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# Options for U.S. Agriculture in APEC

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Member countries of the Asia-Pacific Economic Cooperation (APEC) group already comprise the most lucrative region in the world for the American farmer, accounting for almost 60 percent of U.S. agricultural exports. APEC includes two of the three major trading hubs in the world—East Asia and North America (the other is Western Europe). USDA estimates U.S. agricultural exports to APEC to be \$37.6 billion in 1996, and to account for half a million U.S. jobs, both in the farm and nonfarm sectors. More than half of these exports are processed or consumer-ready products. Continuing market liberalization in APEC coupled with implementation of the Uruguay Round Agreement, the possible accession of China and Taiwan to the World Trade Organization (WTO), and the impetus for further reform from the 1994 Bogor Declaration will ensure expansion of agricultural trade in the future.

The Bogor Declaration is named for the city in Indonesia where, six months after the signing of the Uruguay Round Agreement, APEC leaders issued their "Declaration of Common Resolve" on November 15, 1994. It announced that members would adopt the long-term goal of free and open trade and investment in the Asia-Pacific region—by 2010 for developed members in APEC and 2020 for developing members. This goal would be pursued by further reducing barriers to trade and investment and by promoting the free flow of goods, services, and capital within the region. In short, trade reform, robust economic growth, and limited agricultural land resources in the Asian APEC markets will assure that the agricultural trade flow across the Pacific Ocean from North America to Asia will remain the largest in the world.

APEC members pledged to pursue the goal of regional liberalization in a GATT-consistent man-

ner. They have continued to promote the notion of "open regionalism." This means that benefits from trade liberalization undertaken by APEC members would be granted also to nonmembers. At Osaka in November 1995, APEC members reaffirmed the free trade goal, calling for comprehensive treatment but flexibility in dealing with various trade sectors. This was a face-saving device which meant that all sectors including agriculture must be included in the liberalization process, but that exemptions or delays for sensitive products could be considered. Action plans were presented at the APEC Ministerial in Manila in November, 1996, for implementation by early 1997.

The action plans offered by member countries avoided concessions on sensitive sectors like agriculture and textiles. Some countries offered little more than their Uruguay Round commitments, arguing that these markets are already open and will meet the APEC goals by the agreed targets of 2010 or 2020. Agreements in other areas, however, like the Information Technology Agreement, which will "substantially eliminate tariffs on information technology products by 2000," will promote trade and income growth, having beneficial but indirect effects on food and agricultural trade.

It is important to keep the APEC process in perspective. Free trade is the goal. Mercantilistic, self-serving policies that have negative consequences for other members of the "community" are to be reduced, eliminated, or avoided. What's important for U.S. agriculture is that it has a seat at the APEC table and, as U.S. Agriculture Secretary Glickman was quoted as saying, "a clear signal of President Clinton's continued commitment to expanding opportunities for America's farmers and ranchers." Action plans will be updated each year; the next ministerial will be in Canada.



## What is APEC?

APEC has eighteen members on both sides of the Pacific, including the United States. APEC, the brainchild of Australian Prime Minister Robert Hawke, began in 1989 as an informal group of twelve market-oriented Asia-Pacific economies, with the goals of better managing the growing interdependence in the Pacific region and sustaining economic growth. The original members included Australia, New Zealand, the United States, Canada, Japan, South Korea, Thailand, Malaysia, Indonesia, the Philippines, Singapore, and Brunei. In 1991, APEC admitted China, Taiwan, and Hong Kong. Mexico and Papua New Guinea joined in 1993, and Chile was admitted in 1994. In recent years, APEC has gained recognition from heads of state and from other international organizations.

Over the years, APEC has evolved into a formal but loose-knit institution with a permanent secretariat located in Singapore. APEC holds annual meetings of its members' foreign, economic, and finance ministers. These provide a forum for ministerial-level discussions and cooperation on a range of economic issues, including trade promotion and liberalization, investment, technology transfers, human resource development, energy, telecommunications, and transportation. Member countries often use APEC meetings as a forum for discussions on trade and political issues.

The APEC countries' relatively wealthy citizenry of 2.2 billion comprise 38 percent of the world's population, yet earn 57 percent of world GDP and conduct more than 40 percent of world trade.

The APEC members are a very diverse group, with per capita GDPs ranging from less than \$1,000 (China and Indonesia) to over \$20,000 (the United States, Canada, and Japan). Trade regimes for agricultural products are also wide-ranging, from the relatively open systems of Singapore and Hong Kong, to the transitional system of China, to the relatively protective regimes of South Korea, Taiwan, and Japan. Trade within the APEC region is concentrated on the sides of a geographical triangle, with North America, East Asia, and Oceania at the triangle's points. Trade links between the Association of South East Asian Nations (ASEAN) and East Asia, ASEAN and North America, and Oceania and ASEAN are also strong, while links between Latin America and the Western Pacific are relatively weak.

## Importance of APEC to U.S. agriculture and trade

The importance of APEC as a market for U.S. agricultural products has grown steadily over the past decade, now accounting for 63 percent of total agricultural exports. About three-quarters of the

24-million-ton gain in U.S. coarse grain exports in 1995 went to the APEC region. Big gainers were China, Japan, South Korea, and ASEAN. Some of the gain, particularly in East Asia, was due to a dramatic shift in China's total grain trade as it went from being a net exporter of 7.5 million tons in 1993 to a net importer of 16 million tons in 1994 and 1995, a switch of 23.5 million tons in one year, nearly 10 percent of global grain trade. This turn of events created short-term market opportunities for the United States in Japan and South Korea. U.S. coarse grain exports to Japan rose 32 percent (from 13.8 million tons in 1994 to 18.3 in 1995). Exports of coarse grain to China rose from 36,000 tons to 5.4 million tons in 1995. Shipments to South Korea more than tripled from 2.4 million tons to almost 9 million in 1995.

In the longer run, APEC promises to be an expanding market for grain, with the best prospects in China, ASEAN, and Mexico. It is also a growing market for consumer-ready products. Almost all the growth in U.S. exports of nonbulk commodities in the past ten years has been in the APEC region, primarily in East Asia and in Canada and Mexico, the other participants in the North American Free Trade Agreement (NAFTA). The billion-dollar growth in 1995 in U.S. nonbulk exports to Japan (over \$800 million was animal products) is a harbinger of similar growth in the rest of East Asia, where incomes are rising and agricultural land resources are limited. The trade with Japan is also benefiting from rapid changes in its food marketing system away from the multilayered mom-and-pop system to one dominated by a few large-scale food





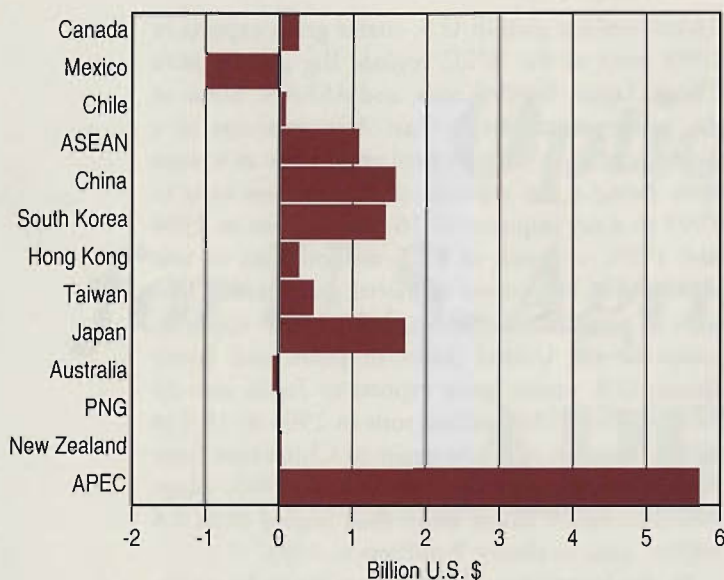


Figure 1. Gains in U.S. agricultural exports in 1995

and beverage discounters responding to sharper consumer demands for lower prices in an era of slow economic growth (see figures 1 and 2).

### Why GATT did not go far enough

A number of recent studies estimate that the potential gains from free trade in the APEC region would be substantial for agricultural products. This is largely due to the significant "unfinished business" from the Uruguay Round Agreement (URA) in liberalizing agricultural markets (Johnson). While the conversion of trade barriers to tariff equivalents provides greater transparency and a framework for future negotiations, many of the tariff bindings in the URA were higher than the average rate of protection before the implementation of the Round. An OECD/World Bank team (Goldin and van der Mensbrugghe) finds

"...the gains from the Round at more than two-and-a-half times greater (\$137 billion, compared with \$48 billion) if the agreed cuts in agricultural protection had been from levels prevailing before the Round, rather than from the inflated levels resulting from the choice of a high base period, and if cuts in domestic support had not been weakened by exemptions.

If there is significant unfinished business from the URA, one would quickly conclude that APEC free trade would add considerable gains on the more modest ones of the URA. In fact according to a number of studies on APEC free trade, significant gains are yet to be achieved beyond the URA and particularly in agriculture. Tweeten estimated that the annual benefits to U.S. agriculture from liberalized agricultural trade within APEC would be seven to eight times as great as those after the Uruguay Round of GATT was fully implemented. Anderson et al. estimated that gains in agricultural trade would reach \$177 billion globally. Because of trade diversion, APEC gains were greater, \$189 billion. According to Dee, Geisler, and Watts, elimination of all trade barriers, including services, could eventually involve real income gains of \$300 billion per annum for APEC members, over and above what real incomes would otherwise be. Excluding sensitive sectors, especially agriculture, would dramatically reduce benefits, forgoing \$106 billion or 61 percent of total benefits from liberalization of traded goods, or 35 percent of total trade liberalization benefits of \$300 billion.

### Whither agriculture in APEC

APEC continues to be a work in progress and the role of agricultural liberalization is still undetermined. The U.S. policy position was spotlighted at

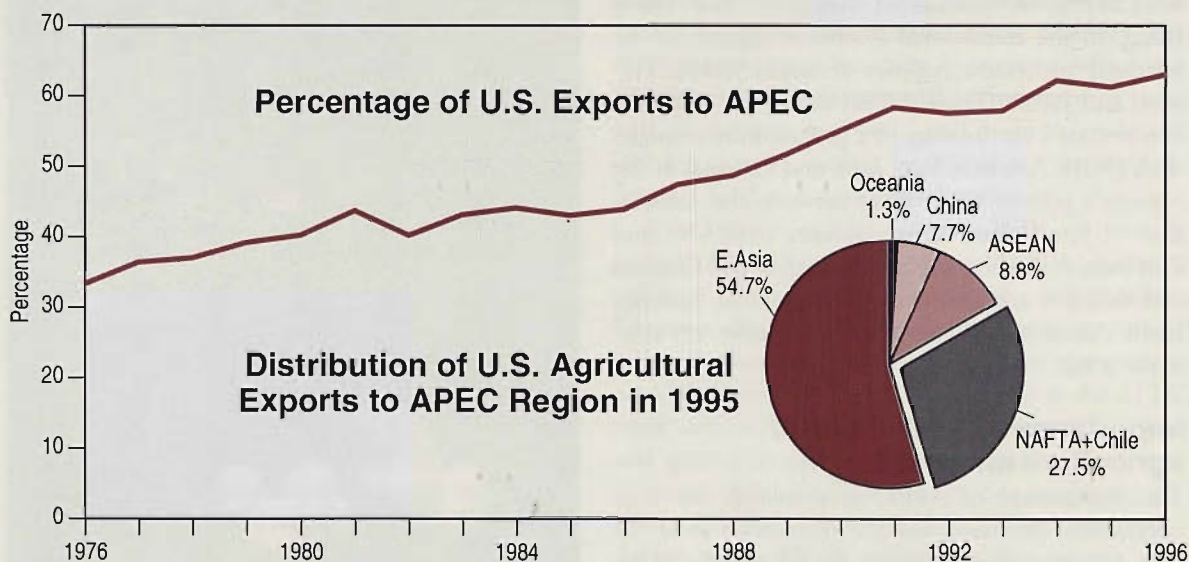


Figure 2. U.S. agricultural exports to APEC



Table 1. Comparison of major trade groupings

| Name     | Signatories and region | Nature          | Date begun | Administration      |
|----------|------------------------|-----------------|------------|---------------------|
| GATT     | 122 worldwide          | Agreement       | 1947       | WTO                 |
| EU 15    | 15 Western Europe      | Customs Union   | 1957       | European Commission |
| NAFTA    | 3 North America        | Free trade area | 1994       | Member governments  |
| Mercosur | 4 South America        | Free trade area | 1995       | Member governments  |
| ASEAN    | 7 Southeast Asia       | Agreement       | 1967       | Member governments  |
| APEC     | 18 Pacific Rim         | Agreement       | 1989       | Member governments  |

Table 2. U.S. agricultural exports to APEC and the ROW, 1994 and 1995 (billion U.S.\$)

|      | Bulk Commodities |      | Nonbulk commodities |      |
|------|------------------|------|---------------------|------|
|      | APEC             | ROW  | APEC                | ROW  |
| 1994 | 10.6             | 8.0  | 18.1                | 9.1  |
| 1995 | 14.6             | 11.0 | 19.7                | 10.5 |

a conference in Kohler, Wisconsin, in April 1996 organized by the National Center for APEC and Washington State University. Business executives, academics, and government officials developed recommendations for the future stance of U.S. agriculture in APEC negotiations.

The conference endorsed agricultural trade liberalization within APEC as complementing the parallel WTO/GATT process. It concluded that "the agrifood system has to be a high priority in APEC discussions" and that "there are clear and fundamental benefits of freer trade in food and agriculture to consumers and producers, including more certain and affordable access to food supplies...." U.S. leadership was considered critical given the attractiveness of agricultural protectionism to other leading APEC member countries such as Japan, South Korea, and China. Part of APEC's work plan for 1997 is a major conference to be hosted by Canada on the "Impact of Food, Energy, the Environment and Expanding Population," which will be used as a basis for leaders' decisions on sustainable development.

Future decisions on APEC will be closely interlinked with the WTO/GATT process, since most APEC members are also WTO members, and the two notable exceptions, China and Taiwan, are seeking admission to the WTO. Given the sensitivity of many governments regarding agricultural trade liberalization, it will require considerable ingenuity on the part of U.S. negotiators to move the liberalization process forward. However, the payoff for success could be very high and the consequences of failure painful to U.S. agriculture.

### WTO and APEC compared

The similarities between the WTO and APEC are more important than the differences (see tables 1 and 2). Trade negotiations in both start with a political commitment. Agreement is reached on principles

and agendas. Consultations are undertaken to reach reciprocity (WTO) or comparability (APEC); "offers" are made in the WTO, "national action plans" are submitted in APEC. The principle of comprehensiveness, addressing all sectors, is promoted, such as in the case of bringing agriculture into the WTO as well as into APEC. Flexibility is allowed through exceptions such as blue box policies and the backloading of textile quota phaseouts in the URA versus allowing APEC countries to deal with sensitive sectors in different ways and at different times. Finally, the principle of most-favored-nation treatment is important both in the WTO and APEC. APEC adheres to the practice of "open regionalism," which conveys the benefits of APEC reform measures on all trading partners, making the program of APEC fully complementary with the WTO.



### ■ For more information

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