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INTRODUCTION: SOUTHERN AGRICULTURE AND THE WORLD ECONOMY: THE MULTILATERAL TRADE NEGOTIATIONS

Mark D. Newman

The current round of Multilateral Trade Negotiations (MTNs) under the General Agreement on Tariffs and Trade (GATT) was launched at Punta del Este, Uruguay, in September, 1986. Thus, it bears the appellation, "Uruguay Round," although negotiations have actually been taking place at GATT headquarters in Geneva, Switzerland, since early 1987.

This is the eighth round of negotiations for more free international trade since the GATT was set up in 1947. While major inroads have been made in reductions of industrial protection, agriculture has remained largely outside the GATT. The Uruguay Round marks the first time that agriculture has been given such a central place on the MTN agenda. Many of the proposals presented for discussion thus far ("tabled" in GATT parlance) imply major reforms in the domestic agricultural policies of the U.S. and other nations.

FACTORS MAKING AGRICULTURE A PRIORITY

As the negotiations were getting underway, pressures to address directly agricultural issues in this MTN round were mounting. For the United States, the value of agricultural exports fell from \$43.3 billion in 1981 to \$26.1 billion in 1986. The share of U.S. farm production exported fell from about one-third to about 15 percent during the same period. Southern agriculture and agribusiness have been affected at least as much as the rest of the United States by this decline, with effects rippling through the economy from farm to export elevator and associated processing and service sectors.

Many of the world's major trading nations are still facing record or extremely costly

domestic agricultural price and income support programs. Costs have risen as governments try to maintain domestic farm incomes in the face of demand that has ceased to grow as fast as it did during the 1970's, while productivity growth continues. United States outlays in support of agricultural prices and incomes fell to \$23.1 billion in 1987, from \$25.6 billion the year before. However, a weaker dollar, lower world prices resulting in part from the Food Security Act of 1985, and such export support efforts as the Export Enhancement Program (EEP) and Targeted Export Assistance (TEA) mean that 1987 expenditures of many U.S. trading partners and competitors are still rising. The European Community spent an estimated \$30 billion directly on agricultural support in 1987. Other countries have been faced with declining farm incomes or increased costs, depending on their abilities to act or react to the current market situation.

URUGUAY ROUND OBJECTIVES

Negotiators at Punta del Este agreed to an agenda that includes three areas critical for agriculture:

- (1) improving market access (e.g., opening of markets to imports by reducing import barriers including quotas and other non-tariff barriers);
- (2) improving the competitive environment by reducing direct and indirect agricultural support that distorts trade; and
- (3) minimizing the adverse effects of health and safety regulations and barriers on trade in agriculture.

While agricultural tariffs have been reduced in previous MTN rounds, progress in liberalizing industrial trade has been greater than in

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agricultural trade. One explanation is that in agriculture, negotiations have been on an offer-request basis. One country offers to reduce barriers affecting specific products in return for reductions in its trading partners' barriers affecting identified products. Such a process presents the opportunity to easily get bogged down in horse trading that has minimal impacts on trade in the aggregate. Thus, negotiators in the current round are looking for a new approach to discussions of trade liberalization in agriculture.

AGGREGATE MEASURES OF PROTECTION

One unique feature marking proposals in the current negotiations is emphasis on use of aggregate measures of protection in the negotiation process. The basic concept is that negotiators should focus on agreeing to percentage reductions of aggregate protection that distorts trade while leaving the specific changes in domestic policies and specific commodities to be affected in order to achieve a given level of aggregate reduction to the individual GATT participants.

This raises the issue of how protection might be measured for use in negotiations. The economics literature presents a range of concepts, including effective protection rates, nominal protection coefficients, and others, but there is often a tradeoff between theoretical validity and practical usefulness in the context of negotiations.

The United States has proposed use of the Producer Subsidy Equivalent (PSE), a measure of the share of producer income represented by government intervention in agriculture. Estimates of PSEs for various time periods, commodities, and countries have been published by the Organization for Economic Cooperation and Development (OECD) and the Economic Research Service (ERS) of the United States Department of

Agriculture (USDA). Proposals by Canada and others suggest use of a Trade Distortion Equivalent (TDE), conceptually equivalent to the PSE, but limited in measuring only the share of income represented by government intervention that actually distorts trade. There is broad conceptual interest in the latter concept but considerable room for discussion of measurement issues.

CURRENT PROPOSALS

To date, proposals have been introduced by the United States; the "Cairns Group": spearheaded by Australia, but also including Argentina, Brazil, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay; the European Community; Canada; Japan; and the Nordic Countries: Finland, Iceland, Norway, and Sweden. Discussion documents have also been circulated by the so-called "food importers group" including Jamaica and South Korea. Proposals range from those of the United States and the Cairns Group, calling for a complete phase-out of all agricultural subsidies directly and indirectly affecting trade, to others with much more limited scope and a stronger focus on agreements affecting the shorter term.

The presentations that follow provide insights into the perspectives of four groups with important stakes in the current negotiations: the Developing Countries, the European Economic Community, the Cairns Group, and the United States. It is hoped that by providing insights into areas of agreement and disagreement, readers will have an improved understanding of the kind of give and take that is likely to be required in the course of the Uruguay Round. Such information might be productively used in teaching and extension, as well as in identifying potentially useful areas for research.

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