

# The Asian crisis and the 1999 WTO negotiations<sup>†</sup>

Lyall Howard\*

## 1. Introduction

It is generally accepted that the Uruguay Round Agreement on Agriculture was an historic achievement — it brought trade in agricultural products under the discipline of world trade rules for the first time. However, such tariffication as did occur often resulted in bound tariffs at prohibitively high levels; export subsidies still distort the proper functioning of world markets; and the disciplines imposed on domestic farm policies are weak.

Since the end of the Uruguay Round, Australia's food and agriculture industries have been waiting for another opportunity to achieve more meaningful liberalisation of agricultural trade through the WTO. This time around, Australia's farmers and food processors are looking for substantial reforms. But they face some formidable challenges. The environment in which the 1999 negotiations will take place is entirely different to the circumstances that prevailed in the 1980s.

The Asian financial crisis is the most distinguishing feature of the late-1990s' global environment. The crisis has underlined in a stark and powerful way just how interconnected we are — financially, socially, politically and economically. It has blurred the distinction between domestic and foreign issues and it has created new pressures for international cooperation (Ruggiero 1998).

Global integration, a process driven by technological and economic realities, has been a stimulus to economic growth and rising incomes for over a decade. Yet, paradoxically, at no time during the post-war period has the prospect of further integration generated so much public anxiety, not least within those countries that have built their prosperity on more open trade (OECD 1998).

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\* Lyall Howard is Director of Trade, National Farmers' Federation, Canberra.

Regional integration has expanded rapidly — MERCOSUR, the EU and ASEAN all plan to increase their membership, and the Free Trade Area for the Americas is intended to consolidate a number of regional trade pacts in the Western Hemisphere by 2005. There is growing concern that these regional arrangements detract attention from the task of multilateral trade reform and increase the potential for conflict with the global trade system (IPC 1998).

The domestic backlash against globalisation and the risk that groups of countries could abandon the global track for a world of hostile trade blocks are central issues in the trade reform debate. But the importance of these two issues has been complicated by the Asian financial crisis. World leaders need to view agricultural trade liberalisation as one of the reforms that would help the Asian economies recover from the crisis.

## **2. Consequences of the Asian financial crisis**

The speed and depth of the Asian financial crisis caught the world by surprise. Until mid-1997, business decisions in the region were based on an assumption that spectacular economic growth would continue. In a very short space of time the region went from high growth, to recession, and then to crisis.

President Clinton has described the financial turmoil engulfing the region as the most serious economic event facing the world in the past 50 years. In many ways, the financial crisis in Asia has become the first major test of the world's capacity to deal with issues in an integrated global economy on the threshold of the twenty-first century. The crisis has spread from Asia to Russia, and now to Brazil. Brazil dominates Latin America, which in turn purchases nearly 20 per cent of US exports. A sharp downturn in US exports to Latin America, coming on top of a slump in exports to Asia, could severely harm US domestic growth. With Asia and Russia on their knees, Latin America has become the new frontline in the global crisis.

Large depreciations in currencies, big swings in capital flows and large shifts in trade flows typify the crisis. World trade has been hit hard — the IMF projects a slump in the growth of trade in goods and services from 9.7 per cent in 1997 to 3.7 per cent in 1998 (Downer 1998). Imports across the Asian region have fallen by 40 per cent, while Asian nations themselves step up exports to trade out of the crisis. South Korea has decreased its imports, but increased its export volumes by 30 per cent. Thailand has decreased its imports, but increased its export volumes by 15 per cent (Chong 1998a). With intra-regional trade hit hard, most of these exports are going to the United States and Europe. Not surprisingly, the number of anti-dumping

cases is increasing in the United States and the EU. With the US trade deficit heading for US\$200 billion and Asia's trade surplus reaching US\$100 billion, protectionist sentiments are gaining momentum (Chong 1998b).

The financial system may be at the heart of the economic crisis in Asia, but an important impact of the crisis is on trade. Part of the solution to the crisis must therefore be a trade solution. If the momentum for further trade liberalisation were derailed by present economic difficulties it would only compound the crisis. The imperative is to encourage regional countries not to turn inwards, but rather to pursue more rapid liberalisation to promote economic stability and growth. This implies an even greater responsibility on developed countries, particularly the United States and Japan, to keep opening markets and progressively roll back the obstacles to freer trade and investment.

### **3. APEC, the Asian crisis and agriculture**

On 19 November 1998 Malaysia hosted the 6th APEC (Asia Pacific Economic Cooperation) Leaders Summit in Kuala Lumpur. At this meeting Japan openly rejected a major new trade liberalisation initiative, Early Voluntary Sectoral Liberalisation (EVSL), because the politics of adjustment in Japan made certain domestic sectors — forestry, food and fisheries — 'too sensitive' for reform.

EVSL was first proposed at the November 1996 APEC Leaders Summit in Subic Bay. Member economies were asked to identify sectors where early voluntary liberalisation would have a positive impact on trade, investment and growth in the region. From a total of over 60 nominated sectors, just 15 sectors were approved for liberalisation by APEC Leaders at their 1997 Vancouver Summit. After two years of tough negotiations by officials this valuable initiative has been killed off by Japan.

The National Farmers' Federation (NFF) was highly critical of Japan over EVSL for a number of reasons. First, EVSL was designed to accelerate progress towards the Bogor target of free and open trade by 2010/2020. EVSL was to give the process of voluntary offers through Individual Action Plans some added horsepower. If APEC has no serious appetite for trade reform then it faces the prospect of failing to achieve its far-sighted Bogor objectives. NFF also admonished Japan over EVSL because of the dangerous signal that it sends on the eve of the agriculture negotiations in the WTO. Japan's failure to lift its sights and inject new momentum and confidence into the international system sends precisely the wrong signal at the worst possible time.

The APEC process calls for 'coordinated unilateral' trade liberalisation, extended to non-APEC members through the 'most-favoured nation' rule of the WTO by 2010/2020. Agriculture has been deliberately included in this

process. By setting a date by which free trade is to be achieved, and by specifically rejecting attempts by some members to exclude agriculture from the commitments, APEC has raised its sights beyond those of the WTO (IPC 1998).

APEC has no hard rules and no legally binding commitments, yet it has the capacity to engage in serious-minded negotiations about economic reform. Because of its size, its vision and its devotion to 'open regionalism', APEC is potentially the most far-reaching economic agreement in history. The EU has always said that it will not be left behind if APEC does what it says it will do (Bergsten 1997). And for agriculture, the potential is huge — an Industry Commission study in 1996 found that 60 per cent of the gains from liberalisation of merchandise trade in APEC could be contributed by agriculture (Dee *et al.* 1996).

APEC could help build the momentum for the WTO if it brings agriculture into the mainstream and not the periphery of trade policy developments. EVSL included important agricultural elements and the fact that Australia's food nomination was included in the 15 sectors was an important recognition by APEC that liberalisation must proceed on a broad front.

The food proposal itself is broad — horticultural products, processed foods, sugar and dairy. Thailand would benefit — its exports to other APEC economies for the products covered by the proposal amount to US\$3.1 billion — and food exporters in Indonesia and the Philippines would benefit (Pearson 1998). Take just one sub-sector of the food proposal — sugar — and the payoff is enormous. Protection in sugar costs the US economy upwards of US\$3 billion a year, let alone any costs it imposes on others. Reform in APEC would see sugar farmers' incomes rise by A\$370 million a year for Australia, A\$300 million a year for Thailand and A\$670 million a year for Brazil (Stoeckel, 1998a). More importantly, the food proposal puts APEC on the path of agricultural liberalisation where all member economies stand to gain. Modelling by the Centre for International Economics shows that liberalisation of agriculture in APEC is worth US\$27.2 billion a year for the US, US\$12.4 billion a year for Japan, US\$5.3 billion a year for Korea and US\$12 billion annually for the rest of APEC (Stoeckel 1998b).

The fact that there are WTO negotiations on the horizon should not deter APEC from setting the pace. Rather, there is an opportunity for APEC to underpin the preparatory process for the WTO and to combine trade liberalisation with other measures to create economic recovery in the Asian region. APEC could play the important role of conditioning the regional political environment for agricultural liberalisation by building a broad base of support for the multilateral negotiations.

#### 4. Financial and agricultural reforms in Japan

Japan's economic problems have certainly been compounded by the Asian crisis. Collapsed Asian markets were taking nearly 45 per cent of Japanese exports and Japan has a high loan exposure to East Asian countries. But as the biggest economy in the region — accounting for over half of Asia's GDP — Japan could be the engine for renewed growth across Asia (*The Economist* 1998).

On 21 September 1998, the IMF declared that the main risk to the world economy was that Japan would not address its financial-sector problems. The next day, Japan's Prime Minister Obuchi was given the same message when he met President Clinton in New York. The world is losing patience with Japan because of delays with essential policy adjustments that could help prevent a global recession. Unlike the external shocks from the oil crisis of the 1970s, Japan's current economic crisis has its roots in structural inefficiencies in the domestic economy, particularly in financial and capital markets. And in the agricultural sector, Japanese farming is increasingly being seen for what it is — an inefficient, over-protected patchwork of part-time farms that makes consumers pay many times the world price for their staple food, rice (*The Economist* 1987). Japan's behaviour in APEC begs the question — why did the world's second largest economy, in a state of deep recession, shy away from the very policies that would help the country recover? The answer lies in the raw politics of adjustment.

It is well known that trade distortions in agriculture are not the result of some unfortunate configuration of world events. They are the consequence of domestic policies, and it is the force of domestic politics that underlies these policies. Japan is the biggest gainer from its agricultural trade reform — but how many Japanese consumers, business groups and policy-makers really understand that? This suggests that the political economy of agricultural protectionism must be better understood if we are to engage Japan in agricultural reforms in a multilateral context (Stoeckel 1998a).

Aurelia George Mulgan, visiting fellow at the Australia Japan Research Centre at the ANU, explains Japan's behaviour in terms of its political system, where leadership is shared amongst the ruling party, the executive, the bureaucracy and influential lobbies to such an extent that no single group can assume the policy initiative. Under this system, progress is often delayed until foreign criticism and fear of international isolation reach such a point that the government cites the need to accommodate external demands in the overall national interest. Foreign pressure was an important factor in the Uruguay Round in getting Japan to accept the concept of tariffication and commit itself to minimum access arrangements on rice (Mulgan 1997).

However, at the APEC Leaders Summit in Kuala Lumpur, foreign

pressure from the most influential APEC economy, the United States, was not applied to Japan. US President, Bill Clinton, was absent from the meeting and US Trade Representative, Charlene Barshefsky, made it clear that the US Administration did not have the legal authority to act on trade liberalisation in APEC (Kelly 1998). Charlene Barshefsky was referring to the Administration's lack of Congressional negotiating authority to sign trade deals. Until now, this situation wasn't regarded as having any immediate consequence. The United States didn't have 'fast-track' (which allows the President to negotiate trade deals without interference from Congress) at the start of the Uruguay Round. But if Charlene Barshefsky is saying that the United States can't move at all on trade without fast-track, then one has to ask what this foreshadows for US ambitions at the WTO Ministerial in Seattle in early December 1999.

### **5. The Cairns Group and preparations for the WTO**

Despite the setback in APEC and despite the enormous challenge of turning Asia's crisis economies around, there are reasons to be optimistic about further reform of agricultural trade. Tim Josling, from the Institute for International Studies at Stanford, said at a recent OECD workshop, that the next round of agriculture negotiations will benefit from the post-Uruguay system. The WTO's stronger dispute settlement process, its policy co-ordination function and its wider scope in terms of product and market coverage, put it in a much better position to chart a course for multilateral trade reform than was previously the case under GATT (Josling 1998).

The Uruguay Round got the door open, but a lot more needs to be done. The growth and prosperity of Australian agriculture will be underpinned by agricultural trade reform. In one sense the process of getting results will be easier this time around because it has been accepted that agriculture is now part of the main game. In another sense, 1999 will be tougher — there is a growing international constituency opposed to reform and, at a time when the world needs more liberal trade policies, there are those who have forgotten the economic chaos of the 1930s.

For Australia, the Cairns Group will be a vitally important alliance in the 1999 Round. On our own we don't have a lot of weight, but when we are with the Cairns Group in a multilateral context we do have a chance to make real progress. In April 1998, the National Farmers' Federation hosted a meeting of presidents from the peak farm organisations in the 15 Cairns Group countries. The purpose of the meeting was to launch an international campaign for an ambitious reform agenda in the WTO (Oxley 1998). One outcome of the meeting was for the NFF to develop a Cairns Group Farm Leaders' web site. (The site can be found at [www.cairnsgroupfarmers.org](http://www.cairnsgroupfarmers.org)).

The site provides a forum for joint statements and policy positions to be posted by the Cairns Group countries. Online text-based discussions, newsgroups and eventually, video-conferencing and voice over the Internet will be used to keep the trade reform campaign active. The web site will become the public face of the Cairns Group at the industry level.

## 6. Conclusion

The Asian crisis has added a complicating dimension to an already crowded multilateral trade agenda in the WTO. But as Asia goes through the difficult process of adjustment we have to keep reminding countries that resorting to protection is not the answer. The answer lies in policies that help people and communities adjust to what has become the foremost challenge they face — structural change.

A new round of trade negotiations in the WTO in 1999 is an important opportunity for world leaders to free agricultural and food markets from trade restrictions that restrain the capacity of the crisis economies to trade out of their problems. Policymakers are currently focused on financial reforms to achieve an economic recovery. But hand-in-hand with financial reforms are trade reforms, particularly in agriculture, that could help the crisis economies towards a speedy recovery. As Benjamin Franklin said, 'No nation was ever ruined by trade.'

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