# Prevalence and Reform of State Trading Importers in World Grain Markets

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**Prevalence and Reform of State Trading Importers in World Grain Markets**

In the past fifty years state trading enterprises (STEs) have waxed and waned in world food grain markets. State trading enterprises grew markedly in importance in the 1950s and 1960s and by the early 1970s, controlled around 90 percent of wheat imports and the vast majority of rice imports. Over the past ten years there has been a marked decline in the role that state trading enterprises play in these markets. Interest in state trading has been sparked by debate over their impacts on world markets and the possibility that further disciplines on state trading enterprises will be forthcoming through the World Trade Organization (WTO). The current U.S. position is that state trading is an important issue for further negotiation in the agricultural round scheduled to begin November 30, 1999, in Seattle. The U.S. submission to the WTO in preparation for the upcoming round states that members should agree that further disciplines are needed on the import activities of state trading enterprises (United States Trade Representative 1998), although no details are given on what these disciplines should be. Another motivation for interest in state trading enterprises is the application for accession to the WTO of countries that use STEs extensively, such as China and several other countries whose economies are in transition.

The history, prevalence, and reform of wheat and rice state trading enterprises are investigated in this paper. The historical context of state trading enterprises and the domestic policy goals that originally motivated government control over imports are discussed. The degree and nature of the reform that has occurred to date is then presented. An analysis of the development and reform of state trading enterprises is then used to assess the probability and likely avenues of further reform of state trading in world wheat and rice markets. Earlier work by Abbott and Young (1999) has investigated the impact of state trading importers on the world wheat market and that topic will not be addressed here.

## Definition of State Trading Enterprises

There is a diversity of public institutions throughout the world that in one way or another control or influence agricultural trade (Kostecki 1982; Sorenson 1991; Dixit and Josling 1997). Kostecki defines state trading enterprises as agencies that control the essential terms of trade for imports, namely price and quantity. This definition recognizes that state trading enterprises can take a wide variety of institutional forms. For purposes of examining the consequences of STEs on wheat trade behavior, an STE is defined as (1) an agency that has the exclusive right to import grain, whether or not it uses private firms to physically handle the grain, or (2) a government agency that coexists with private firms but engages in grain trade, making decisions about the quantity, quality, price, and source of wheat imports. Veeman, Fulton, and Larue (1999) provide a useful discussion of the issues in defining state trading.

**Historical Prevalence of State Trading by Wheat and Rice Importers**

Because of their importance in world food grain markets, the focus of this paper is on the wheat and rice markets. Table 1 provides a comparison of world production and trade in wheat and rice in 1961 and 1997. Production and trade of both wheat and rice has increased greatly since 1961. Production and trade of wheat more than doubled between 1961 and 1997; however, the ratio of trade to production remained constant at about 20 percent. In that time period, production of rice increased from 147 million metric tons (mmts) to 380 mmts, and trade increased more than threefold. Rice trade as a percent of production increased from 4.3 to 5.8 percent, indicating the persistence of thinness as a characteristic of the rice market.

**Table 1. Production and Trade of Wheat and Rice, 1961 and 1997**

(1,000 metric tons)

| | *Year* | *Production* | *Trade* | *Trade as % of Production* |
|---|---|---|---|---|
| Wheat | 1961 | 220,049 | 46,039 | 20 |
| | 1997 | 578,436 | 111,424 | 19 |
| Rice | 1961 | 147,300 | 6,412 | 4.3 |
| | 1997 | 380,293 | 22,186 | 5.8 |

*Source:* Economic Research Service. 1999. *Production, Supply, and Demand (PS&D) View*. U.S. Dept. of Agriculture, Washington, D.C.

In the 1960s and 1970s, state trading by wheat and rice importers accounted for a high percentage of traded volume. Schmitz et al. (1981) estimated that during the period 1973–1977, 91.3 percent of wheat imports were conducted by countries using STEs. Falcon and Monke (1979–1980) used surveys by the Food and Agriculture Organization of the United Nations to estimate the degree and nature of government intervention in the rice market and found that nontariff barriers affected 93 percent of imports and that trade volume was government determined for the vast majority of importing countries.

A number of circumstances surround a nation's decision to implement government control of wheat and rice imports. In many cases, particularly in Asia, state trading was part of a package of policies adopted in the years after World War II when many countries achieved their independence. Some of the countries undertook land reform (for example, in Japan, South Korea, and India), which was accompanied by a massive reorganization of agricultural production. Many developing countries followed a program of import substitution, which relied on cheap food policies to spur industrialization (Bruton 1998). "In general, policies as related to agriculture involved heavy state intervention in the provisions of inputs, procurement and pricing, land reform, significant levels of public investment and a general subservience of agriculture to industry in the early stages of industrialization" (Stein 1995, p. 9). Trade policies, including state trading, are established to support domestic agricultural policies. A brief description follows of the context of the agricultural policies of India, South Korea, Indonesia, and Brazil, as well as some general comments on the development of state trading in Africa, will be used to illustrate the concerns and circumstances leading to the adoption of government control of imports through state trading enterprises.

*India*

India had a long history of food shortages, including the Bengal famine of 1943, by the time it achieved independence in 1947 (Bhatia 1991). Policies to increase food production were not implemented until 1951 when India entered a period of greater government involvement in economic planning. In 1956 the United States and India signed the first agreement under U.S. Public Law 480 (PL 480), which provided for the importation of 3.1 mmt of wheat and 0.19 mmt of rice.

PL 480 was a program developed in the United States in the mid-1950s to reduce the surplus of agricultural commodities through the sale of U.S. commodities for foreign currency (Cochrane and Ryan 1976). Before that time, surplus U.S. agricultural commodities were absorbed by Marshall Plan aid and the Korean War (Gupta 1998). PL 480 sales were attractive to the government of India, as it allowed them to save foreign exchange for imports of industrial goods necessary for an industry-led development strategy. PL 480 imports assisted in keeping food costs, and thus wages, low for urban workers, another component of India's industrialization strategy. However, over time the government of India realized that imports of cheap food were detrimental to the development of the agricultural sector and, in addition, caused political difficulties.

> Although imports from the United States never reached more than 15 percent of domestic output, the public distribution system became almost entirely dependent on PL 480 wheat. President Johnson further complicated the political situation by putting wheat on a "short tether." India was required to submit its food needs every month, and the President himself cleared the shipment of food aid, depending on India's progress in implementing 'reform' in agricultural and fiscal policy....After the war with Pakistan in October 1965, food aid was suspended until Indira Gandhi made the politically fraught decision of devaluing the currency in June 1966....Those who disagreed over whether industry or agriculture would be given top priority in development plans were expressing differences about the quickest path to self-sufficiency and sovereignty....The perception of Indian leaders and policymakers that Johnson had humiliated them only strengthened their desire to see rapid increases in food output, so that the nation would no longer be dependent on food aid. (Gupta 1998, pp. 60–61)

Food security and food self-sufficiency have been expressed goals of the Indian government since that time and have been achieved by a variety of subsidies to producers and consumers and by insulation from the world market through tariffs and government control of imports.

*South Korea*

In South Korea, some elements of the story are similar. The U.S. military government took over from the Japanese government in 1945. At that time, the U.S. military government restored a free market for food, discontinuing policies of the previous government controlling the grain market (Ban, Moon, and Perkins 1982). Food prices escalated when controls were dropped and demand outpaced supply due to the repatriation of refugees. At that point, a low-price policy for grains was implemented by the government. In 1955 Korea signed an agreement with the U.S. for imports of wheat (and, to a much lesser extent, barley) under the PL 480 food program. In 1960 U.S. policy for PL 480 sales was changed to a cash sales basis, and imports became dependent on the country's foreign exchange reserves. Nonetheless, increasing dependence on imports resulted in the decline of South Korean's food self-sufficiency from 99 percent in 1960 to

76 percent in 1971. The South Korean government reconsidered agricultural policy in the late 1960s and early 1970s in light of the cost of imports, declining food self-sufficiency, and rising rural and urban income disparity. In 1968, a two-price policy for grain was implemented. The government purchased grains at prices to support the income of agricultural producers, while continuing its policy of low-priced food for urban consumers (Stein 1995). The difference between the purchase price and delivery price of grain was subsidized by government deficits. These agricultural policies required control over imports.

*Indonesia*

Indonesia has a long history of rice imports, which began in the late 1800s. Van der Eng (1996) states that the foundation of contemporary rice policies began in the 1930s and 1940s under colonial rule. The Dutch colonial government established the Food Supply Board (Voedingsmiddelenfonds-VMF) to implement domestic policies to stabilize rice prices in the country through the rice mills. The Food Supply Board became a government monopoly importer of rice. Van der Eng argues that self-sufficiency became an important motivation guiding policy with the beginning of World War II. Another concern influencing policy was control over foreign exchange used for rice imports.

*Brazil*

Import substitution played a significant role in the development strategies of Brazil, as in many other Latin American countries. The paradigm of import substitution was often implemented through government administration of the allocation of foreign exchange, government controlled prices for a broad range of commodities, and the establishment of public enterprises. In Brazil, the postwar role of agriculture was to produce cheap food to assist in industrial growth (Brandão and Carvalho 1991). The government of Brazil was extremely concerned with providing cheap food to urban residents. To accomplish their objectives, the government controlled the marketing of agricultural commodities, prices, and imports and exports. Various institutions were used to implement these policies, and their names and powers changed over time. Between 1965 and 1991, the government was the sole importer of wheat.

*Africa*

World Bank analysts (1994, p. 21) argue that African policies must be understood in the context of the conditions existing after independence. They explain that dependence on the state occurred because of a lack of domestic capital and entrepreneurs, an unwillingness to rely on foreign capital, and an underlying distrust of the market. In Africa, early marketing boards were put into place by colonial governments to regulate small African growers in order to protect larger European farmers against competition (Knudson and Nash 1990; Duncan and Jones 1993). "After independence, the boards were retained by governments who wanted to control all aspects of production and marketing, and especially to discriminate against certain ethnic groups that were active in trading" (Knudson and Nash 1990, p. 52). Marketing boards were charged with stabilizing domestic prices, and to do so, controlled the imports of agricultural commodities, including rice and wheat. Bruton (1998) argues that import substitution was less important as a development philosophy to African nations, many of which achieved their independence from colonial powers in the late 1950s and early 1960s.

*Forces Motivating the Adoption of State Trading Enterprises*

These cases were chosen to illustrate the common threads between countries as well as the diversity of circumstances and goals that motivated governments to adopt state trading to control imports. State trading is commonly one element of a package of agricultural policies adopted by the government. In many cases goals include cheap and stable food prices for consumers, particularly those in urban areas (Abbott and Young 1999).

Food security is one reason why many governments have chosen to control imports and to intervene in their agricultural sector (Timmer 1989; Meerman 1997). Many governments of countries with recent experience of food shortages and famine have made food security a priority, with implications for the design of their agricultural policies. Import substitution strategies with associated government involvement in the agricultural sector was an important factor for many countries. Circumstances imposed by outside governments also played a role, such as the abrupt change in policy by the U.S. government in the conditions of PL 480 food shipments to South Korea and India. In many cases STEs were adopted after World War II when newly independent national governments were involved in formulating their overall national and agricultural policies. In a few cases, such as Indonesia and some countries in Africa, state boards were inherited from the colonial governments.

## Reform of State Trading Enterprises

Many governments have eliminated their state trading enterprises or reformed them by allowing private traders to import wheat as well. Most reform occurred after 1989, although South Korea, Mexico, and the Philippines were early reformers in the mid-1980s. A list of wheat and rice importers who used state trading is provided in Table 2. The fifty-three wheat importers listed accounted for 73 percent of the wheat imported in 1996. Around 40 million metric tons (mmt) of wheat was imported by countries that are identified as having either STEs with a monopoly on wheat imports or STEs that heavily influence the domestic wheat market. This is a marked decline from the 91.3 percent share of wheat imports by countries using STEs in the 1973–1977 period as estimated by Schmitz et al. (1981).

For rice, the thirty-seven importers listed account for 75 percent of rice traded in 1997. In 1997, 7.8 mmt of rice was imported by countries in which the government has monopoly control of rice imports, accounting for about 35 percent of traded rice. However, of that 7.8 mmt, Indonesia accounted for 4 mmt and is in the process of changing its institutional arrangements for rice imports. Without Indonesia, the share of world rice imports accounted for by state trading importers declines to 16 percent of the market, a drastic structural change since Falcon and Monke evaluated the market in the 1970s. These estimates do not include countries using state trading who enter the market as both importers and exporters of rice, such as China, Egypt, and India. However, China, Egypt and India imported only 763,000 mt/year on average over the past ten years, a small percentage of the market.

A selection of African countries, and whether they maintained state control over imports of rice and wheat, is listed in Table 3. (Insufficient data was available for inclusion in Table 2). The World Bank (1994) documents at least 14 public monopolies for wheat imports and 17 monopolies for rice imports. The World Bank supported many of these state trading enterprises in the late 1960s and 1970s, offering assistance through project loans to address deficiencies of infrastructure and management (Operations Evaluation Department 1990).

## Table 2.  Institutions Involved in Wheat and Rice Imports

| Country | ---------- *Wheat* ---------- *Wheat STE name (in the past if reformed)* | *Monopolist in 1997* | *Date of reform* | ---------- *Rice* ---------- *Rice STE name (in past if reformed)* | *Monopolist in 1997* | *Date of reform* |
|---|---|---|---|---|---|---|
| Algeria | OIAC | Yes | --- | | | |
| Bangladesh | FCM | Coexist | 1992 | Ministry of Agriculture | Coexist | 1991 |
| Bulgaria | Zareni Chrani (proposed return to government monopoly) | Yes | expected 1997 | — | --- | --- |
| Bolivia | P.L. 480 Executive Secretariate (coexist) | No | — | — | --- | --- |
| Brazil | CTRIN (eliminated) | No | 1991 | unknown | No | 1990/91 |
| China | COFCO | Yes | --- | COFCO (government monopoly, some private deals) | Yes | --- |
| Colombia | IDEMA (eliminated)(price bands) | No | 1992 | Columbian Agri. Trade Agy. (Change from govt. STE to government limits on and distribution of import licenses for private trade) | Coexist | some reform 1992 |
| Costa Rica | none | No | --- | eliminated import licenses and quantitative restrictions | No | 1994 |
| Cuba | unknown | Yes | --- | Alimport, Ministry of Foreign Trade | Yes | --- |
| Cyprus | Cyprus Grain Commission | Yes | --- | --- | — | --- |
| Dominican Republic | — | — | --- | Government limits import licenses | Coexist | --- |
| Ecuador | Ministry of Industry (private trade, price band) | No | 1991 | ENAC (private trade, price band) | No | 1990 |
| Egypt | GASC (coexist, but govt. main importer) | No | 1992 | GASC (reduced export controls) | Coexist | 1992 |
| Eur. Union | | | | (Quotas, TRQ and reference price system) | *** | |
| Ghana | 1992 National Procurement Agency (eliminated) | No | 1992 | National Procurement Agency | Coexist | 1993/94 |
| Honduras | — | — | --- | none known (price band) | No | --- |
| Hong Kong | none | No | --- | none (quota, importers required to hold stocks) | No | --- |
| India | Food Corporation of India | Yes | — | Food Corporation of India (partial liberalization low-quality imports) | Coexist | 1997 |
| Indonesia | Badan Urusan Logistik (under reform) | Yes | 1998/99 | Badan Urusan Logistik (under reform) | Yes | 1998/99 |

| | Wheat | | | Rice | | |
|---|---|---|---|---|---|---|
| *Country* | *Wheat STE name (in the past if reformed)* | *Monopolist in 1997* | *Date of reform* | *Rice STE name (in past if reformed)* | *Monopolist in 1997* | *Date of reform* |
| Iran | unknown | Yes | --- | Government of Iran | No | 1992 |
| Iraq | | | | Government of Iraq (purchase only from UN) | Yes | --- |
| Israel | Government Trade Administration (eliminated) | No | 1989 | — | — | --- |
| Ivory Coast | — | — | --- | Caisse General de Perequation et Prix | No | 1994/97 |
| Japan | MAFF | Yes | --- | Food Agency | Yes | --- |
| Jordan | Ministry of Supply (coexist) 94-96 | No | 1996 | Ministry of Supply (government imports security stocks) | No | 1997 |
| Kenya | none | No | --- | Gov't. National Cereals and Produce Board | Yes | --- |
| Libya | unknown | Yes | --- | — | — | --- |
| Malaysia | none | No | --- | BERNAS (Paderas Nacional Berhad; now a private agency with monopoly import rights sheltered privatization) | Yes | --- |
| Mauritius | none | No | --- | State Trading Corp. | Coexist | --- |
| Mexico | CONASUPO | No | 1992 | CONASUPO | No | 1985 |
| Morocco | ONICL | No | 1997 | ONICIL | No | 1997 |
| Nicaragua | | | | none known (price band) | No | --- |
| Nigeria | unknown (eliminated; previous import ban) | No | 1996 | none (previous import band) | No | 1995 |
| North Korea | unknown | Yes | --- | Government of North Korea | Yes | --- |
| Norway | Statkorn (privatized) | No | 1995 | — | — | --- |
| Pakistan | MFAC (coexist; govt. policies limit imports) | No | 1991 | Rice Export Corporation | Coexist | 1989 |
| Peru | ENCISA (coexist; no import licenses) | No | March 1991 | ENCASA (surcharges and price band) | No | 1991 |
| Philippines | National Food Authority | No | 1986 | National Food Authority (quantitative restrictions) | Yes | --- |
| Poland | Agencja Rynku Rolnego (coexist) | No | June 1990 | — | — | --- |
| Romania | Romecereal (eliminated) | No | June 1995 | — | — | --- |

| Country | Wheat STE name (in the past if reformed) | Monopolist in 1997 | Date of reform | Rice STE name (in past if reformed) | Monopolist in 1997 | Date of reform |
|---|---|---|---|---|---|---|
| | *Wheat* | | | *Rice* | | |
| Russian Federation | Roskhleboproduct (privatized; imports heavily controlled by Plant Quarantine Service) | No | 1991 | none known (imports heavily controlled by Plant Quarantine Service) | No | --- |
| Saudi Arabia | GSFMO | Yes | --- | none | --- | --- |
| Senegal | — | — | --- | Caisse General de Perequation et Prix | No | 1995 |
| Singapore | none | No | --- | none (importers required to hold stocks) | No | --- |
| Slovakia | KOOSPOL (coexist; govt. tender to allocate import licenses) | No | 1990 | — | — | --- |
| South Africa | Wheat Board | Yes | Oct. 1997 | — | — | --- |
| South Korea | KOFMIA | No | 1983 | Supply Administration of Korea | Yes | --- |
| Sri Lanka | Cooperative Wholesale Establishment | Yes | --- | Food Commissioner (licenses private companies) | No | 1990 |
| Syria | (exports controlled by HOBBOB) | Yes | --- | GEZA (Foreign Trade Organization for Chemicals and Foodstuffs) | coexist | 1994 |
| Sudan | unknown | Yes | — | — | — | --- |
| Taiwan | TFMA | No | Jan. 1994 | Provincial Food Bureau | — | --- |
| Tajikistan | Ministry of Grain Products | Yes | --- | — | — | --- |
| Tunisia | Office des Cereales | Yes | --- | — | — | --- |
| Turkey | Turkish Grain Board (coexist) | No | --- | none (government holds security stocks) | No | --- |
| Uzbekistan | Uzmarkazimpex for Uzkhleboproduckt | Yes | --- | — | — | --- |
| Venezuela | CORPOMERCADEO | No | 1989 | Price band | — | --- |
| Yemen | Ministry of Trade and Supply (coexist) | No | --- | | | |
| Zimbabwe | Grain Marketing Board | No | 1996 | | | |

**Table 3. Reform of Wheat and Rice Importing State Trading Enterprises in Africa**

| *Wheat* | | *Rice* | |
|---|---|---|---|
| No Monopoly: | | | |
| Benin | | Benin | |
| Cameroon | | Central African Republic | |
| Central African Republic | | Chad | |
| Chad | | Ghana | |
| Malawi | | Malawi | |
| Mauritania | | Madagascar | |
| Private Monopoly: | | | |
| Côte d'Ivoire | | | |
| Public Monopoly: | | | |
| Burkina Faso | | Burkina Faso | |
| Burundi | Reformed by 1992 | Cameroon | Reformed by 1992 |
| Congo | | Congo | Reformed by 1992 |
| Ghana | | Côte d'Ivoire | Reformed by 1992 |
| Guinea | | The Gambia | Reformed by 1992 |
| Kenya | | Guinea | |
| Madagascar | | Guinea-Bissau | Reformed by 1992 |
| Mali | Reformed by 1992 | Kenya | Reformed by 1992 |
| Mozambique | Reformed by 1992 | Mali | Reformed by 1992 |
| Niger | | Mauritania | Reformed by 1992 |
| Senegal | | Mozambique | Reformed by 1992 |
| Tanzania | Reformed by 1992 | Niger | |
| Togo | Reformed by 1992 | Senegal | |
| Zimbabwe | | Sierra Leone | Reformed by 1992 |
| | | Tanzania | Reformed by 1992 |
| | | Togo | Reformed by 1992 |
| | | Zimbabwe | Reformed by 1992 |

*Source:* World Bank. 1994. *Adjustment in Africa: Reforms, Results, and the Road Ahead*. A World Bank Policy Research Report. New York: Oxford University Press.
*Note:* This 1994 report classified countries by the existence of a public or private monopoly on imports and indicated if they had reformed by 1992.

Figures 1 and 2 illustrate the geographical dispersion of reform. Reform is concentrated in Africa and Latin America, as many countries in Asia have maintained their STEs. The factors leading to reform are explored in the next section.

**Figure 1. Institutional Status of Wheat Imports and Exports**

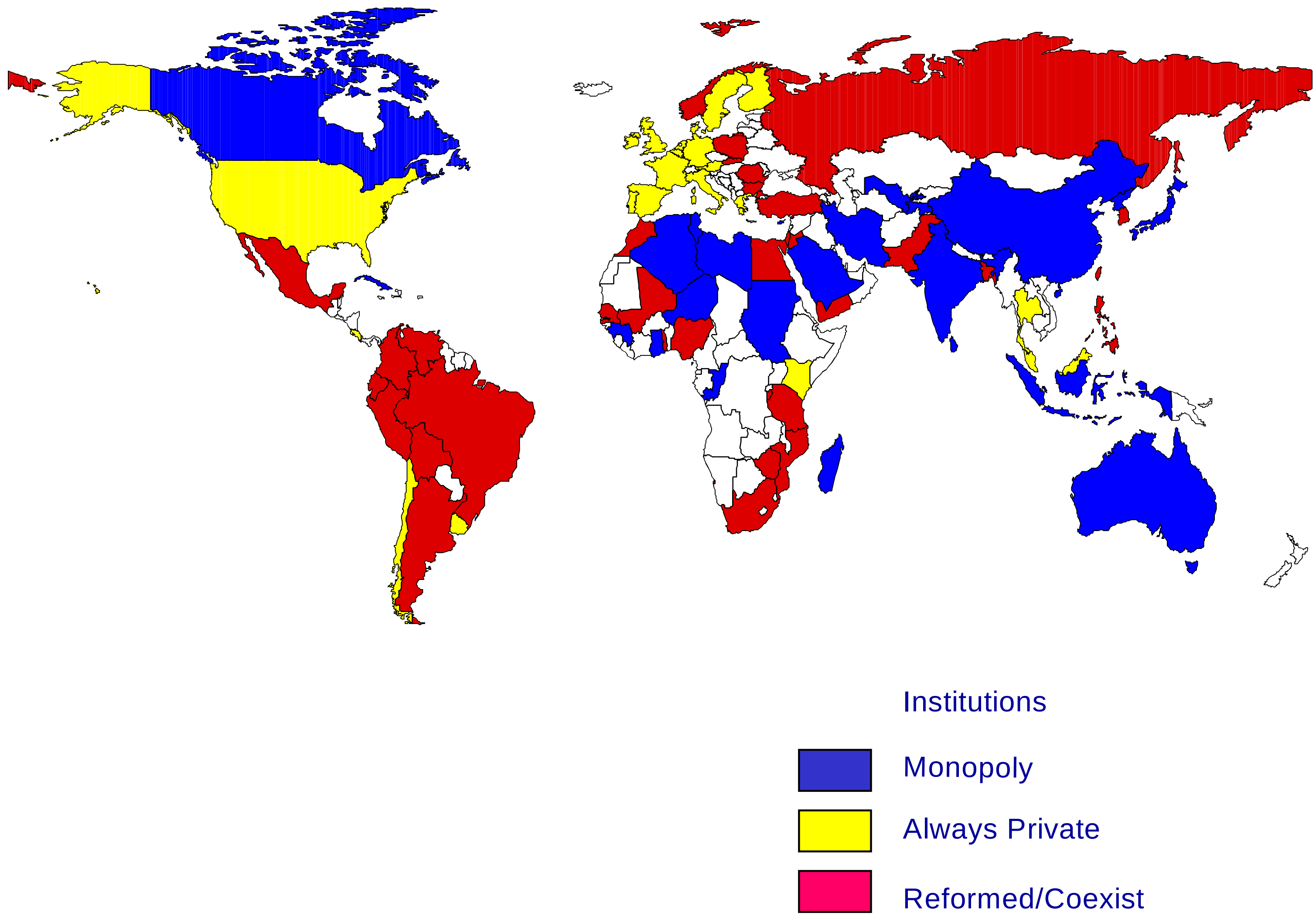
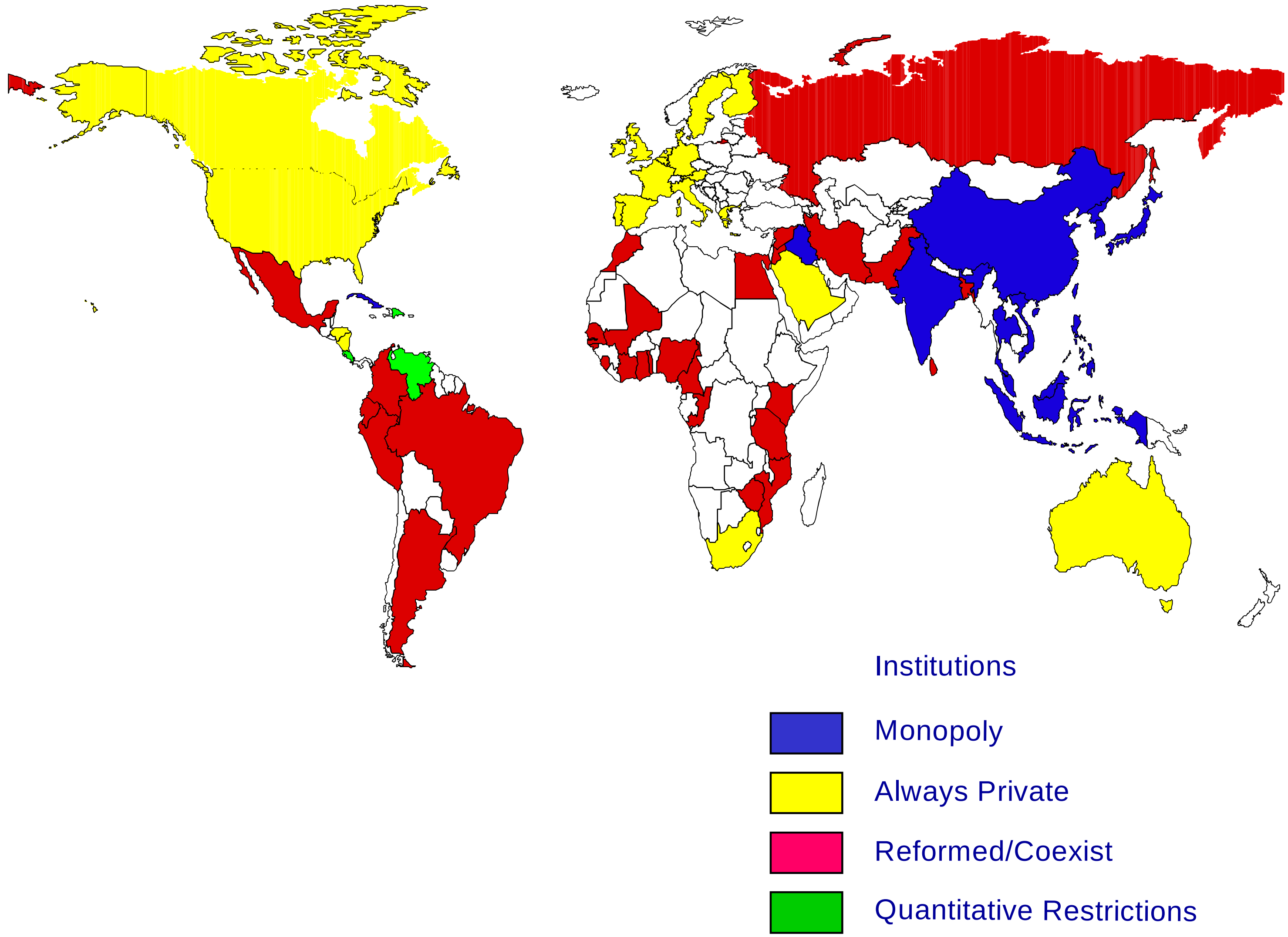


**Figure 2. Institutional Status of Rice Imports and Exports**



## Reasons for Reform

Although the circumstances differ by country, a major impetus for reform has been structural adjustment programs undertaken by countries with the World Bank in the late 1980s and throughout the 1990s. At that time, interest in regional free trade agreements, including the development of Mercosur and the revitalization of the Andean Group, may have provided additional impetus for the removal of border institutions (Hufbauer and Schott 1994). For example, both structural adjustment programs and negotiations over the North American Free Trade Agreement (NAFTA) have played a role in allowing private traders to import wheat into Mexico. Countries in Eastern Europe, such as Poland, eliminated or changed their STEs as part of the economic adjustment to radical changes in governance that occurred in 1991 with the breakup of the Soviet Union. However, lack of data on the policies of many Eastern European governments has made it impossible to analyze this transition in any detail. Structural adjustment loans administered by the World Bank were also critical in the reform of many of the state trading enterprises.

In the late 1980s and early 1990s, worsening terms of trade and rising real interest rates contributed to severe balance of payments problems for many developing countries. In response, the World Bank initiated a new program of structural adjustment loans (SALs) to support recipient countries' balance of payments (Jayarajah and Branson 1995). These loans were conditional on the recipient government implementing a broad package of fiscal and monetary reforms. Although World Bank loans had always contained elements of conditionality, SALs differed in that they divorced program lending from specific items of investments. The World Bank initiated SALs so that funds could be disbursed more quickly in response to destabilizing macroeconomic shocks (Mosley, Harrigan, and Toye 1991). This contrasted with World Bank activities in the 1960s and 1970s, which were characterized by project-based lending, often for infrastructure projects. In 1976–1980, investment lending accounted for 95 percent of World Bank loan commitments, and 5 percent was devoted to adjustment lending. By fiscal year 1991, adjustment lending had increased to 26 percent of World Bank loan commitments (Jayarajah and Branson 1995).

SALs were targeted to correct macroeconomic imbalances by adjusting exchange rates and interest rates and reducing unsustainable current account deficits and government expenditures. Some SALs had specific conditions for reform in the agricultural sector, and 27 percent included conditions for reform of trade policy (Jayarajah and Branson 1995).

Sectoral (as opposed to structural) adjustment loans were initiated to address sectoral issues and to focus on microeconomic adjustment, and many sectoral adjustment loans were targeted at the agricultural sector. Throughout the 1980s the World Bank implemented agricultural sectoral reform within the paradigm of heavy government involvement in agriculture that was present in most of these countries (Meerman 1997). Loans would commonly be tied to policy reforms such as the linkage of domestic prices with world prices, elimination of subsidies, and changes to increase the efficiency of public enterprises. Lack of sustained success in these reforms led the World Bank to change its philosophy regarding agricultural sector reform. In the early 1990s, the bank rejected the previous model of operating within the constraints of heavy government involvement in agriculture and “went to market” with a series of reforms to drastically reduce the role of the state in agriculture. World Bank agricultural sector adjustment loans generally include (1) elimination of price controls, (2) development of competitive local markets for inputs, (3) reduction of state intervention in international trade, (4) improvement of the regulatory system, and (5) privatization of inefficient public enterprises.

A list of countries that received either structural adjustment loans or agricultural sector adjustment operation loans (AGSECALs) is presented in Table 4.[1] This list includes countries that reformed their wheat or rice state trading enterprises and that, in addition, were listed as recipients of World Bank SALs or AGSECALs at close to the same time. It does not include all relevant cases as a complete dataset has been difficult to obtain.

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[1]Stein (1995, p. 22) provides a list of countries in Africa that underwent structural adjustment programs with the World Bank. He groups them into early adjusters (1980–1984) and late adjusters (1985–1987). Early adjusters include Kenya, Sudan, Côte d’Ivoire, Malawi, Senegal, Mauritius, Nigeria, Togo, Ghana, Zimbabwe, Guinea-Bissau, Zambia, and Sierra Leone. Late adjusters include Burkina Faso, Madagascar, Burundi, Central African Republic, Gambia, Guinea, Somalia, Zaire, Congo, Niger, Sao Tome, Tanzania, and Uganda.

**Table 4. Selected Countries Receiving World Bank Structural Adjustment and Agricultural Sector Adjustment Loans, and Years**

| *Country* | *AGSECALS* | *SALS* |
|---|---|---|
| Algeria | 1996* | 1995 |
| Bangladesh | | 1980–88 |
| Bolivia | | 1980–81 |
| Brazil | 1986–93 | 1983–87 |
| Chile | | 1985–89 |
| Costa Rica | | 1983–85 |
| Ecuador | 1985–89 | 1985–89 |
| Egypt | | 1992 |
| Ghana | 1992–96 | 1987, 1983–88 |
| Ivory Coast | 1989–91, 1995–97 | 1981–87, 1989 |
| Jordan | 1994–96 | 1994 |
| Kenya | 1986–88, 1991–96 | |
| Mexico | 1988–90, 1991–93 | 1983–91 |
| Morocco | 1985–87, 1987–92 | 1984–89 |
| Nigeria | | 1986 |
| Pakistan | 1988–91 | 1982–88, 1992 |
| Philippines | | 1980–86 |
| Poland | 1993–96 | 1993 |
| Romania | 1997* | |
| Senegal | | 1980–90 |
| South Korea | | 1980–85 |
| Sudan | 1983–86 | 1982–84 |
| Tunisia | 1986–89, 1989–95 | |
| Turkey | 1985–89, 1997* | |
| Uruguay | 1984–86 | |

* Indicates pipeline projects.
*Sources:* Meerman (1997); Jayarajah and Branson (1995).

## Outcome of Reform

Considerable variation exists in the outcome of reform of STEs. In some cases the STEs have lost their monopoly power to import grain but continue to exist with substantial diversity in roles and influence. For example, in Egypt, the reformed STE continues to account for approximately 70 percent of wheat imports. Some STEs have been completely eliminated, such as in Israel and Brazil; in other countries STEs continue to perform some functions but have completely lost their role as wheat importers, such as in Mexico and Colombia. Norway and Russia have wheat STEs that were privatized and now operate with varying degrees of continuing government involvement. In at least three cases, Brazil, Taiwan, and South Korea, the wheat import function is now performed by flour millers associations, usually a small number of millers with potential domestic market power.

Recently, Malaysia has undertaken “sheltered privatization” of its rice state trading enterprise, Paderas Nacional Berhad (Bernas). Bernas has now been incorporated, and although it is no longer a state-owned enterprise, it must follow guidelines set by the Malaysian Cabinet. Private traders have the right to import rice through Bernas for a fee (Hoh 1998). In the Uruguay Round Agreement on Agriculture (URAA), South Korea and Japan were granted a waiver from the obligation to remove quotas on rice. In return for this special treatment, both countries agreed to a minium market access provision and an explicit import quota. Both countries are obligated to import an increasing percentage of their domestic consumption (Choi, Sumner and Song 1998; IATRC 1994).

Although many governments have eliminated their state trading enterprises, they continue to implement a wide variety of policies to influence trade and stocks. Hong Kong and Singapore require rice importers to hold stocks. Colombia eliminated its state trading enterprise but now controls imports of rice through import licenses (Restrepo 1998). Several Latin American countries have implemented price bands for a variety of food imports, at times including wheat and rice (USTR 1997). Finally, although the government of Pakistan allows private traders to import rice, domestic prices are so low due to a variety of government policies that there is seldom economic incentive to import. Knudson and Nash (1990) argue that the problem with partial reform is that the private sector is unwilling, or unable, to compete with a subsidized government state trading enterprise.

**Prospects for Further Reform**

Further reduction of state trading in world grain imports could occur through three avenues: (1) unilateral reform by countries of domestic and trade agricultural policies, including elimination of state control of imports; (2) elimination of state trading as a part of a World Bank structural adjustment program; and (3) increased disciplines negotiated in a multilateral context through the World Trade Organization.

Various factors make it difficult for countries to reform their policies unilaterally. For some countries food security remains a concern (McCalla 1994). The URAA has raised concerns about an increase in the level and variability of agricultural market prices and associated implications for food security among developing countries (Economic Research Service 1998). Concerns over food security are not limited to low-income developing countries—they have also been raised by developed countries such as Japan.

Although Japan remains apprehensive about food security, many other circumstances have changed since the beginning of its postwar agricultural policy. As is true for many developed countries, in Japan there has been a shift from subsidization of consumers to subsidization of producers (Honma and Hayami 1985). The interests vested in the continuation of current agricultural policies make reform difficult. For this reason, reform usually occurs when either macroeconomic or agricultural policies become unworkable or result in a financial crises (World Bank 1997; Williamson 1994). These circumstances often necessitate World Bank involvement. Further reform in other countries may be instigated by structural adjustment loans offered by the World Bank. Such reform is most likely to occur in lower-income countries and is unlikely in Japan.

Many of the countries maintaining STEs for rice and wheat are either WTO members or involved in accession to the WTO. Table 5 lists wheat and rice state trading importers and designates their WTO status. An agreement through the WTO that imposes disciplines on state trading could have an impact on a number of the countries who continue to maintain wheat and rice state trading enterprises. Economic researchers anticipate that the prevalent use of state trading for a wide range of agricultural commodities makes it unlikely that agreement could be reached on an outright ban on state trading (Miner 1998; Josling 1998). One avenue to address many of the issues presented by state traders is competition policy. Due to the complexity of the issues involved in competition policy and the divergent starting positions of WTO members, WTO progress on competition policy may require several years. Other options that have been proposed are to gradually increase the minimum access provisions or to obligate the countries maintaining STEs to purchasing a minimum amount from the world market, comparable to Japan and South Korea's current obligations under the URAA (Josling 1998; Miner 1998). Miner (1998) also proposes that importing STEs could remove their monopoly powers and allocate a share of tariff rate quotas and import requirements to the private sector. Failing that outcome, he suggests that importing STES be required to provide sufficient information to indicate that they are meeting their obligations.

**Table 5. Countries Maintaining Rice or Wheat State Trading Importing Enterprises**

| *Not WTO Members* | *WTO Members* | *Involved in WTO Accession* |
|---|---|---|
| Cuba | Bangladesh | Algeria |
| Iran | Cyprus | China |
| Libya | India | Saudi Arabia |
| North Korea | Indonesia* | Sudan |
| Iraq | Japan | Uzbekistan |
| Tajikistan | Kenya | |
| Taiwan | Philippines | |
| | South Korea | |
| | Sri Lanka | |
| | Tunisia | |

* STE in flux.

It is difficult to gauge the likelihood that these disciplines will be accepted. Some developing countries do not support further trade liberalization under the WTO. India has expressed opposition to further reform, arguing that developing countries have not gained from the Uruguay Round and that the URAA only deals with issues of importance to developed countries (Bridges 1999; WTO 1999). India is the leader of a group of developing countries concerned with representing the interests of developing countries in the WTO.

Table 5 lists countries who are not WTO members, including Cuba, Iran, Libya, North Korea, and Iraq. These countries are not well integrated into the world economy and operate outside of the international institutions most likely to motivate changes in policy. Generally speaking, these governments have not moved to a market-based model for their economies and are not likely to do so in the near future. For these reasons, reform of state trading in these countries is improbable. Although state trading has declined significantly over the past ten years, it is unlikely to disappear altogether in world food grain markets.

**Conclusions**

Government intervention in wheat and rice trade through state trading has declined significantly in the last fifteen years. An important catalyst of reform was structural adjustment programs through the World Bank. The financial difficulties faced by the country receiving aid, and the assistance offered by the World Bank, provided a strong incentive for countries to participate.

However, World Bank analysts state when discussing good practices that "... public enterprise reform in agriculture, as elsewhere, is a political process. In working toward such reform it is important to avoid a deadlock of the proposed reforms by assessing and reacting to the political forces affecting them" (Meerman 1997, p. 6). Meerman states that the Bank often overestimates the borrower's ownership of the proposed reform, and that lack of government commitment to reform is responsible for a substantial portion of failed programs (Meerman 1997, p. 7). Another World Bank report on Africa (World Bank 1993) argues that there is a need to rethink adjustment policies that have seen less success and consensus, including practices for public enterprise reform.

Further reform of STEs through WTO negotiations are likely to encounter difficulties similar to those faced by the World Bank, including resistance by a number of governments to reform of their institutions. In addition, the incentives provided by financial crises and World Bank aid will not be present. It may be challenging to provide a package of trade reforms through the WTO attractive enough to muster support from these countries. However, this analyst is unwilling to draw conclusions about the willingness to reform on the part of such a diverse group of countries.

This paper attempted to illustrate the long history that STEs have had in a number of countries, the diversity that exists between them, as well as points of commonality. Further work understanding the position taken by governments on their STEs, as well as their underlying interests, may be a fruitful avenue to assist the process of WTO negotiations.

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