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King or Pawn? Consumer Preferences in International Trade

by Suzanne Thornsby and Gary Fairchild

As agricultural trade proliferates and border barriers are reduced, industries continue to seek new ways to influence world trade patterns and protect domestic markets. Growing consumer access to information and promotions of specific product attributes elevate advertising and consumer-information campaigns to new levels in the battle for “stomach share.” In this environment, consumer preferences gain additional influence as a determining force in international trade.

Because information flows influence product selection, consumers are always seeking information from a variety of sources, including some generally perceived as objective (e.g., university and/or government resources, third-party certification) and some with more persuasive components (e.g., advertising). Consumer information campaigns have become more visible in international trade, particularly where cross-boundary relationships among firms are reducing the domestic-industry protection. Even though multilateral agreements and governments are addressing domestic policy and structural barriers to trade, they have yet to address the last, and perhaps most fundamental, bastion of trading products worldwide: influence over consumer preferences.

The purpose of this article is to highlight the role of consumers in international trade policy. Are consumers king—drivers of the food system—or merely a pawn of advertisers and/or protectionist interests?

Consumer as King?

Historically, the consumer is king in both international trade and business management. Preferences play a pivotal role in economic and political arguments for free trade. David Ricardo identified the concept of comparative advantage in the early 19th

century, suggesting that free trade can increase total welfare across countries.

The business management literature has also touted consumer preferences as a driving force in the economy. In *Management Challenges for the 21st Century*, Peter Drucker argues that customer values are the foundation of any business decision and that consumer expenditures will determine business survivability. Today’s consumers are increasingly vocal and discriminating in demanding specific food-product attributes. Wealthy, educated, and ethnically diverse consumers, who are concerned about food safety and nutrition, have access to food products across the international marketplace. Many consumers seek more personalized attention from retailers. Discriminating consumers lead to discriminating retailers who will impose new demands on domestic and international suppliers.

Despite the economic rhetoric surrounding consumer sovereignty, international trade policies have focused on the supply side and on regulations. Krugman has labeled such a dichotomy “GATT-speak.” Yet, consumer preferences are becoming a greater force in trade policy disputes. Less clear is whether such consumer issues are more prevalent or just more visible. Are nations seeking more innovative ways to protect their domestic agriculture or, as Hillman has suggested for other nontariff barriers, are we simply seeing more clearly what was already there, like peeling away the layers of an onion? Two hot-button agricultural issues at the WTO (technical barriers and multifunctionality) illustrate the evolving role of consumer preferences in multilateral trade discussions.

Technical regulations are increasingly at the center of international policy disputes, particularly in agriculture, where sanitary and phytosanitary regulations address plant, animal and human

health, and the natural environment. The WTO Agreements recognize the rights of government to use technical regulations for legitimate purposes while seeking to limit their proliferation and application as protectionist policies. The most visible challenge to date has been the dispute between the United States and Canada and the European Union over beef hormones. Ultimately, the EU chose to accept WTO-sanctioned retaliatory measures rather than eliminate a ban on imported beef treated with growth hormones. This outcome effectively removes physical science criteria from the settlement and focuses the debate on evaluating consumer preferences.

In addition to food and fiber, agriculture can enhance food security, open space, economic activity in rural communities, and environmental benefits. The issue of multifunctionality encompasses these joint outputs and sometimes links the generation of nonfood goods to production payments, which can distort output and potentially international prices. Rent-seeking behavior is more difficult to identify and discipline in these cases, particularly when nonmarket goods are involved. Although the Cancun meetings broke down over concerns of developing economies being represented at the table, plans are to continue negotiations. Consumer demand for nontraded goods, such as the multifunctional outputs of agriculture, will likely remain a primary concern. Government policy evaluations must ultimately recognize the role of consumer preferences.

Consumer as Pawn?

As consumer preferences become more important, some traders will attempt to influence those preferences. Past negotiating positions suggest at least three types of government response: providing choices to consumers, limiting choices to consumers, and monitoring the information provided to consumers to make choices.

If the consumer is king, then the role of national governments is to assure consumers access to the maximum number of choices and the information needed to make those choices. In reality, this is the road less taken. An alternate role is to limit consumer preferences. If consumers do not have specific preferences, governments argue that banning product entry is a valuable service. The

U.S./Canada-EU dispute over hormone-treated beef illustrates this strategy. Even some long-standing restrictions now face consumer scrutiny. Japan, for example, has an import ban on rice with “undesirable” qualities.

Everyone is a consumer in the economy—from the company CEO to the shopper buying fruit at the local grocery store. How, then, within the cultural and political context of a given country, can a national government define aggregate consumer preference for products or product attributes? For example, although there are a number of consumer organizations in the United States, it is difficult to say that any one organization truly represents the expressed interest of a majority of its constituency, much less society as a whole.

A middle ground is the monitoring of consumer information. Examples are defining what can or must be included on product labels and ensuring truth in advertising. To illustrate, the Philippines is the world’s largest producer of coconut oil, exporting approximately 75% of its annual production to the United States. In contrast, the United States is a major producer of soybeans and corn, from which vegetable oil is derived. Over time, as more information became available on these oil products, industries and governments have shifted sides on information provided to consumers.

In the 1970s, despite protests by Philippine producers, the U.S. Food and Drug Administration began requiring manufacturers to report the amount of saturated fat on the final product label. A recently proposed amendment to the U.S. nutritional labeling policy would add trans-fatty acids to saturated fats on the label without distinction between the two. Philippine producer organizations claim that the new amendment would be confusing and misleading to consumers as it implies both components have identical health impacts; coconut oil contains saturated fats that improve beneficial cholesterol (HDL), unlike soybean and corn oils, which contain trans-fatty acids that increase bad cholesterol (LDL).

Even seemingly innocuous information can create controversy. An example is the ongoing U.S. debate over country-of-origin labeling (COOL). The Farm Security and Rural Investment Act of 2002 required country-of-origin labels on a wide variety of fresh and frozen meats, fruits, vegetables,

and peanuts. Only products that originated and were entirely produced in the United States could be labeled "Product of USA." Such information is promoted as a way to empower consumers with the ability to make more-informed choices with their grocery dollars.

U.S. agricultural industries widely supported the proposed legislation. However, two important issues were raised. How much will it cost to implement the new legislation? Who will bear the costs? USDA/AMS estimates that the annual cost of recordkeeping for compliance with COOL would approach \$2 billion in the first year alone. How much do consumers value such information and will new information change their buying patterns? There is no guarantee that U.S. consumers will view the foreign product as inferior; for example, French wines, Chilean grapes, and Swiss chocolates are considered high-quality offerings in the United States. Perhaps labels reflecting today's complex supply chains (e.g., "born in the United States, raised in Canada, processed in the United States") provide too much information for consumers.

Consumer information campaigns can supplement label information and influence consumer choice between domestic and foreign products. Australia is a major producer of both tropical and temperate fruits. Historically, fruit imports have been limited through a variety of policy instruments, notably stringent sanitary and phytosanitary regimes. Due to proximity, the Australian market presents an opportunity for Philippine fruit exports. In 2000, after years of negotiations, the Australian Quarantine and Inspection Service (AQIS) approved the fast-track entry of Philippine bananas and pineapples. Following approval, Australian fruit growers launched a consumer-information campaign. The Philippine embassy in Canberra reported that the Australian Banana Growers Council formed the Banana Imports Fighting Fund for hiring public relations firms and lawyers to discredit foreign fruits and to "poison the minds of Australian consumers against said products" (Vanzi, 2000).

In the Name of Consumers

If the consumer is king, then why so much controversy? If we truly believe that consumers will vote with their pocketbooks and move the economy

towards greater efficiency, why isn't there a rush to provide consumers with the maximum number of choices? What political economy forces are at work? Marketers and advertisers have known for years that consumer preferences can be influenced through a variety of sources. U.S. advertising expenditures were more than \$117 billion in 2002 alone. Consumer advocacy affects the demand for a product through information campaigns. For instance, the "Five a Day" campaign increased U.S. consumer awareness of health benefits from balancing their diets with fruits and vegetables and is credited with increasing consumption of these products.

Consumer information campaigns require funding. Influencing the behavior of diffuse consumers is more costly and less certain than lobbying for (or against) a tariff or other border intervention. Each consumer's spending decisions make only marginal impacts on aggregate trade flows. Yet, firms, industries, or even governments have rich opportunities to determine aggregate ongoing buying trends. Consumer advocacy may have noble goals, but its pursuit can be manipulated and influenced by other political and economic interests. Motives for negative consumer information campaigns are often questionable, especially if supported by protectionist domestic producers.

If consumer preferences become a recognized force in evaluating international trade policies, then motivations arise to influence those preferences. Have consumer information campaigns now moved into the arena of trade-policy discussions? Assessment of technical barriers to trade and issues of multifunctionality suggest the answer is yes. Regardless of whether consumer-information campaigns are new or just another policy layer, how to recognize and govern the influence of consumer preferences on trade policy are growing matters of concern.

For More Information

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