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Book Reviews

AGRICULTURAL TRADE LIBERALIZATION

Agricultural Trade Liberalization – Implications for Developing Countries. Ian Goldin and Odin Knudsen (Editors). OECD, Paris, 1990. 488 pp., FF180. ISBN 0-8213-1527-7.

This book brings together the papers presented at an international symposium held in Paris in October 1989 and jointly sponsored by the OECD and the World Bank. It was published during the following year – at a time when GATT negotiations were still expected to yield imminent results – with the declared aim of giving "impetus to the agricultural negotiations in the Uruguay Round" (p. 13).

The major part of previous studies concerned with the issue of agricultural trade liberalization and its prospects in GATT negotiations had mainly looked into the effects on industrial countries' interests – with an eye perhaps to the endogenization of decision-making, in order to anticipate a plausible compromise – while developing countries had often been treated as one single aggregate region subject to any compromise the USA and the EC would have been able to agree upon.

It rightly appeared very important to the organizers to try to extend the analysis of some well-known models so as to shed more light on the effects the new GATT agreements were going to have on developing countries. In particular, "... the identification of the potential beneficiaries of the process as well as the potential losers" (p. 14) was regarded as a point deserving more attention than it had received in the past.

The book is composed of a first part describing and offering results from four different partial equilibrium models (Anderson and Tyers, Zietz and Valdés, OECD-MTM and USDA-SWOPSIM), a second part explaining and presenting results from four general equilibrium models (IIASA-FAP, OECD-WALRAS, RUNS and Loo and Tower), plus other chapters providing general comments on basic issues and heterogeneous approaches with respect to more traditional models.

The complexity of the various effects ensuing agricultural trade liberalization is very difficult to tackle. As a 'perfect' model able to answer every question does not exist, it is very convenient that, with this book, the editors are able to show results from many models. Though at first sight it might seem that among the authors there is more scope for disagreement than for agreement, it must always be born in mind that all these models only provide somewhat rough results on key issues; rarely do they give details. Looking at this problem from different points of view, reflected by the different approaches, is therefore more likely to contribute to the enrichment of the analysis rather than to challenge the soundness of the results.

There are several reasons why the results offered by the various models are not strictly comparable. Country and commodity coverage, reference years, and forecast years are among the most obvious differences. However, the latter cannot be held entirely responsible for 'diverging' results. In this respect, other major reasons behind differing results should be sought in the main structure of the models: whether they are conceived in a general or partial equilibrium framework, whether a perfect or a sticky price transmission is assumed, whether intersectoral and international factor mobility is allowed for, whether full employment is imposed by assumption or unemployment is permitted, whether the time span of the model refers to the long run or to the short run.

The interaction between these points of view convincingly challenges the simplistic view that, being at present net importers of temperate food products, developing countries would suffer from increases in world prices resulting from agricultural trade liberalization. In addition to short-run market effects influencing mainly the demand side, in the longer-run production effects on the supply side should occur. Indeed, models allowing for factor mobility indicate a greater change in the division of labour on a regional basis. In turn, this is expected to involve feed-back effects on demand. Therefore the discrimination between expected gainers and losers does not necessarily coincide with that between present net importers and net exporters of temperate agricultural products, but potential exporters should also be taken into account. According to Anderson and Tyers, the developing countries' self-sufficiency ratio, after agricultural trade liberalization, would increase from 95% to 104%, while falling in OECD countries. (p. 52)

For various reasons, developing countries' interests and behaviour in GATT negotiations have been overshadowed by EC and USA confrontation and are far less analyzed than OECD countries' interests by models representing the implications of agricultural trade liberalization. This does not mean that developing countries have no interests at stake. Quite the opposite. In a previous model Valdés and Zietz (1980) estimated that in 1977, by halving the level of agricultural protectionism in developed countries, developing countries' export earnings would have shown an increase of 11%. The latter was evaluated at around $3 billion, i.e. approximately equal to the total foreign aid provided to developing countries in the same period. According to the 1986 World Bank Report, developing countries' food trade balance has noticeably worsened since then, and the 1991 World Bank Report "... notes that developing countries would receive an extra $55bn (£34.3bn) in export earnings if they were granted unrestricted access to industrial country markets – as much as they currently receive in aid transfers." (*Financial Times*, 8.7.91, p. 4)

Though the amount of money involved may be equivalent, the lists of beneficiaries from industrial countries' foreign aid, or from free access to industrial country markets, may well differ. An analysis in terms of political economy could suggest that to the donor, aid, especially when employed as a strategic weapon, is worth more than the right of access to the market. Whether the receiver would share the same judgment is dubious. However, freer access to developed countries' market per se does not need to replace aid transfers.

The book has several merits: the most obvious one is to analyse in more depth the effects of agricultural trade liberalization on developing countries, trying to distinguish between low income countries (often taking Bangladesh or sub-Saharan Africa as a proxy) and other developing countries whose economic situation is less destitute.

Another merit of the book is to challenge the view that developing countries will be net losers from agricultural trade liberalization by extending the scope of the analysis to a wider and more complex scenario vis-à-vis the pure short-term market effect.

A third merit of the book is to imagine an active role in GATT negotiations for the developing countries, which have too often been treated as a single passive agent by previous analysis.

As we all know, no compromise was reached in December 1990: the negotiations are still open and will be resumed soon. It is hoped that this book will significantly contribute to the debate as it was in the intention of its authors.

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IMPERFECT COMPETITION AND POLITICAL ECONOMY

Imperfect Competition and Political Economy. The new trade theory in agricultural trade research. C.A. Carter, A.F. McCalla and J.A. Sharples, (Editors). Westview Press, Boulder/San Francisco/Oxford, 1990. 270 pp., £21.50, ISBN 0-8133-7993-8.

This book includes seven papers presented at a symposium in Montreal sponsored by the International Agricultural Trade Research Consortium (IATRC). Here is an interesting examination of the new developments in trade theory and their implications for agriculture. There is a will to question the many simplifying assumptions of neoclassical theory that lead to the proof of the gains from free trade. The contributions fall into two major streams of thinking: the first incorporates imperfect competition into trade theory, including increasing returns, differentiated products and strategic trade policy; the second assimilates public choice into trade theory.

A selective survey of trade policy with imperfect competition is given by K. Krishna and M.C. Thursby. As the work on trade policy in imperfectly competitive markets is explicitly game-theoretic in character, strategic behaviour arises in the models through the inclusion of strategic variables. The difficulty arises from the fact that the interrelations between policies and strategies of firms are such that all sorts of policy options can be appropriate, depending on the relevant model. The authors ask how to select the model; they mention some efforts to bring empirical content, they note that work is still in its infancy.

D. Richardson surveys empirical research on the effects of international trade under imperfect competition. His conclusion is that incorporating imperfectly competitive behaviour makes a significant difference to estimated effects of trade on economic welfare, industrial structure and adjustment. For instance, there is little evidence that trade is a uniquely powerful source of forced exits of marginal firms, or of sharp stimuli for workers to move from sector to sector. In the discussion of this communication, P.L. Paarlberg emphasizes the fact that, because of the sensitivity of the equilibrium to the structure of the model, the researcher must make critical decisions when formulating the model, for instance knowledge of the industry, choice of the payoff function, the strategic variables, conjectures concerning behaviour of rivals...

M.C. Thursby and J.G. Thursby present a model of U.S. and Canadian competition for the Japanese wheat market. U.S. export firms and the Canadian Wheat Board compete against each other for Japanese market share. A notable aspect of the model is description of a variety of market structures; it incorporates both private firms and a marketing board. Estimates of the Japanese elasticities of demand for US and Canadian wheat are derived econometrically and are used to calculate conjectural variation parameters for both exporters. According to the discussant, M.V. Veeman, the most difficult point of imperfect competition theory comes from its inability to successfully predict the specific nature of interdependent actions and reactions of oligopolistic firms. Thus there are very few guidelines for effective strategic trade policy and many doubts.

Another imperfect competition approach deals with differentiated products and imperfect substitutes. D. MacLaren gives some implications for modelling in agriculture trade. He asserts that the Armington assumptions appear not to produce a model appropriate for products differentiated by origin. New theories have been developed in three different ways: horizontal differentiation (variety); vertical differentiation (quality); and technological differentiation. In all these models the consumer preferences are emphasized. The author notes the gap between theories and empirical models that makes it difficult to assess how these new theories perform within the context of the industrial structures for which they were developed.

The second part of the book on the political economy of trade begins with a paper by M.O. Moore on new developments in the political economy of protectionism. The political economy framework allows for utility-maximizing officials and the possibility of special-interest lobbying. The questions addressed are: How is factor income affected by import competition? How are policies determined and who makes the decisions? What are the specific goals of policy-makers? What policy instruments are available and what level of protection is chosen? In the conclusion, the author emphasizes that if the literature has begun to contribute importantly to the understanding of how protection arises and why it takes a particular form, research into the endogenous determination of protection still remains in its beginning.

E.J. Ray presents a survey of empirical research on the U.S. political economy of trade. There is a dual focus in this research. The first focus area emphasizes special interest groups, the second the political process. Tariff protection is associated with industries in which the country has a long-standing comparative disadvantage in trade. There seems to be some evidence that concentration of production among a few firms and geographical concentration of production are characteristic of industries with relatively high tariffs. Non-tariff trade barriers (NTB) have been used to supplement tariff protection in the most highly protective sectors of industrialized areas. They have also been used to provide new trade restrictions.

This leads to the question of the importance of economic rents via the political process, as determinants of economic growth.

The last paper by H. de Gorter and Y. Tsur adopts a model of rational self-interest behaviour by politicians, applied to agriculture. In order to achieve and maintain power, governments maximize a 'political support' function in choosing the level of intervention in agricultural markets. This function is supposed to depend on two factors: relative income between groups, and redistributed income within groups. Voter behaviour within a group depends on the redistribution of income within the group.

The interest of all these communications consists in the diversity of their approach. As many authors underline, policy research into imperfect competition is still at an infant stage of development. If we had to draw lessons from it, we sould conclude that there is not a unique economic model. Here, understanding of the historical process is important for the analyst to take into account, before defining his assumptions. A model is therefore an historical construct, whose results will in any case be difficult to generalize.

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