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The Next GATT Round: Setting the Stage For The 21st Century

by Fred Sanderson

The next GATT Round, billed as the "Century Round," will be launched around the year 2000. It will likely face challenges to the multilateral trading system that will make our current problems seem like child's play.

Baseline 2000

What will the world of 2000 look like? Here is one admittedly pessimistic but not improbable scenario of developments between now and the turn of the century.

The 1990s will be characterized by severe structural adjustment problems in the United States and, to a lesser extent, in Western Europe and Japan. In the United States, the end of the Cold War will free resources for socially productive purposes, but it will, at first, result in a massive loss of well-paid jobs and profitable production facilities. The defense phase-down will compound problems for industries already struggling to regain or preserve international competitiveness. Our ability to deal with these problems will continue to be constrained by low savings and investment rates, large federal deficits, and excessive and growing debt. The European Community will be preoccupied with the internal adjustments required by economic and monetary union and by the absorption of eight new member countries. Japan, the main target of American and European protectionism, will be under pressure to reverse its present course toward greater global responsibility and become less cooperative in its international economic relations.

In this environment, multilateral disciplines under GATT will be weakened further. Protectionist industrial policies and managed trade will become the order of the day. The escape hatches left open by the Uruguay Round—primarily domestic aids, trade distortions by local and private entities, and the use of diplomatic muscle in trade relations—will be exploited increasingly for protectionist purposes.

Trading blocks will proliferate. In addition to the North American Free Trade Agreement (NAFTA), we are likely to see a Central American and South American version, as well as more preferential arrangements in the European Community's expanding sphere of influence and efforts to build a preferential block encompassing the Pacific Rim and Southeast Asia, perhaps including Oceania. Such arrangements are politically attractive because they provide bargaining power in dealing with the other blocks and because they allow trade liberalization on a selective, "manageable" basis. By the same token, a world of trading blocks will limit the welfare gains from trade and greatly increase interblock tensions. (One incidental consequence may be a weakening of the hard-won Western control over the Middle East).

How will these developments affect American farmers? Clearly, the outlook for agricultural exports to Europe is not favorable, regardless of what limited concessions survive the final stages of the Uruguay Round. By the year 2000, the Ukraine and Russia are

likely to rejoin the ranks of grain exporters. Fortunately for farmers in the U.S. and the rest of the Western hemisphere, rapid economic growth in Asia, together with the unfavorable population/land ratio in that continent, will likely keep even more food and feedstuffs flowing across the Pacific.

A GATT Agenda for the 21st Century

Hopefully, the disastrous consequences of unbridled economic nationalism will nevertheless become sufficiently apparent to national leaders to build support for a stronger multilateral trading system.


Like the nine-headed hydra of Greek mythology, protectionism seems to grow two new heads whenever one is chopped off. This time, instead of tinkering with the methods of protection at the border, a Herculean effort will be required to get at the core of the problem: domestic policies that are behind formal and informal import barriers and export subsidies. Agricultural negotiators accepted this premise early on in the Uruguay Round, but fatally weakened the rules on internal support to agricultural producers when they exempted a wide range of farm subsidies from GATT disciplines on the specious ground that they are allegedly production-neutral and thus non-trade distorting.

In 2000, agriculture will no longer stand out as a special case. With the proliferation of industrial policies, strict disciplines on domestic subsidies will also be needed in other sectors. Exceptions should be few and well defined. The only major exception should be adjustment assistance, provided it is subject to interna-

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tional supervision and phased out according to a firm timetable. In agriculture, some room might be left for moderately subsidized government services and income stabilization programs. Export dumping, whether financed by governments or private entities, should be prohibited. "Voluntary" export restraint agreements should also be banned, regardless of whether they are implemented by governments or by private arrangements. Local and private restrictive practices affecting imports need to be addressed.

New rules will be needed to limit government interference with international investments. An effort should be made to harmonize environmental policies, at the very least in developed countries. Exemptions from GATT disciplines for developing countries should be limited by firm eligibility criteria and phased out as these countries reach an agreed-upon level of income. Regional free trade arrangements should be made to conform with a strict interpretation of the qualifying conditions in Article XXIV of the GATT. For further progress toward worldwide economic integration, the European Community's current plan to complete its internal market can serve as a guide.

This is a tall order. On past performance, it may take the better part of the century to fill even half of it. 

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