Those products that did not receive export subsidies during the base period are ruled ineligible for future subsidies. Market access conditions will be improved by the replacement of non-tariff measures (such as quotas, import licences, variable levies and minimum import prices) with tariffs. In some instances, tariff quotas are used that assure a lower tariff up to a certain volume of imports. Non-tariff barriers were converted to their equivalent tariffs through an agreed procedure, and these tariffs are to be reduced by an average of 36% from base values, with a minimum reduction of 15% on any individual tariff item. In a limited number of cases, such as where imports of the product comprise less than 3% of domestic consumption in the base period, such tariffication was not required but minimum access opportunities were specified. Also in some cases, countries can levy a surcharge on imports of designated products where the volume of imports exceeds a certain level, or where the export price falls below a certain level. Restrictions were imposed on the maximum size of such surcharges and the length of

time they could be applied as set out in the Agreement on Safeguards. Domestic support subsidies paid to farmers were estimated through an agreed procedure, aggregated over all commodities and are to be reduced by 20% from their base values. Several domestic subsidies were excluded on the grounds that they cause little if any trade distortions, or are associated with production-limiting programmes, or comprise less than 5% of the total production value of a product.

There are a number of areas where the Agreement applies differently to developing countries. These include a 10-year implementation period, and lesser tariff and subsidy reductions equal to two-thirds of those for developed countries. Any domestic support payment may be excluded from their deduction commitments provided it does not exceed 10% of the production value of the product in question.

The Multifibre Arrangement (MFA) used a system of quotas to restrict the export of textiles and clothing from the developing countries to the developed world. The UR Agreement on Textiles and Clothing phases out the MFA and its quotas and trade restrictions by the year 2005. Quotas to be applied during the phase-out period will rise at an increasing rate, and any tariffs applied are subject to agreed bindings and reductions. This Agreement may lead to substantial adjustments within, and international relocation of clothing and textile industries and has significance to agricultural trade for at least two reasons. First, it has the potential to influence the demand for raw materials such as wool and cotton and hence international trade in such fibres. Second, possible expansion of the clothing and textiles sectors in some developing countries could well reduce the pressures to continue to support, through trade restrictions, the agricultural sectors of such countries.

Sanitary and phytosanitary (SPS) measures are those designed to protect human, plant and animal life and health, and include quarantine, livestock slaughter and inspection procedures, and food processing rules. They constitute a major group of non-tariff trade barriers. The Agreement on the Application of Sanitary and Phytosanitary Measures provides increased emphasis on scientific justification for national SPS standards, and requires that SPS measures do not discriminate against or between foreign suppliers. It also contains agreement that SPS measures should be based on accepted international standards, that the negotiation of agreements regarding the equivalence of different countries' measures be encouraged, that control, inspection and approval procedures be conducted without undue delay, and that the SPS procedures be transparent.

### **Economic Friction in Agricultural Trade: Some Evidence**

Compared with former GATT procedures, the rules for resolving trade disputes have been substantially strengthened under the WTO. Each case is to be completed in nine months; if an appeal is lodged, the Appellate Body must rule on any claim of legal error within 60 days. Rulings are automatically adopted unless there is consensus among the WTO membership not to do so. Anderson (1998) suggests this new system has so far been highly successful with panel reports causing governments to make substantial policy reforms. Agriculture's share of

total disputes has fallen since 1994, which may be indicative of the contribution of the UR Agricultural and SPS Agreements to the lessening of trade frictions.

A list of recent or current trade disputes involving agricultural commodities handled through the WTO<sup>4</sup> is given in Table 7. These include completed cases, and those that are progressing through the WTO's dispute settlement process. Only cases that involved an APEC economy as either complainant or responder are mentioned. In some cases, multiple complainants included non-APEC countries, and these countries have not been included in the Table.

Perhaps the most well known of these cases are the "beef hormone" and "banana" cases. The first of these claimed that measures taken by the EU to ban imports of beef derived from cattle treated with certain growth promotant hormones were illegal. The case prompted a retaliation from the USA (since withdrawn) that increased tariffs on products imported from the EU. The decision that the EU ban was inconsistent with certain GATT Articles was appealed by the EU but most of the original decisions were upheld. The EU has until May 1999 to comply with the finding. The banana dispute was brought by the USA and Mexico, amongst others, and involved the EU regime for the import, sale and distribution of bananas. The Panel found the EU to be in violation of its WTO obligations, and set an implementation deadline of 1 January 1999. The complainants however expressed concern over the WTO-consistency of the EU's consequent regulatory reforms. The EU then requested a panel to determine that their measures were WTO-consistent, and the complainants requested that the issue be re-examined. It was recently determined that the original Panel would re-convene.

These agricultural trade disputes can be categorised in a number of ways. For example, which trade practices or policies appear to be frequent causes of disputes? The most common in the table are non-tariff barriers to imports, and comprise quantitative restrictions (nine cases), sanitary or phytosanitary issues (nine cases) and one case related to product description. They generally involve import prohibitions or other quantitative restrictions, disputes over the administration of quotas, and those relating to quarantine issues or sanitary/phytosanitary issues more generally. Eight cases involve tariff barriers to imports, such as disputes over the level or the method of calculating duties or anti-dumping/countervailing rates of duty. Export subsidies were at the centre of four disputes.

On a country basis, the USA is both the most frequent complainant (15 cases) and respondent (seven cases) of the APEC economies in Table 7. Canada is named as a complainant in nine cases, and New Zealand in four. In all those cases initiated by APEC economies, the EU (six cases), Korea (five cases) and the USA (four cases) are the most frequent responders. Two of the disputes have also been actioned by APEC economies against each of Japan and Canada. This may reflect the historically high levels of agricultural protection in most of these "responder" economies. Bilaterally, Korea (four cases), the EU (three cases) and Japan (two cases) are the most frequent responders in cases initiated by the USA – but of the cases brought against the USA, complainants are more evenly distributed between the EU and a number of developing countries. On a commodity basis, a number of the disputes involve animal products such as meats, fish and dairy products. Some of these commodities are subject to high levels of protection in many countries, and also are associated with sanitary and quarantine issues such as disease transfer between nations.

Several of the disputes arose out of the manner in which policy reforms negotiated during the Uruguay Round had been implemented. Because of the tight constraints that the export subsidy agreement placed on some countries, it is not surprising that there exist disputes in this area. New Zealand complained that the 'special milk classes' scheme implemented by Canada resulted in export subsidies that were in excess of agreed levels; the USA complained that the EU had granted cheese export subsidies without regard to its reduction commitments; and several countries claimed that Hungary provided export subsidies in respect of agricultural products not specified in its Schedule. The market access commitments under the Agreement on Agriculture have also led to a number of disputes. These include India's quantitative restrictions on certain agricultural imports, and the ways in which the Philippines, Canada and the USA have interpreted or administered their TRQ's on pork and poultry, milk and groundnuts respectively. The USA has also complained that Korea's level of domestic support of the beef sector has exceeded its Uruguay Round commitment.

Other disputes relate to actions seen to be inconsistent with either or both of the Agreements on Technical Barriers to Trade and on Sanitary and Phytosanitary Measures. Canada contends that moves taken by some States within the USA that impede entry of Canadian trucks carrying livestock and grains are in violation of both the SPS and TBT Agreements. Australia's prohibition on salmon imports from Canada, the USA's ban on imports of poultry from the EU, and Korea's shelf-life regulations were claimed to be inconsistent with the SPS Agreement and other GATT Articles. Two disputes involved US complaints over procedural aspects of quarantine controls in Japan and Korea which were said to violate the SPS Agreement amongst others. The Japanese case, for example, alleged that imports of each variety of a product requiring quarantine treatment are prohibited until the quarantine treatment has been tested for that variety, even if the treatment has proven effective on other varieties of the same product. Product descriptions or production methods have also given rise to access disputes. New Zealand's dispute with the EU revolves around the latter's decision to exclude from New Zealand's country-specific tariff quota for butter, product manufactured with a spreadable butter-making process. The EU was also named in a complaint from Canada, Chile and Peru concerning a French Government Order that laid down the official name and trade description of scallops, that the complainants alleged would prevent their use of a particular product description for what were said to be 'like products'.

### **Some Recent Unilateral and Regional Efforts to Reduce Agricultural Trade Friction**

In addition to their involvement in the Uruguay Round, some States have been independently or regionally pursuing further policy reforms to reduce agricultural trade friction. Some of these will be briefly reviewed here, namely reforms in New Zealand, the USA and Japan, as well as reforms that may be encouraged through APEC.

Little state assistance had been provided to New Zealand agriculture up to the mid-1960s. Then following a number of balance-of-payments crises, a range of assistance programmes was introduced in efforts to boost production and export revenues. While justified initially as 'compensation' for the implicit tax on agriculture due to manufacturing protection, further

policies were implemented in response to declining international commodity prices and farm incomes. By 1983, the producer subsidy equivalent for New Zealand farming reached 35%, and exceeded the level of subsidisation provided in the EU (34%) and the USA (27%). The government elected in 1984 acted immediately with a comprehensive programme of macro and micro reforms, including comprehensive tariff reductions. Support to farming was rapidly withdrawn and the PSE had fallen to 13% just four years later and has averaged 3% since 1990, by far the lowest level of agricultural support of all OECD countries. The removal of assistance equivalent to 35% of the value of farm output might have been expected to have had a devastating effect on the farm sector. This did not eventuate. First, farmers responded to changing market signals in economically rational ways – land use patterns changed, farming became more diversified, input use and expenditures were adjusted, and farm productivity was enhanced. Second, reforms elsewhere in the economy also benefited the farm and food sector, such as labour market and waterfront reforms, deregulation of various producer marketing institutions, and greatly reduced inflation due to macro policy reform.

After the longest farm bill debate ever, US agricultural policy was significantly changed with the implementation of the Federal Agricultural Improvement and Reform (FAIR) Act in 1996. This Act provides the legislation that will govern US farm policy over the period 1996-2002, and suggests that the era of US crop supply management by the State is over. This particular policy debate was historic in that the Republicans had majority control of Congress for the first time in 40 years, domestic pressure was building for cuts in Federal expenditures, and international negotiations were underway within the Uruguay Round. But it was not until commodity prices increased sharply in late 1995, and it was realised that substantial windfall gains would therefore result from the proposed legislation, that the necessary political support was assembled. Federal assistance to farmers will decline over the seven years and will take the form of fixed income transfers to participating producers. These transfers are decoupled from production decisions and market prices, and may be discontinued after the year 2002. Participating farmers receive annual shares of the pre-determined total Federal payments. Constraints on individual decision-making imposed as a condition for receipt of payments in the past have been greatly reduced. Producers now have much greater flexibility in making production decisions, with the ending of annual acreage set-aside programmes and hence greater freedom to plant crops of their choice. While the Act signaled that the market rather than the State would allocate resources and set returns in agriculture, some of those markets will remain distorted due to retention of trade barriers. These include tariffs, tariff-quotas and export subsidies, although total export subsidy expenditures were capped at a level below the maximum permitted in the Uruguay Round agreement.

Liberalisation of Japan's beef imports is a landmark case of successful dialogue among States to reduce trade frictions. Up until the early 1980s, Japan's beef imports were regulated by quotas and tariffs. The Japanese government in consultation with the Livestock Industry Promotion Council (LIPC) would annually determine the permitted volume of imports. The quota was allotted to the LIPC which then operated an international tendering system. Frictions amongst exporters and Japanese players arose due to the restrictive nature of the quota, the costs of participating in the tender, and over the final quota allocation decisions. The State implemented a partial withdrawal from the beef import business in 1984, from which time a portion of the quota was set aside and over which domestic end-users and

foreign suppliers could directly negotiate without the intervention of the LIPC. Following negotiations among the governments of Japan, the USA and Australia, agreement over much more substantive import reforms was reached in 1988. Import quotas were to be expanded over the initial years of the agreement, as was the portion of the quota that could be privately negotiated. Import quotas were then to be abandoned and replaced by tariff-only protection, with the level of the tariff to be reduced from 70% in 1991 to 50% two years later. Thus the involvement of the State and a quasi-State organisation (the LIPC) in Japan's beef import business was ended through a tariffication procedure that foreshadowed the general approach to liberalisation taken subsequently in the Uruguay Round. The Japanese government still assists beef farmers but in less trade-distorting ways - Japan's PSE for beef has fallen only from 49% (1986-88) to 43% in 1996 (OECD), and domestic production has changed hardly at all (555,000 tonnes in 1996 compared with 565,000 tonnes in 1986-88). But the removal of quotas and reductions in tariffs have lowered domestic consumer prices considerably, from 83% above world levels in 1986-88 to 46% above such levels in 1996, and beef consumption has increased by over 60% between 1986-88 and 1996. Thus consumers are considerably better off, and a major source of trade friction has been defused.

APEC's regional initiative to liberalise trade is a bold and ambitious one. Soon after the Uruguay Round agreement was signed, APEC leaders issued their 'Declaration of Common Resolve' in Bogor in November of 1994. This declared the long-term goal of free and open trade and investment in the region. Further, 'open regionalism' was embraced, meaning that benefits arising from APEC liberalisation would also accrue to non-members of APEC. Developed economies were to fully liberalise trade by 2010, and developing country members were to reach this goal ten years later. One year after this announcement, the free trade goal was reaffirmed, and a comprehensive approach that included controversial sectors like agriculture was called for. Country action plans were tabled at a 1996 Ministerial meeting, to be implemented from 1997. In some cases, these plans went beyond the country's Uruguay Round commitments, while in others they indicated little movement from previously agreed reforms.

The APEC Leaders meeting of 1996 sought to begin the reform process through an instruction that sectors be identified where early voluntary liberalisation would have a positive effect on trade and growth. Thus the concept of Early Voluntary Sectoral Liberalisation (EVSL) was borne. The food sector list is noticeable for the absence of major traded commodities such as grains and livestock products, although it does include fruits and vegetables. Whether or not the EVSL selective approach would reduce trade frictions and increase the welfare of APEC economies is open to debate and empirical analysis. EVSL could make matters worse, for example where lowly-protected upstream commodities are liberalised but more highly protected downstream processing sectors retain their protection. Dee et. al (1998) concluded that this is indeed the case with the food proposal. Their research indicated efficiency losses in several APEC economies, including Malaysia and Japan. In these countries, resources would move out of the liberalised food sectors and into other sectors such as processed rice and milk in Malaysia and meat products in Malaysia and Japan, which sectors escape early liberalisation and would remain protected by high tariffs. Thus there is some doubt that EVSL will lead to welfare gains for the region, or that it will make a significant contribution to reducing frictions since formidable trade barriers will be retained.

## **Benefits of Reducing Agricultural Trade Frictions**

While a complete liberalisation of agricultural trade can not be expected in the foreseeable future, Tyers and Anderson (1992) conducted such an analysis in order to expose the costs and distortions due to current agricultural policies. The domestic costs of these policies were found to be very large. While producers in protected countries benefited through higher incomes, these gains were more than offset by losses suffered by food consumers in those countries due to higher prices. Thus the industrial countries policies were an inefficient means of transferring assistance to farmers – in Japan for example each dollar transferred to farmers cost consumers and taxpayers more than \$1.40, and this does not incorporate the sums that would have been spent by interest groups on lobbying. Turning from the domestic effects to impacts on other countries, trade frictions exist because such domestic policies also reduce the welfare of groups elsewhere. Indeed, such domestic policies are at the root of trade tensions and conflict. They found that the agricultural policies of the industrial economies depressed international prices on average by 14% in 1980-82, and reduced world trade volumes for most commodities studied. The volume of meat trade was reduced by between 44% and 67%, and by 15% for rice. Thus the traditional food exporters suffered both reduced volumes of exports and reduced export revenues. Little wonder then, that many of the world's food exporting nations banded together as the Cairns Group to lobby for reduced agricultural subsidies in the Uruguay Round. Net food importers would tend to have gained from lower international prices; farmers could have lost through lower incomes but consumers could have gained through lower food prices. While net food importing countries might appear to have benefited from such industrial country policies, longer-term costs could have resulted from lowered incentives to their own food producers.

The increased trade and investment opportunities resulting from implementation of the various Uruguay Round agreements will encourage the shift of economic resources to more productive uses and hence higher incomes to resource owners worldwide. Demand for many products (agricultural and non-agricultural) will increase as a result, as will technical advancement, further investment and economic activity generally. These global economic gains may, by the year 2005 when the agreements are fully implemented, have increased global GDP by over \$500 billion (Francois et. al. 1995). However, improvements in the trading environment and consequent reduction in economic frictions as a result of the Agricultural Agreement are likely to be modest. Perhaps the reform with the greatest potential to rationalise global agricultural markets is the reduction in export subsidies. While the Agreement places a cap on these measures, and ensures that countries not using them in the base period cannot introduce them in future, permitted countries appear to be spending to the maximum and sometimes beyond. Thus new frictions have arisen, as have disputes over 'innovative' reforms taken by some countries perhaps as attempts to circumvent these disciplines. While access to previously closed, or tightly controlled, markets has been improved the increases in access are strictly limited. Where tariff-rate-quotas are employed, out-of-quota tariffs are sometimes so high that trade will not occur and the required reductions in such tariffs will have no effect at all on trade. Thus in effect, quantitative barriers to trade and associated frictions remain. Disputes have also arisen over the quota allocation and administrative procedures adopted by some countries, and these have led to a

continuation of State control over imports in some cases. The ‘tariffication’ of non-tariff barriers has given rise to claims of ‘dirty tariffication’ (Ingco 1995), where bound tariffs appear to be much higher than independent estimates of the pre-existing price gaps. This provides scope for countries to apply tariffs somewhat below the bound rate and to vary the tariffs as trading conditions change, thus simulating the system of variable levies that the Agreement had supposedly eliminated. While negotiations over reforms to domestic policies that lie at the root of trade frictions promised much, the decision to apply these at the sectoral rather than the commodity level, plus the exception of many policies, largely emasculated this effort. Governments could choose the sub-sectors in which to make any required reductions so as to minimise political reactions, and several of the policies that were excepted from this discipline are not truly decoupled from production. Thus continuation of such support payments will continue to distort international trade.

Several attempts have been made to predict how food prices and trade volumes might change in international markets once the agreements have been implemented (e.g. Andrews et. al. 1994; FAO 1995; OECD 1995; Anderson et. al. 1997). A consensus view may be that food commodity price increases will be modest, and that general economic growth (due in part to the Round itself) rather than reform of agricultural policies *per se*, will be the main explanator of liberalisation benefits. OECD (1995, p.59) reached the conclusion that “price gaps between domestic and world prices seem unlikely to be eliminated for most commodities during the lifetime of the present agreement, although they will be much reduced for grains and pigmeat. This, in turn, suggests that the use of export subsidies will continue”. Trade volumes will not necessarily increase, since some of the policy adjustments occur in countries that are major exporters. However, increasing prices may encourage additional production from food-surplus countries where protection levels are currently low. Increased market access, and reductions in export subsidies, could see increased trade flows for rice, coarse grains, dairy products and meats but high out-of-quota tariffs will have an inhibiting effect. Francois et. al. (1995, Table 19) provide one set of estimates of welfare gains resulting from the Uruguay Round. Not unexpectedly, the agricultural reforms provide gains to Cairns Group members such as Australia, New Zealand and Canada that provide the major contributions to those countries’ net overall welfare gains from the Round. It is interesting to note also that for some other countries the welfare gains from agricultural reforms are smaller or absent, but gains in the industrial area are substantial and provide overall welfare gains to these countries as well. Thus the Cairns Group’s strategy of linking agricultural reforms to the achievement of reforms in other sectors may have played a significant role in obtaining agreement for agricultural reforms from countries whose agricultural sectors may suffer.

While APEC intra-regional agricultural trade has grown rapidly over the past decade or two, this can not be attributed to the APEC institution itself. Nevertheless, APEC has committed itself, through the Bogor Declaration of 1994, to free and open trade by 2010 for developed economies and by 2020 for other members. Coyle and Wang (1998) evaluate this commitment on top of the reforms already agreed within the Uruguay Round. Successful achievement of the APEC vision would produce a substantial welfare gain to the region as a whole. The majority of this gain would arise within agriculture, since agricultural protection levels are high in some APEC economies and the agricultural reforms of the Uruguay Round were partial and left much unfinished business. What is particularly interesting about this

analysis is what it reveals about the ‘open regionalism’ concept. This permits non-APEC economies to share in the benefits of APEC liberalisation even if they do not agree to reciprocal reforms themselves. The non-APEC countries realise a small welfare gain from this involvement, but their exports to APEC in 2020 expand by only 5% compared with the 14% expansion in APEC’s exports to the rest of the world. But non-APEC countries’ welfare gain would be substantially improved were they also to adopt liberalisations similar to that within APEC. This is because protection policies in Europe and elsewhere outside of APEC introduce distortions to their domestic economies that reduce efficiency and competitiveness. They therefore have an incentive to follow the lead of APEC in liberalising their own markets if they want to remain competitive with the APEC economies. The reduction in trade friction within APEC could therefore spread to other regions of the world.

Why is it that governments put in place policies that lead to a loss of national welfare, and that they appear reluctant to take corrective action that would realise net benefits to their citizens? On this point, it is informative to summarise the findings of Anderson and Hayami’s (1986) study of the political economy of agricultural protection in East Asia. At an early stage of economic development, the State may wish to promote labour-intensive industrial growth through maintenance of low wages. Since food is the wage good, this requires low food prices. Hence agriculture tends not to be assisted; quite the reverse, it may be taxed in order to raise revenue for the State. As development proceeds and comparative advantages change, labour-intensive manufacturing tends to be replaced with heavier industry that is less reliant on low-cost labour for competitive advantage. Consumption patterns also will have evolved, and rice will have become less important as a wage good. Both of these factors weaken the demand for low basic food prices. Simultaneously, farmers will have observed a slippage in their incomes relative to the urban population, and food self-sufficiency may also be in decline. Thus farmers had an incentive to form powerful lobby groups, and in the case of East Asia these typically took the form of cooperatives. Consumers had less incentive to put much energy into lobbying for lower food prices since expenditure on food took a lower proportion of their spending, and thus the State began the process of agricultural support at a cost to consumers and taxpayers.

Other countries, to whom agricultural exports remained important, grew impatient over this turn of events, and added to increased trade frictions through intensified pressure (both unilaterally and multilaterally) on the agricultural protectionists. Since this pressure sometimes took the form of actual or threatened trade retaliation, the industrial sectors of the food subsidising nations began to lobby for agricultural reforms in their own countries. Recent times have seen some governments grappling with problems of budget deficits and increasing demands to finance new programmes in health, education and welfare. Therefore government treasuries have also added to domestic pressures to reduce the State’s expenditures on agriculture. Improved analyses and information flows also played a role in increasing the awareness of non-farmers that they were supporting a relatively small group in society whose standards of living may have grown to exceed their own. These would have been important factors responsible for the inclusion of agriculture in the Uruguay Round, and the agricultural reforms that Japan, Korea and the EU, for example, finally agreed to during that Round. The continued industrialisation of Asia, the current financial crisis in that region, and future government budgetary priorities in both the developed and the developing world

are likely to maintain such pressures for continued reforms of agricultural policies that will lead to further easing of trade friction.

### **What Might be Future Roles for the State?**

Compared with the pre-UR period, there now exists a better understanding among the general public and governments of the extent and magnitude of agricultural protection and its domestic and international impacts. There is also a new awareness that further reforms of agricultural policies will be essential to the pursuit of global economic integration and growth. However in at least one sense, implementation of the UR Agricultural Agreement has actually increased the scope of the State in agricultural trade. This has to do with the adoption of tariff rate quotas, and decisions taken by governments over quota administration. In several instances, state trading enterprises (STEs) control the allocation of the quota to exporters. It may also be possible for such state organisations to restrict imports to less than the 'quota' component, simply by under-filling the quota. Expansion of the WTO to include countries for whom state trading is an accepted practice (e.g. China and Russia) could also frustrate further attempts to reform trade rules. Continuation of such state activities in buying and selling are contrary to much of the spirit and outcomes of agricultural trade reform, and the issue of state trading should also be high on the multilateral negotiations agenda.

A future role of the State in agricultural trade will be reaching agreement on, and implementing, further policy reforms that continue to reduce the disarray that has bedeviled agricultural trade for so long. Governments are pursuing such reforms on a number of fronts. Several regional trading arrangements and customs unions are under discussion or are experiencing ongoing reform. The EU, in pursuit of greater political integration in Europe, will expand to the east. Since this involves a number of countries for whom agriculture is an important and (potentially) competitive sector, the domestic policies of the EU are almost certain to be further reformed in directions that will benefit the international trading environment. Increasingly, agriculture features prominently in a number of regional arrangements, such as within both NAFTA and MERCOSUR. And while there is a lack of consensus at the moment, the countries of the Americas are committed to conclude negotiations for free trade among themselves no later than 2005 (the proposed Free Trade Area of the Americas). In such arrangements, rules can be consistent with the WTO and in some cases the reforms toward freer regional trade cut deeper than the UR agreements.

How can legitimate roles of the State in its domestic constituencies be married with its international obligations? As discussed earlier, there are many reasons for the State to intervene in agriculture. A major breakthrough during the Uruguay Round was the acceptance that domestic subsidies were indeed a legitimate concern of trade policy. But the outcome of this in the UR agreements was a rather ineffective attempt to curtail those subsidies that imposed most damage on international markets. Thus the incentive to shift such domestic support in the direction of programmes that had least negative impacts on international markets (the so-called 'decoupled' policies of the 'green box') were not as strong as they might have been. Future WTO trade negotiations could result in further reductions in export and domestic subsidies, and continued expansion of market access to foreign supplies. Under

such a scenario, the State could face pressures from domestic farm lobbies to discover new and WTO-consistent ways of continuing domestic assistance to farmers.

Where farmers remain a powerful political force, pressures will remain on governments to find other, perhaps new, means of delivering financial support that could well lead to the introduction of new and formidable trade barriers. Examples of relevant issues that could encourage the erection of such barriers are geographical origin protection, labeling rules (e.g. for organic products and genetically-modified foods), food safety, environmental and conservation issues and quarantine controls. It is not a coincidence that environmental and food safety objectives are now increasing in importance. Many countries are providing support to farmers who adopt 'environmentally friendly' and 'sustainable' production methods, and governments talk about purchasing 'environmental goods' from farmers. Of course issues of environmental preservation and sustainability are extremely important, but one wonders at governments' late recognition of such values given the enormous damage imposed on the physical environment from earlier programmes of price support and fertiliser and chemical subsidies. There is also emerging a genuine public concern over food safety, given recent outbreaks of food poisoning and the use of hormones in livestock production. The trend towards genetically modified crops and livestock is also of concern, and markets are demanding natural and 'organic' foods. Governments are reacting in a variety of ways to environmental and food safety concerns. The challenge is to ensure that they do not become a breeding ground for the next generation of farm subsidies. Already, the WTO has had to deal with trade disputes in these areas (Table 7). There can be no doubt that new trade rules will be required to ensure that safe food can be delivered, and environments preserved, within an open food trade system and without the generation of new trade frictions. Thus the 'new' issues listed above ought to be pursued by States as part of the agenda of new WTO agricultural trade negotiations, since new frictions will arise if rules in these areas are not clear and widely accepted (Josling 1998).

TABLE 1  
APEC and Global Agricultural Trade: 1996

| <i>Commodity group</i>  | <i>Share (%) of APEC-18 in:</i> |                      |
|-------------------------|---------------------------------|----------------------|
|                         | <i>World exports</i>            | <i>World imports</i> |
| Total agriculture       | 38.8                            | 39.9                 |
| Total processed food    | 30.0                            | 37.1                 |
| Meat (01)               | 35.7                            | 36.7                 |
| Dairy products (02)     | 16.3                            | 18.6                 |
| Fish (03)               | 47.1                            | 59.0                 |
| Cereals (04)            | 47.9                            | 38.9                 |
| Fruit & vegetables (05) | 31.0                            | 31.4                 |
| Wood (24)               | 57.5                            | 60.4                 |
| Pulp (25)               | 61.1                            | 49.8                 |
| Textile fibres (26)     | 53.7                            | 50.6                 |

SOURCE: NAPES database

TABLE 2  
Agriculture and APEC Trade: 1996

| APEC economy     | Share (%) of agriculture <sup>a</sup> in |         | % of agricultural exports to APEC-18 <sup>b</sup> | % of agricultural imports from APEC-18 | Agricultural net export ratio <sup>c</sup> |
|------------------|--|---------|---|--|--|
|                  | exports                                  | imports |   |  |  |
| Australia        | 30                                       | 6       | 76  | 67                                     | 0.63                                       |
| Canada           | 16                                       | 7       | 83  | 76                                     | 0.44                                       |
| Chile            | 37                                       | 9       | 55  | 34                                     | 0.59                                       |
| China            | 10                                       | 11      | 76  | 70                                     | -0.02                                      |
| Hong Kong        | 3  | 7       | 83  | 76                                     | -0.89                                      |
| Indonesia        | 17                                       | 16      | 66  | 69                                     | 0.10                                       |
| Japan            | 1  | 20      | 83  | 78                                     | -0.88                                      |
| R. Korea         | 4  | 11      | 83  | 78                                     | -0.56                                      |
| Malaysia         | 14                                       | 7       | 58  | 71                                     | 0.36                                       |
| Mexico           | 8  | 10      | 64  | 86                                     | -0.08                                      |
| New Zealand      | 64                                       | 9       | 61  | 77                                     | 0.75                                       |
| Papua New Guinea | 45                                       | 13      | 68  | 96                                     | 0.68                                       |
| Philippines      | 11                                       | 10      | 75  | 72                                     | -0.22                                      |
| Singapore        | 5  | 5       | 65  | 69                                     | -0.09                                      |
| Taiwan           | 5  | 9       | 93  | 77                                     | -0.31                                      |
| Thailand         | 24                                       | 6       | 81  | 75                                     | 0.57                                       |
| USA              | 14                                       | 7       | 62  | 61                                     | 0.17                                       |

NOTES:

a: Agriculture is defined as including:

|                                 |                                |
|---------------------------------|--------------------------------|
| 0 Food and Live Animals         | 23 Rubber Crude, Synthetic     |
| 1 Beverages and Tobacco         | 24 Wood Lumber and Cork        |
| 4 Animal, Vegetable Oil, Fat    | 25 Pulp and Waste Paper        |
| 21 Hides, Skins, Furs Undressed | 26 Textile Fibres              |
| 22 Oil Seeds, Nuts, Kernels     | 29 Crude Animal, Veg Materials |
|                                 | NES                            |

b: APEC-18 comprises Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, Taiwan, Thailand, USA.

c: The net export ratio is the difference between exports and imports divided by the sum of exports and imports. The indicator ranges from -1 (all imports and no exports) to 1 (all exports and no imports). A high positive value of the ratio indicates that the country is a competitive exporter of the product. The net export ratio can also be interpreted as an indicator of intra-industry trade since the greater the level of two-way trade, the closer the value of exports will be to the value of imports and the closer the net export ratio will be to zero.

SOURCE: NAPES database.

TABLE 3  
Intra-APEC Agricultural Trade: 1996

|      | <i>Share of APEC-18 exports sold in APEC-18 economies</i> |                     |                       |
|------|---|---------------------|-----------------------|
|      | <i>Total exports</i>                                      | <i>Agricultural</i> | <i>Processed food</i> |
| 1975 | 54  | 49                  | 60                    |
| 1985 | 68  | 58                  | 66                    |
| 1995 | 73  | 70                  | 74                    |

SOURCE: NAPES database

TABLE 4  
Indices of Agricultural Comparative Advantage

| <i>APEC economy</i> | <i>Agriculture land/'000 population</i> | <i>1970-75</i> | <i>1980-85</i> | <i>1990-95</i> |
|---------------------|---|----------------|----------------|----------------|
| Australia           | 27218                                   | 2.56           | 2.76           | 2.49           |
| Canada              | 2654                                    | 1.22           | 1.46           | 1.40           |
| Chile               | 1351                                    | 0.54           | 2.00           | 2.96           |
| China               | 437                                     | 2.32           | 1.59           | 1.08           |
| Hong Kong           | 1.4                                     | 0.12           | 0.14           | 0.23           |
| Indonesia           | 253                                     | 1.97           | 1.01           | 1.34           |
| Japan               | 42                                      | 0.20           | 0.13           | 0.09           |
| R. Korea            | 51                                      | 0.70           | 0.44           | 0.33           |
| Malaysia            | 401                                     | 3.17           | 2.84           | 1.62           |
| Mexico              | 1224                                    | 2.25           | 0.68           | 0.84           |
| New Zealand         | 5161                                    | 4.35           | 4.99           | 5.30           |
| Papua New Guinea    | 126                                     | 3.01           | 3.23           | 2.97           |
| Philippines         | 166                                     | 3.49           | 2.57           | 1.47           |
| Singapore           | 0.4                                     | 1.60           | 0.99           | 0.54           |
| Taiwan              | 50                                      | 0.90           | 0.57           | 0.43           |
| Thailand            | 385                                     | 3.74           | 4.22           | 2.34           |
| USA                 | 1712                                    | 1.22           | 1.48           | 1.18           |

NOTE: Revealed comparative advantage is defined as a country's sectoral share divided by the world sectoral share. It measures a country's trade specialisation in a commodity group. If the ratio is one, this indicates an equal share of trade in the group as in total trade, so no specialisation in that commodity group. Values greater than one indicate trade specialisation in the commodity group.

SOURCE: NAPES database

TABLE 5  
 Producer Subsidy Equivalents – All Products (%)

|              | <i>1986-88</i>  | <i>1996<sup>a</sup></i> |
|--------------|-----------------|-------------------------|
| Australia    | 10              | 9                       |
| Canada       | 42              | 22                      |
| Japan        | 73              | 71                      |
| Mexico       | 25 <sup>b</sup> | 13                      |
| New Zealand  | 20              | 3                       |
| USA          | 29              | 16                      |
| EU           | 48              | 43                      |
|              |                 |                         |
| OECD average | 44              | 36                      |
|              |                 |                         |

SOURCE: OECD (1997).

NOTES: a Estimates

b For the period 1989-91.

TABLE 6  
Nominal Assistance Coefficients 1996 (estimates)

|              | <i>Rice</i> | <i>Wheat</i> | <i>Sugar</i> | <i>Beef</i> | <i>Poultry</i> | <i>Milk</i> |
|--------------|-------------|--------------|--------------|-------------|----------------|-------------|
| Australia    | 1.1         | 1.1          | 1.1          | 1.1         | 1.0            | 1.3         |
| Canada       | ..          | 1.2          | 1.2          | 1.1         | 1.1            | 2.1         |
| Japan        | 5.5         | 7.2          | 2.7          | 1.7         | 1.1            | 4.2         |
| Mexico       | 1.1         | 1.3          | 1.4          | 1.0         | 1.0            | 1.3         |
| New Zealand  | ..          | 1.0          | ..           | 1.0         | 2.2            | 1.0         |
| USA          | 1.1         | 1.3          | 1.9          | 1.1         | 1.0            | 1.9         |
|              |             |              |              |             |                |             |
| OECD average | 4.2         | 1.4          | 1.8          | 1.6         | 1.1            | 2.1         |

SOURCE: OECD (1997).

TABLE 7  
Summary Of WTO Agricultural Trade Disputes Involving APEC Economies

| <i>Complainant/s</i>  | <i>Issue</i>  | <i>Responder</i> |
|---|---|------------------|
| Canada, USA   | Taxes on alcoholic beverages                          | Japan            |
| Philippines   | Measures affecting desiccated coconut                 | Brazil           |
| USA, Mexico   | Banana importation regime                             | EU               |
| USA, Canada   | Meat & meat products (hormones)                       | EU               |
| Malaysia, Thailand,<br>Philippines                          | Shrimp import prohibitions                            | USA              |
| Canada  | salmon quarantine regulations                         | Australia        |
| USA   | Taxes on alcoholic beverages                          | Korea, Chile     |
| USA, New Zealand, Australia,<br>Canada                      | Quantitative restrictions on agricultural<br>products | India            |
| USA   | Quarantine prohibitions on agricultural.<br>imports   | Japan            |
| NZ  | Exclusion of butter products from quota               | EU               |
| USA   | Dairy export subsidies and milk quota                 | Canada           |
| NZ  | Dairy export subsidies                                | Canada           |
| EU  | Dairy products import quotas                          | Korea            |
| Argentina   | Groundnut import quota                                | USA              |
| USA   | Cheese export subsidies                               | EU               |
| USA   | Anti-dumping measures on high-fructose<br>corn syrup  | Mexico           |
| EU  | Ban on poultry imports                                | USA              |
| Chile   | Salmon countervailing duty investigation              | USA              |
| EU  | Measures affecting pork imports                       | Japan            |
| USA   | Testing/inspection of agricultural. products          | Korea            |
| USA   | Quotas for pork and poultry                           | Philippines      |
| Argentina, Australia, Canada,<br>USA, New Zealand, Thailand | Agricultural export subsidies                         | Hungary          |
| EU  | Import tariffs  | USA              |
| Canada, Chile, Peru   | Trade description of scallops                         | EU               |
| Canada, Thailand, USA                                       | Grain import duties                                   | EU               |
| USA   | Imports of fresh, chilled & frozen beef               | Korea            |
| Canada  | Imports of cattle, swine & grain                      | USA              |
| Mexico  | Anti-dumping measures on tomatoes                     | USA              |
| Canada  | Shelf-life regulations on bottled water               | Korea            |
| USA   | Shelf-life of products                                | Korea            |

NOTE: As at 17 February 1999. Includes settled and inactive cases.

SOURCE: <http://www.wto.org/wto/dispute/bulletin.htm>

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## Notes

<sup>1</sup> These data refer to APEC-18 as defined in a note to Table 2. Recently, APEC membership was expanded to 21 with the addition of Peru, Russia and Vietnam.

<sup>2</sup> The fourteen member states which met for the first time in Cairns, Australia in August 1986 were Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand and Uruguay.

<sup>3</sup> This Agreement applies to all agricultural products listed in HS chapters 1 to 24 except fish and fish products, and also applies to hides, skins, animal hair and cotton.

<sup>4</sup> Taken from the document “Overview of the State-of-play of WTO Disputes, 17 February 1999, available on the WTO website.

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### **Abstract**

*In response to developments in domestic political markets, governments in the Asia-Pacific region have over the years responded in a variety of ways to increase the state's support of agriculture. While such political markets may have already taken account of future impacts on domestic commodity markets, they may have ignored linkages through international commodity markets to domestic commodity markets elsewhere. Thus a dynamic interaction among domestic and international commodity and political markets was set in motion as the private sector and the state confronted consequent trade frictions. More recently, a number of unilateral, regional and multilateral approaches to agricultural policy and trade reform have been taken by states with mixed success. Continuation of this trend may see the role of the state increasingly focussed on agreeing the rules under which private actors may participate in agricultural markets, and designing improved domestic interventions that minimise international trade distortions.*

Keywords: agriculture, trade, friction, policies, reforms