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TRADE LIBERALIZATION UNDER NAFTA: WHERE FROM HERE?

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INTRODUCTION

The theme for this workshop is *Trade Liberalization Under NAFTA: A Report Card on Agriculture.* This paper strays from the narrow focus of the NAFTA trading relationship and focuses initially on the general environment for trade liberalization. The multilateral environment is the "canvass" against which the NAFTA and other regional trading relationships will evolve. It is worth noting that a decade following the signing of the Canada-United States Free Trade Agreement, approximately $Can.1 billion per day of goods and services are exported from Canada to the United States. Two-way trade in agri-food products between Canada and the United States totals about $Can. 2 billion per month. Most of this trade takes place in a frictionless and duty free environment. However, the existence of this workshop suggests that there are still trade irritants, and that these troublesome issues often involve agri-food products.

If you take a long view of trade liberalization, it is apparent that the global trading system is in an extremely interesting transition period. Following the Great Depression and after World War II, industrial tariffs averaged about 40 percent; now they average about 4 percent. In some sense, the work started in the 1940s to lower tariffs on industrial goods is nearly complete.

While it is not entirely correct to say agri-food was excluded from the trade liberalization process, until the Uruguay Round of trade negotiations (completed in 1994) not much of substance was accomplished until then.

The agricultural trade situation is now at the point where industrial goods trade was 50 years ago - just starting the process towards trade liberalization. However, since agri-food trade can also be considered "trade in goods" most of the lessons that were learned from liberalizing trade in industrial products continue to hold.

AGRI-FOOD TRADE FOLLOWING THE URUGUAY ROUND

Most economists would agree that considerable progress was made towards liberalizing trade in agri-food products during the Uruguay Round of trade negotiations. The operative word in this sentence is "towards" since the degree of actual liberalization was likely modest. A comparison of the producer support estimates from the start of the Uruguay Round (1986-88) and the preliminary figures for 1998 illustrate this point (OECD, 1999)[1]. In nominal dollars, the producer support estimate for the OECD countries has increased from $US 246.6 billion in 1986-88 to $US 273.6 billion in 1998 (Table 1). However, in inflation adjusted terms support has declined by 18.1 percent. Changes in support levels since 1986-88 vary widely across countries. The largest percentage increase in support has been in Mexico, where transfers have increased from $US 1.7 billion to $US 4.6 billion (170 percent). Canada has reduced its support significantly (-42.8 percent) while the European Union (EU) has increased its support by 30.3 percent and the United States by 13.5 percent.

Another way to judge protection in the agri-food sector is to look at tariffs. Wainio, Gibson and Whitley (1999) have recently provided some information on agri-food tariff structures for the Quint Countries (Australia, Canada, EU, Japan and the United States). The most striking feature of their analysis is

[1] The OECD has recently changed their terminology from producer subsidy equivalent to producer support estimate. These figures exclude about $US 60-65 billion in general services support (research, infrastructure, marketing and promotion, etc.) provided to the agricultural sector.

Table 1: Producer Support Estimate by Country ($US billion).

Countries	*1986-'88*	*1998[p]*	*Percent change*
Australia	0.9	1.2	33.3
Canada	5.6	3.2	-42.8
European Union	99.6	129.8	+30.3
Japan	52.1	49.0	-6.0
Korea	12.2	12.8	+4.9
Mexico	1.7	4.6	+170.6
New Zealand	0.5	0.0	-100.0
United States	41.4	47.0	+13.5
OECD-24(nominal)	220.6	251.1	+13.8
OECD-24 (real)[a]	298.7	251.1	-15.9
OECD (nominal)	246.6	273.6	+10.9
OECD (real)[a]	334.1	273.6	-18.1

Source: OECD, 1999.

[a] Constant 1998 dollars using the United States GDP deflator.

[p] Preliminary figures.

that average ad valorem tariffs are quite low, ranging from 3.8 percent in Australia to 9.5 percent in Japan. However, as the authors point out, many agri-food products are protected by specific tariffs, or some combination of ad valorem and specific tariffs. They use Canada to illustrate the effect of excluding specific tariffs from the average tariff rate calculations. Canada's average tariff rate, including only ad valorem tariffs (762 tariff lines) is 4.8 percent, but it jumps to 25.3 percent (917 tariff lines) when the ad valorem equivalent of specific tariffs is included. Some over-quota tariffs in the agri-food sector are truly staggering as illustrated by the tariffs for dairy products, that range from a low of 61 percent for cheese in the United States, to a high of 595 percent for butter in Japan (Table 2).

WHAT HAPPENED IN SEATTLE?

The Third WTO Ministerial Meeting in Seattle was meant to kick-off the next round of multilateral trade negotiations. However, the meetings were adjourned with no agreement having been reached. The reasons for the collapse were many and varied but had little to do with the protesters who filled the streets of Seattle and dominated the evening news broadcasts. The cover of *The Economist* magazine captured the true significance of the Seattle meetings

Table 2: Over-Quota Tariffs for Dairy Products in Selected Countries

Country	*Butter*	*Cheese*	*Milk Powder*
Canada	351%	237 %	289%
EU15	134%	93 %	89.4%
Japan	595%	—	398%
USA	84.2%	61%	40.4%

Source: WTO

best[2]. Under the heading "The Real Losers in Seattle" was the picture of a poor child in a developing country. Some would have included a picture of a North American grain farmer in the background.

Selling freer trade is always a difficult task. Trading relationships are complex and highly controversial. The push towards trade liberalization in agri-food, services, investment, and intellectual property are still in the beginning stages[3]. It is not unusual to see moves towards freer trade interrupted by periods of no progress, or even backsliding. Hence, the failure of Trade Ministers to launch a new round in Seattle is not particularly unusual or surprising. In fact, for economists with memories of the Uruguay Round of trade negotiations, it is reassuring that agri-food trade was not the issue that caused the negotiations to be suspended. However, disagreements about the extent and pace of liberalization in agri-food remain deep-seated between the European Union and Japan on the one side, and the major agri-food exporters, including some developing country exporters on the other side.

What did cause the negotiating collapse, and what does it mean for North America? The failure to reach an agreement was caused by the lack of political will and leadership - primarily by the United States and the EU - to forge the compromises necessary to launch a new Round. There was no re-

[2] *The Economist,* December 11, 1999. *The Economist* carried an excellent series of articles dealing with globalization and the WTO negotiations in the November 27, December 4, and December 11, 1999 issues.

[3] Negotiations on a Multilateral Agreement on Investment were held by the OECD, however, when an agreement could not be reached some WTO member countries were hoping to revive these negotiations in the WTO.

spected world leader willing to make the strong case for freer trade[4], and for example, to point out:

- the benefits of specialization, and the gains from trade;
- the benefits of liberalized trade in restraining imperfect competition;
- the benefits of liberalized trade for all countries, rich and poor;
- the benefits of liberalized trade for the environment;
- the benefits of a transparent, rules based and nondiscriminatory trading regime; and
- the institutional reforms that would result in the WTO being better able to fulfill its mandate.

Negotiations on agri-food and services, as a result of the Uruguay Round Agreement, are mandated to begin in 2000. However, with no decision on the scope of the next round of negotiations and no deadline, it will be difficult to make progress. Realistically, it seems unlikely a new round will be kicked-off prior to the Fourth Ministerial Conference scheduled for late 2001. Having said this, the agri-food trade issues seem much clearer than they did at the start of the last round. So far, no one has suggested moving away from the negotiating agenda or "modalities" established during the Uruguay Round. At least with respect to the old agenda of agri-food trade, the question is one of "how-far and how-fast." In the next section, the old agenda of agri-food trade liberalization is discussed and the key issues are highlighted. Following this, the views of developing countries are presented, and the intersection of their concerns with the new trade policy agenda is outlined.

THE AGENDA FOR AGRI-FOOD TRADE LIBERALIZATION

The negotiating modalities that were put in place during the Uruguay Round were designed to facilitate the future liberalization of agri-food trade in the areas of export subsidies, market access, and domestic support through the Agreement on Agriculture; and some forms of non-tariff barriers to trade through

[4] A number of political events resulted in negotiators from the European Union and the United States, as well as WTO officials, being ill prepared to launch a new Round in December: a lame duck President in the United States and an election campaign well underway; a new European Commission as a result of scandals in Europe; and a protracted debate in the WTO about naming a new Director General.

the Agreements on Sanitary and Phytosanitary Regulations[5] and Technical Barriers to Trade[6].

Export Subsidies

Constraints on both the volume and quantity of agricultural products that qualify for export subsidies were established during the Uruguay Round. In the next round, export subsidies on agricultural products will be totally eliminated or sharply curtailed. The major debate will hinge on the question of "elimination" versus "reduction" of export subsidies, as well as various methods for circumventing the export subsidy disciplines using export credits, food aid and gray area measures.

Market Access

All non-tariff barriers to trade were converted to bound tariffs during the Uruguay Round[7]. The policy instrument used to accomplish this feat, was the tariff rate quota[8]. Tariff rate quotas, which are two-tier tariffs, have many of the same characteristics as import quotas, and in some respects increase rent seeking by import quota holders (Moschini 1991, Meilke and Larivière 1999).

The next round will have to deal with the intertwined issues of: 1) reductions of with-in quota tariff rates, 2) expansion in minimum access quantities, and 3) reductions in over-quota tariffs. Analyzing tariff rate quota regimes is a difficult modeling task, and the economic effects can vary greatly depending on the policy instrument that is changed (Larivière and Meilke 1999). In addition, the administration of tariff rate quotas and preferential access

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[5] Trade in genetically enhanced organisms (biotechnology) was not an issue during the Uruguay Round of negotiations, but trade in these products is subject to the rules contained in the Agreement on Sanitary and Phytosanitary Regulations.

[6] For the history of agricultural negotiations under the GATT/WTO the reader is referred to Josling, Tangermann and Warley. The future negotiating agenda is discussed in Josling, and in the guide prepared by the Canadian Agri-Food Trade Research Network (Gervais et. al 1999).

[7] Bound tariffs cannot be increased without the importing country paying compensation to the exporting nations. Countries often "apply" tariffs lower than their bound rates.

[8] Tariff rate quotas were justified as a way to insure that minimum access opportunities were not reduced when tariffs replaced import quotas.

schemes will be given considerable scrutiny. For example, the size of Canada's over-quota tariffs on dairy products are prohibitive, but perhaps no more protectionist than the practice of allocating country specific import quota to countries that do not have the ability to fill the quota (i.e. the United States ice cream quota allocated to Jamaica that goes repeatedly unfilled). How to tackle tariff mountains will be high on the negotiating agenda as will tariff escalation. There will also be attempts to adopt zero-for-zero schemes for certain commodity sectors (Meilke and Swidinsky 1998)[9].

Domestic Support

The constraints on domestic support, that apply at the sector level, have seldom been binding or constraining. The creation of the amber, blue and green boxes for domestic support has had the effect of encouraging countries to move protection from the most trade distorting forms, i.e. open-ended market price supports coupled with border measures, towards less trade distorting forms of support. This influence is illustrated in Table 3 where the OECD-24 producer support estimate is decomposed, according to the type of support. In 1986-88, almost 90 percent of the support and protection provided to producers came in the form of market price supports, or payments based on output or area planted. By 1998, the fraction of support coming from these most trade distorting domestic policies had dropped modestly to 83.7 percent. The fastest growing category of support is payments based on historical entitlements.

As a result of the incentives built into the Uruguay Round Agreement, the domestic debate on trade liberalization, at least in countries with lower levels of support, is likely to focus as much on "equity" concerns as it is on "trade distortions." The argument will be that any money given to farmers makes them more competitive and is thus trade distorting. On one level, this is a spurious argument, because direct payments, especially when they are tied to fixed assets, e.g. land, will be quickly capitalized into asset values. These payments then make producers in that country less competitive and more " at risk" from the removal of support. However, there is a "wealth" effect that encourages production and makes the removal of protection extremely difficult. In

[9] The term zero-for-zero is used to indicate a commodity which receives no export subsidies and is not protected by border measures. Commodities suggested for zero-for-zero include oilseeds and products, pork, and malting barley.

Table 3: OECD-24 Producer Support Estimate, by Type of Support ($US billion).

Type of Support	*1986-88*	*1998[p]*	*percent change*
Total	220.6	251.1	13.8
Market Price Support	169.8	167.2	-1.5
Payments based on:			
- output	12.7	9.2	-27.6
- area planted	15.3	33.9	121.6
- historical entitlements	0.2	9.8	4,900.0
- input use	17.0	19.9	17.0
- input constraints	3.0	7.2	140.0
- whole farm income	1.1	1.5	36.4
- miscellaneous	1.5	2.5	66.7

Source: OECD, 1999.

[p] = preliminary

addition, when payments that appear to be decoupled from production decisions are *de facto* provided in a counter cyclical fashion it becomes very difficult to argue that these payments are only minimally trade distorting. Low-cost and low-subsidy agri-food exporters are going to push for an elimination of blue box payments and tighter discipline on domestic support. Countries with high levels of support will push for a continuation of the green box and its expansion to take into account "multifunctionality".

Sanitary and Phytosanitary Regulations

The Agreements on Sanitary and Phytosanitary Regulations and Technical Barriers to Trade play an important role in regulating the trade in agri-food products. Trade in agri-food products produced using biotechnology was not an issue during the Uruguay Round of trade negotiations but today this issue is front page news. Canada and the United States insist that trade barriers can only be put in place when sound science supports their use. The European Union argues that the risks resulting from the use of products produced using biotechnology are unknown and therefore the precautionary principle should apply. The compromise forged in Seattle was to create a working group on biotechnology, but this agreement died with the postponement of the talks. However, the draft Cartagena Protocol on Biosafety adopted at the Extraordinary Conference of the Parties (EXCOP) to the Convention on Biological Di-

versity in Montreal, this January, contains a number of important provisions: 1) it allows countries to invoke the precautionary principle; 2) it calls for shipments of GMOs to carry a label saying "may contain GMOs"; and 3) it leaves the relationship between the Protocol and the WTO Agreements vague. The issues surrounding biotechnoloy are too complex to explore further in this short paper, but they are bound to be divisive when the trade talks resume (Phillips and Kerr 2000).

One of the lessons that came out of the Seattle meetings is that the views of developing countries can no longer be ignored nor can these countries be pressured into another agreement. These are considered in the next section.

DEVELOPING COUNTRY CONCERNS

Since the completion of the Uruguay Round of trade negotiations more than 30 new countries have joined the WTO. The current membership consists of 135 countries, most of them in the developing world. The developing countries are not homogeneous, ranging from agricultural exporters who are members of the Cairns Group to countries that are large net food importers.

Traditionally, the GATT/WTO has made decisions based on consensus. When the membership was smaller and more homogeneous this method of decision-making served the GATT/WTO well. However, with a larger and more heterogeneous membership it is unclear if "consensus" can continue to be the way all decisions are made. Even if consensus decision-making continues, a way will have to be found to give developing countries greater voice in the processes leading up to decision documents. Developing countries argue that during the Uruguay Round they took on additional obligations, particularly in the area of intellectual property, but they have not benefitted as much from trade liberalization as they were promised, particularly in clothing, textiles and agri-food trade where developed country markets remain heavily protected (Anderson 1999, Huff 2000). They also feel that new technologies are important to their economic progress and that the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) has erected barriers to acquiring this new knowledge.

Developing countries feel that as soon as they become competitive in developed country markets they are often subjected to anti-dumping actions. At best, fighting an anti-dumping action is expensive, and at worst it excludes developing country products from developed country markets. As a result, developing countries are asking developed countries to renew their commitments to live up to the Uruguay Round agreement, particularly for textiles and clothing, before they will commit to a new round of negotiations. In addition, they would like the developed world to extend tariff free access, for all goods, to the least developed countries.

The developing world fears that developed countries will use stringent environmental and labour regulations as thinly disguised protectionism. The developing world sees its large endowment of unskilled labour as its major comparative advantage in gaining access to developed country markets. Developing countries can not compete in the high-growth, high-technology markets dominated by the major developed countries. The developing world's comparative advantage lies in supplying goods that require, and can be produced with its abundant supply of unskilled labour.

In the past, developing countries have been offered "special and differential" treatment in the GATT/WTO. This allowed developing countries longer periods of time to phase-in trade liberalization measures and/or made them subject to less stringent rules. Perhaps it is time to rethink the way special and differential treatment is handled by giving developing countries early and preferential access to developed country markets[10]. The new agenda of trade liberalization, including biotechnology, environment, labour, investment policy and the restructuring of the WTO combine with the anti-trade stance of the Civil Society and some developing countries, to make agreement on a broad multilateral trade liberalization agreement difficult[11]. It is the options to multilateral

[10] Developing countries currently benefit from numerous preferential trading arrangements, such as the generalized system of preferences. However, these schemes are normally designed to protect developed countries'_most import sensitive sectors.

[11] The Civil Society is a term used to describe a large group of non-governmental organizations (NGO's) who champion causes from the environment and organized labour, to sustainable development. It is not uncommon for these groups to hold an anti-trade stance.

liberalization for North America that are considered in the remainder of this paper.

REGIONALISM AND MULTILATERALISM

While a way to begin a new round of trade negotiations will be found, the lag in starting the negotiations and the complexity of the agenda suggests that new disciplines on agri-food trade will not come into effect until late in this decade. In the mean time, countries will be looking for ways to advance their trading interests. These efforts, at least for the NAFTA countries, will proceed in one of four ways: 1) bilateral trade accords; 2) expansion of the NAFTA Agreement to a larger regional grouping, most likely through the Free Trade of the Americas Initiative; 3) the deepening of the NAFTA through the creation of a customs union; and 4) the creation of a monetary union. Before considering these options it is useful to review a few points.

Regional integration agreements are WTO legal if they include substantially all goods, create no new barriers to trade with non-members and all trade is free between the members of the agreement. However, regional integration agreements seldom comply completely with these criteria. Viner (1950) showed that a customs union can be either welfare enhancing or welfare reducing depending on the size of its trade creation and trade diversion effects. Since Viner's work, numerous studies have examined the conditions under which customs unions will be welfare enhancing, and when they will be welfare decreasing[12]. In general, as long as the volume of trade between member and non-member nations increases, countries outside the customs union benefit (i.e. little or no trade diversion). If in addition to no trade diversion with non-members, the volume of trade among member nations increases (trade creation), their welfare is enhanced. However, free trade agreements create distortions that do not exist in customs unions. With a free trade agreement each nation maintains its own external border protection. As a result, complex rules of origin are necessary to keep "foreign" products from entering the FTA through the country with the lowest external tariff. While rules of origin are difficult to

[12] For a guide to this literature see Krueger (1999) and dell'Aquilla, Sarker and Meilke (1999).

administer for all goods, they may be unenforceable for many raw agricultural products. Lax rules of origin should reduce the likelihood of trade diversion from non-members but also reduce trade creation with members.

The debate within the economics profession on the question of whether regional integration agreements are building-blocks or stumbling-blocks to multilateral trade liberalization has been heated. Krueger (1999) provides a summary of the arguments and they won't be repeated here. However, two facts are worthy of mention. First, world trade in manufactured goods and processed agri-food products has become more regionalized since the 1960's. In fact, the patterns of increasing regionalism for manufactured products and processed agri-food product trade are quite similar (Anderson and Norheim 1993, dell'Aquilla, Sarker and Meilke 1999). In both cases, increased regionalism is consistent with growing openness and multilateral interdependence. It is this effect that dominates the empirical studies surveyed by Robinson and Thierfelder (1998). They found that trade creation greatly exceeds trade diversion in virtually all of the regional integration agreements studied. The counter example is raw agricultural product trade. Like trade in processed agricultural products, trade in raw products has become more regionalized. However, in this case there is clear evidence of the impact of trade and domestic policies on regional trading patterns. For raw products, the pattern of regionalism is consistent with losses in welfare borne mainly by the European Union, and raw agricultural product exporters (dell'Aquilla, Sarker and Meilke 1998).

THE ROAD AHEAD

The failure to launch a new trade round in December 1999 represents a pause in the move towards more liberal trading relationships. However, the claimed "success" of the Civil Society in derailing the Multilateral Agreement on Investment and their presence in Seattle means the conduct of trade negotiations will never be quite the same. Countries do not engage in trade negotiations to enhance global welfare, they engage in trade negotiations to promote their own special interests. If, in the process world welfare increases, that is well and good, but self-interest is the driving force. Consequently, countries are always examining alternatives to multilateral freer trade, and this is even more the case when the multilateral process is stagnant or stalemated. Some of

these alternatives will be pursued in tandem with multilateral efforts. Each of these alternatives involves regional integration agreements, and each has different implications for agri-food trade for the NAFTA countries.

Bilateral Accords

Each of the NAFTA countries has bilateral trade agreements with non-NAFTA countries. In fact, for agri-food the NAFTA agreement is a set of bilateral accords rather than the trilateral agreement that governs trade in manufactured goods. As a consequence, agri-food trade between the United States and Mexico will be tariff free after the implementation period, but this will not be the case for Canada-United States, or Canada-Mexico trade (Meilke and van Duren 1996). Recently, Mexico negotiated a bilateral accord with the EU. As a result, Mexico will have preferential access to the two largest markets in the world, the United States and the European Union[13]. According to press releases, all industrial tariffs on Mexico-EU trade will fall to zero by 2007. However, for agri-food only 62 percent of trade will be fully liberalized. The Mexico-EU agreement illustrates the problem with bilateral accords; it is just too easy to take significant portions of agri-food trade off the table. In addition, given the sensitivities of agri-food trade within the NAFTA countries, additional bilateral accords are going to raise questions about the origin of agri-food products and about third countries using bilateral accords as a backdoor into the NAFTA relationship. Some of these problems could be avoided by the conversion of the NAFTA into a customs union.

North American Customs Union

The movement from a free trade area to a customs union is a logical next step in the deepening of the North American accord[14]. In many respects, the creation of a customs union with the three current members of NAFTA is a more logical step than the expansion of the free trade area. Data on the degree

[13] An argument could be made that Mexico is now the "hub" in a hub-and-spoke model of trade (Wonnacott 1991).

[14] A customs union is a regional integration agreement where member countries have common external tariffs (Markusen, et. al 1995). A deeper form of integration involves the creation of common institutions and policies, as in the European Union. For this discussion, the weaker form of integration, involving only common external tariffs is assumed.

of divergence of MFN tariffs among Canada, Mexico and the United States, at the individual product level, is required to determine the size of the adjustments a customs union would require. If external tariffs were lowered to the level applied by the member country with the lowest MFN tariff there would be no concern about trade diversion.

A major sticking point is likely to be Canada's tariff rate quotas for supply managed products. The price gap between Canada and the United States for milk remains significant, although for chicken it is much smaller than in the mid-1980s. Meilke, Sarker and Le Roy (1998) argue that North American free trade in dairy products would involve a significant loss in milk production quota value in Canada, but that trade in dairy products between Canada and the United States would be small. It will be interesting to see how much milk is produced outside of Ontario's domestic milk quota under the recently announced export regime (Core 2000). If the quantities are significant it will provide additional evidence that Ontario milk producers can compete within an open North American market. The full integration of North American agri-food trade seems inevitable, but whether it will precede or lag multilateral liberalization is difficult to predict.

Expansion of the NAFTA

The negotiations to create a 34 country Free Trade Area of the Americas[15] (FTAA) were initiated in April 1998. The 34 countries include: tiny island nations like St. Kitts; the poorest-of-the-poor such as Haiti with a GDP of less than $500/person; major agri-food exporters like Argentina and Brazil; and an industrial giant, the United States with a GDP of about $31,000/person. Creation of the FTAA involving nearly 800 million people is a huge undertaking with a stated completion date of 2005. The negotiating agenda for the FTAA is essentially the multilateral agenda with all of the problems and advantages that brings. Negotiations on agri-food will be more difficult than among the three NAFTA countries. Argentina and Brazil are unlikely to accept domestic agricultural subsidies in Canada and the United States that are several times larger than theirs. In addition, they are unlikely to agree to poor FTAA member coun-

[15] For a discussion of the potential for the formation of the FTAA, see Burfisher (2000) and Furtan (2000).

tries accepting agri-food export subsidies from the European Union, or from other nations within the FTAA. Given the complexity of the issues to be resolved it is difficult to see the FTAA negotiations being completed prior to the next round of multilateral negotiations unless there is a complete breakdown of the multilateral process.

Monetary Union

There has been some discussion in Canada of the formation of a monetary union with the United States. It has taken the European Union more than 30 years to progress from a customs union to a monetary union and it is unlikely that moves towards a monetary union in North America will proceed much quicker. Partly it is a symbolic issue, with nationalists arguing a monetary union is yet another example of their country giving up a sovereign right.

However, in economic terms, flexible exchange rates create a shock absorber that would not exist with a fixed exchange rate regime. Some argue that the existence of a flexible exchange rate between Canada and the United States has allowed Canada to become increasingly unproductive, postponing the inevitable economic corrections that must take place. Others argue that flexible exchange rates give the government one more policy lever that it can use to keep Canada out of a deep and long lasting recession. There is some truth in both arguments. The long secular decline in the Canada/United States exchange rate from 99 cents Canadian to the U.S. dollar in 1974, to $1.48 Canadian to the U.S. dollar in 1999 is a sign of reduced productivity in Canada relative to the United States. However, the nearly 15 percent devaluation of the Canadian dollar between October 1997 and October 1998, and its revaluation by eight percent since then was more easily accommodated in a flexible exchange rate regime.

CONCLUSIONS

Little is certain about the future direction of trade liberalization in the agri-food sector. The multilateral negotiations on agriculture will be handled by the WTO Committee on Agriculture, with the first session scheduled for March 23-24, 2000. Technical work is required to define the scope and the mandate for the agricultural negotiations. However, some member countries

have already announced they will not attend the sessions. The developing countries remain skeptical of the process and the civil society is antagonistic. On the plus side many developing countries share the NAFTA countries desire for more open agri-food markets.

If the multilateral negotiations fail to make progress then the NAFTA countries will explore other alternatives. The most dangerous route would be for the NAFTA countries to enter into a series of bilateral accords. These could undermine the multilateral trading system and possibly NAFTA itself. Conversion of the NAFTA into a customs union seems a logical next step, but the special trade arrangements for Canada's supply managed commodities are a stumbling block.

Negotiating the FTAA presents many of the same issues as negotiating at the multilateral level, with the exception that the European Union is not involved. For this reason, finding compromises within the FTAA countries will be easier than at the multilateral level, but the huge differences in agricultural support within the FTAA will be a problem. Unfortunately, most of the problems confronting agri-food trade can not be solved within a Western Hemisphere free trade area that is dominated by the interests of agri-food exporters. What is needed, is a strong multilateral effort in agriculture that pays more than lip service to achieving meaningful reductions in tariffs and a clear path towards the elimination of harmful subsidization practices.

Achieving agri-food trade liberalization has always been difficult. On that score nothing has changed. The current situation of extremely depressed prices for many agricultural products heightens the urgency for trade liberalization, while at the same time making it more difficult. At best, the failure to launch a new round in Seattle only postponed the benefits of more open markets. In the short run, however, there is a danger that countries wishing to assist their economically depressed farmers will resort to unacceptable domestic support programs, increased use of contingent protection and antidumping actions, as well as backsliding in their current reduction commitments. The traditional problem of selling freer trade in agri-food products domestically, plus the emergence of other flash points like biotechnology, investment policy and intellectual property rights, provide the opportunity for groups like the Policy Disputes

Information Consortium to highlight the benefits of further market liberalization through the provision and exchange of research and information.

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