I hope that I shall not be asked by the House to give any definite account of such measures as we are able to take. If I were to set them high, I might raise false hopes; if I set them low, I might cause undue despondency and alarm; if I stated exactly what they were, that would be exactly what the enemy would like to know (Churchill).

“Trade is war.” So bluntly stated an Australian agricultural economist after returning from a stint at the Organization for Economic Cooperation and Development (OECD) in Paris (Young). Commercial policy has always been a form of strategic weapon. Thomas Jefferson, discussing relations with the Indian tribes in 1808, remarked that “Commerce is the great engine by which we are to coerce them, and not war.”

A primary difference between the pre- and post-nuclear age is the reduced appeal of force as a means of achieving economic advantage. Because modern tactical weapons make armed engagements riskier and more expensive, Jefferson’s dictum has new appeal: the imperial ambitions of nations are pursued through economic trade policy. What could be accomplished in the 1930s and 40s by lethal force is now pursued through economic expansionism.

The Call to Battle

Trade strategy is thus defined, like warfare, primarily by national interest and involves threat, counter-threat, subterfuge and retaliation. While the rhetoric of trade may lay claim to higher principles, such as “free trade,” “self-sufficiency,” or “fair trade,” thinking of these principles as calls to battle, rather than real objectives, gives a more accurate impression of trade diplomacy. This paper will adopt such a perspective (Runge, 1988).

Churchill’s difficulty in making full and accurate statements about strategic interests to the House of Commons carries over into the problems of U.S. negotiators’ relations with Congress. If announced public aims are set too high or too low for the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), false hopes or
Geneva: Multilateral Trade Negotiations

The MTN process in Geneva has wound through nearly three years of discussions as part of the 1986–90 Uruguay Round (Barkema, et al.). In December, 1988, a "midterm review" meeting in Montreal ended in discord, when the United States and EC failed to bridge their fundamental differences over agriculture. Additional problems in three of the fifteen other negotiating areas: textiles, intellectual property and safeguards, also prevented a package of framework agreements designed to lay the groundwork for the final two years of the Uruguay Round.

Negotiations Retrieve Midterm Review

However, the midterm review was retrieved in April, 1989, when Geneva negotiations resulted in framework agreements in the problem areas. In agriculture, the U.S./EC differences were papered over with language that called for "substantial progressive reductions in agricultural support and protection . . . resulting in correcting and preventing restrictions and distortions in world agricultural markets."

On the U.S. side, which had unsuccessfully called for "elimination" of all trade distorting subsidies in Montreal, the Geneva language was interpreted as a lot of reform in a hurry. On the EC side, it was interpreted as modest reforms over an extended period. The long-term goal of the Uruguay Round was reaffirmed as "a fair and market-oriented agricultural trading system."

Important Departures in Framework Agreement

Despite these negotiating nostrums there were several important departures in the April framework agreement worthy of note (Gifford). Areas that had escaped scrutiny since 1947, through seven previous GATT rounds, were targeted for reform, including the EC's variable levies and other countries' voluntary export restraints.

In addition, country-specific policies previously exempted from GATT rules and given special treatment when various countries joined GATT were put on the table for negotiation. These policies include the majority of Swiss agricultural subsidies, Canadian wheat import permits, and the U.S. "Section 22" import quotas.

The midterm review also explicitly identified domestic measures as a source of trade distortion in need of reform and developed a detailed work program with milestones, including a first set of (unspecified) long-term commitments to occur in 1991.

In the short term, the package agreed to in Geneva capped the level of domestic and export support and protection at "current" lev-
fears may be fostered in Congress and the affected public. Yet being totally forthcoming would show one’s hand before it can be played. This is what necessarily makes trade strategy even within the committees of Congress so much an insider’s game. It is also what leads many affected interests to fear they will be traded away as pawns.

**War on Three Fronts**

From the negotiators’ perspective, we can think of the final year of the Uruguay Round as a war waged on three fronts.

The first is in Geneva, where the multilateral trade negotiations (MTN) will be played out, supposedly in December, 1990. This multilateral front, and support for GATT as a mechanism for trade reform, is the most visible of the three.

The second front involves the bilateral relationships that exist between individual countries, played out in national capitals. These bilateral relationships include the ongoing tensions between Washington and Brussels, as well as individual discussions with the European Community (EC) and its member states, especially in London, Bonn and Paris. They also include Washington-Tokyo relations, and, to a lesser degree, those with Cairns Group members such as Canada, Australia, Brazil and Argentina. Because these bilateral relations are of longer and more permanent duration than those in GATT (where the Uruguay Round is the eighth since World War II) they are often more informative and influential. It is often a chain of bilateral deals that forms the basis for a multilateral one in GATT.

The third, and perhaps most important, front is the relationship with Congress and affected interest groups. Along this home front is to be found the rear guard of trade negotiation and the political supply lines that give negotiating authority to the GATT negotiators themselves.

Two aspects of this support from home are vital to the Uruguay Round process. First, any multilateral agreement struck under GATT must, by law, be ratified in Congress. Those provisions dealing with agriculture will thus fall in part to the agricultural subcommittees and committees whose interests are most directly affected by various commodity groups. Second, the timing of the Uruguay Round will be interrelated with Congressional decisions over the 1990 farm bill, making the domestic politics of agriculture impossible to disentangle from trade strategy.

This paper will discuss each front: 1) the multilateral negotiations in Geneva; 2) bilateral negotiations; and 3) the home front negotiations with Congress and affected interest groups.
els, consistent with existing legislation and GATT rules. This does not imply that old legislation cannot be changed and current programs replaced, unilaterally or in coordination with other countries. How countries will roll back or eliminate existing trade or output distortions in 1990 and after was left vague.

Overall, the midterm review package provided evidence of progress in the Uruguay Round, but it is far from clear that the good intentions it expressed will be realized in a final 1990 package.

U.S. Proposes “Tariffication”

Immediately following the April accord, relatively little was done for several months, as countries allowed themselves relief over the fact that a midterm agreement had been reached at all. In the July 10 meeting of the Negotiating Group on Agriculture, however, the United States put forward a major part of what is emerging as its final package of proposals (GATT Secretariat). This is the so-called “tariffication” concept, hailed by The Economist as “the most promising way yet suggested to break out of GATT’s agricultural thicket.”

In brief, tariffication means converting all nontariff import barriers to tariffs, which can then be “bound” and negotiated downward over time. Bound (or fixed) tariffs are the preferred method of import protection under GATT law.

The U.S. proposal suggested the difference between domestic and world prices be used as the basic measure of tariff equivalence. For example, a quota increases domestic prices by reducing the amount of supply available to consumers at the world price. The difference between the world price and the higher domestic price is equivalent to a tariff of that amount. If the domestic price for the product in question during the reference period is 100, and the world price is 50, the tariff equivalent would be 100 percent = [(100 − 50)/100] × 100.

Tariffication Faces Resistance

The tariffication proposal sounds reasonable in the abstract, but is sure to encounter resistance from those sectors most reliant on quotas and other nontariff protection for their livelihood. In the United States, this includes those protected by dairy, sugar, tobacco and peanut import quotas. There are also a variety of technical problems in calculating tariff equivalents, including the choice of reference prices and base period. The Economist also presages, “as tariffication proceeds, some countries may be tempted to impose new import restrictions in the form of product standards, such as sanitary and phytosanitary restrictions.”
Tariffication Part of Larger Proposal

Tariffication may be thought of as the import protection side of the U.S. proposal. In addition to this there will be provisions for eventual removal of export subsidies and output distorting domestic policies. At the moment, the U.S. Trade Representative’s Office (USTR) and U.S. Department of Agriculture (USDA) are preparing a larger U.S. proposal for submission to GATT in October or November, 1989, of which tariffication is one part.

The new proposal will include explicit treatment of export subsidies, internal subsidies, sanitary and phytosanitary measures and GATT rules and disciplines.

While Carla Hills and Clayton Yeutter will lead the negotiations at the highest level, the operating U.S. team, led by Richard Crowder of USDA and Ambassador Jules Katz of USTR, will be represented in Geneva by Ambassador Rufus Yerxe (formerly Representative Dan Rostenkowski’s chief trade aid). The staff level team will be led by Joe O’Mara at USDA and Suzanne Early at USTR and represented in Geneva by Deputy Chief of Mission Andrew Stoler.

U.S. Proposal Illustrated

It may be useful to illustrate the concept underlying the evolving U.S. proposal (Runge and Taff). In general, trade-distorting measures may be thought of in terms of their effect on (a) exports, (b) imports and (c) output. Tariff equivalents describe distortions on the import side while subsidies describe them on the export side. Output distortions resulting from internal policies are derived with respect to their effect on production in domestic markets. In each case, policies may either promote or retard exports, imports or output.

Export Distorting Policies

With respect to exports, a policy has a distorting trade effect if either buyers or sellers in the domestic market face different conditions from those who participate in the cross-border market. Such a definition encompasses not only policies that affect the difference between export and domestic prices, such as export taxes and subsidies, but also nonprice protective barriers such as voluntary export restraints.

As shown in Figure 1, such policies may distort trade either by artificially promoting exports (as in the case of the Export Enhancement Program) or by artificially retarding them (as in the case of Argentine export taxes or voluntary export restraints).
Policies Rated for Phase Out

Over the remainder of the Uruguay Round, the attempt will be to define and to set GATT-negotiated limits for each country on those policies that are definitely slated for elimination, preferably as soon as possible ("Red Light" policies); those that may remain in place in the short run, but are to be modified and reformed during a transition phase ("Yellow Light" policies); and those that are sufficiently nondistorting to remain in place indefinitely ("Green Light" policies).

Import Distorting Policies

Similarly, with respect to imports, a policy has a distorting trade effect if either buyers or sellers in the domestic market face different conditions from those who participate in the cross-border market. As shown in Figure 2, policies that retard imports, such as quotas, explicit tariffs, or health, safety and other sanitary or phytosanitary restrictions, are one side of such distortions. Less frequently mentioned are policies that artificially promote imports. An example might be environmental regulations on fruit and vegetable production prohibiting the use of certain cost-saving chemicals in the United States leading to incentives to import foreign fruit and vegetables on which such chemicals have been used. Because domestic growers quickly realize such regulations have this effect, calls for import protection through health and safety standards applied equally to foreign produce are quickly heard, converting the regula-
Import Retarding Policies (Nontariff barriers or tariffs)
European set-aside programs that pay farmers not to produce; or they may be positive, such as price supports tied to specific crop yields and acres of production.

The goal of U.S. domestic agricultural policy in the Bush administration is generally to eliminate policies that are most distortive of production decisions ("Red Light" policies), including large set-asides and high price supports, and to phase out ("Yellow Light" policies) those that have tended to distort production over time, such as crop-specific acreage bases. What remains ("Green Light" policies) will be programs in which farmers are relatively free to plant whatever crops are most in market demand, with support paid, not to specific crops, but on the basis of some type of income criteria.

Overall, progress in the present GATT negotiations can be defined as an agreement to eliminate a specific set of "Red Light" policies in each realm (exports, imports, and output) with a well-defined timetable, and to designate a set of "Yellow Light" policies for discussion in subsequent years.

Aggregate Measures 'Underidentify' Problem

It seems inevitable that successful negotiations will ultimately involve agreements to end specific policies, and that such political decisions cannot be finessed by an agreement simply to achieve an aggregate level of support or level of tariff or subsidy. This is the route sometimes suggested by advocates of a single aggregate measure, such as the Producer Subsidy Equivalent (PSE). As Hertel has recently shown, a given reduction in the aggregate level of support can be achieved with a myriad of different options, many of which have extremely different effects on exports, imports and output. His analysis shows that aggregate measures, because they abstract from this complexity, "underidentify" the problem, and thus do not provide sufficient discipline to achieve longlasting reform (1989a, 1989b).

Key Battles Identified

Before turning to the bilateral and home fronts, let me touch on the relationship between agriculture and several other key areas of the Uruguay Round negotiations. While publicly stating that all fifteen areas are crucial, the tactical importance attached to some is greater than to others. This is sufficiently well-known to the negotiators themselves that it does not seem seditious to state them. The "enemy" already knows which battles will be key.

Agriculture, throughout the Uruguay Round, has been crucial, and remains so. Minimum results must be achieved in agriculture for the U.S. trade strategy to be successful.
Some type of framework agreement in Services is also vital, largely due to the substantial interests of the American financial community.

The remaining three areas of vital importance are Trade-Related Investment Measures (TRIMS); Trade in Intellectual Property (TRIPS); and the negotiations on Subsidies. It is beyond the scope of this paper to discuss these areas, each of which would require treatments of similar length.

The Bilateral Front

Despite the emphasis on multilateral negotiations, a large share of negotiating gets done in capitals. Several examples are illustrative of the importance of this bilateral front.

In agriculture, an important issue with Europe has been the continuing dispute over beef hormones. On January 1, 1989, the European Community announced a ban on all U.S. beef imports containing hormones used to increase cattle growth. Citing health risks, the EC action touched off a cycle of retaliation that has affected the world trading system (Bredahl).

Growing Role of Nontariff Import Barriers

This apparently isolated example of health regulations acting as trade barriers is part of an emerging pattern of environmental and health issues with major consequences for world trade. The larger significance of the hormones dispute relates to the growing role of nontariff import barriers, especially justified on health, safety and environmental grounds. As noted above, the temptation to use such sanitary and phytosanitary restrictions is increasing for a variety of reasons.

In the high income countries of Europe and North America, health, safety and environmental regulations are especially attractive candidates for use as nontariff barriers. They are part of a larger problem: environmental and health risks are increasingly traded among nations along with goods and services.

Risks of Disservices Slighted

While increasing emphasis is given to the growing role of services trade, comparatively little has been directed to risks that are the opposite of services: environmental and health disservices traded across national borders. This problem arises directly from the transfer of technology and will increasingly affect international investment flows, product liability, trade and development and the relative competitiveness of U.S. business (Runge, 1990).
The emergence of a two-tiered international structure of environmental regulation results from increasingly stringent rules and regulations and a rising concern with environmental quality and human health among wealthy nations.

**Pursuit of Growth Results in 'Environmental Arbitrage'**

In most developing countries, however, rapid economic growth remains the primary focus of concern. This creates incentives to export restricted industrial materials—or whole production processes—from North to South. A kind of “environmental arbitrage” results, in which profits are gained by exploiting the differential in regulations.

In the United States, for example, the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA), the Safe Drinking Water Act (SDWA) and the 1990 farm bill are all likely to be amended in ways that effectively constrain chemical and land use choices. These are but several examples that may lead multinational firms to expand in markets where regulatory oversight is less constraining.

This environmental arbitrage results from conscious policy choices that reveal differences in the value attached to environmental quality by rich and poor countries. As these paths of institutional innovation increasingly diverge, so will the differential impact of environmental constraints on businesses in Europe, North America and, say, Argentina and Brazil.

The competitiveness implications of these trends are not lost on developed country firms. They have been quick to see the trade relevance of environmental and health standards in limiting access both to developing country competition and other developed countries. Growing consumer concerns with health and the environment create a natural (and much larger) constituency for nontariff barriers to trade.

It is doubtful, for example, that beef-offal merchants in the European Community could have blocked competitive U.S. imports solely in the name of superior French or German beef kidneys. But the hormones question created a large, vocal and committed constituency for denying U.S. access to this market.

These distortions threaten more liberal international trade in ways that are damaging to both developed and developing country interests, yet are not widely appreciated.

**Bilateral, Multilateral Fronts Related**

The beef hormones dispute, while a relatively minor bilateral dispute in terms of total trade value ($100 million annually), thus illustrates the importance of bilateral trade diplomacy in conditioning
multilateral trade issues. While attempts are made to keep them separate, the bilateral and multilateral fronts of the trade war nonetheless relate to one another, if for no other reason than because they both draw down on the fighting strength of U.S. negotiators.

Possible North American Bloc Questioned

A second current example concerns the U.S.-Canada Free Trade Agreement (FTA) concluded in 1988. This bilateral accord, heralded as a triumph for trade liberalization, nonetheless raises questions in many capitals over the possible evolution of a North American trading bloc, which might, together with a unified Europe after 1992, end up destabilizing world trade. In his 40th anniversary speech to the GATT contracting parties in Geneva, former Federal Reserve Chairman Paul Volcker warned of just such an eventuality. Because Canada is a member of the Cairns group, the Ottawa/Washington cable traffic inevitably causes FTA issues to be checked against GATT strategy to coordinate the two fronts. In agriculture, much of the FTA language refers specifically to the need for such coordination.

U.S.-Japan Agreement Key

A third bilateral relationship of key importance is with Tokyo. The bilateral agreement struck between the United States and Japan on access to Japanese markets for beef in mid-1988, for example, provided a recipe for the 1989 U.S. tariffication proposal to GATT. The deal with Tokyo first determined that quotas and other nontariff barriers to trade were equivalent to a tariff of 96 percent. It was then agreed to phase out the quotas and other nontariff measures and to replace them with a tariff of 70 percent in 1991. Finally, tariff cuts to 60 percent in 1992 and 50 percent in 1993 were scheduled, with further cuts to be negotiated as part of the multilateral process.

These three examples of bilateral relations—with the EC, Canada, and Japan—illustrate the significance of the second front of trade warfare. Trade policy analysts who focus only on the multilateral front, and neglect the bilateral role, fail to see that both are crucial to victory.

There is yet a third front of greater importance even than these two, because it involves the political supply lines of trade negotiation.

The Home Front: Relations with Congress and Interest Groups

The capacity successfully to resolve trade negotiations as complex and overriding as the GATT talks depends crucially on effective liaison with Congress and affected interest groups. In agriculture, there will clearly be winners and losers from the Uruguay Round, al-
though in my view the winners will substantially outnumber the losers. Win or lose, no one who farms or is affected by farming wants to feel that a democratically elected government can make major changes in policy without consulting those most seriously affected by these changes. Failing to consult with such groups is political folly in any event, as administration after administration has learned. When Woodrow Wilson went off to Europe to create a League of Nations designed to end all wars, he failed to protect these political supply lines, and was dumfounded when Congress failed to ratify the treaty. His actions contributed to an isolationist response that helped bring on World War II.

Successful Home Front Strategy

There are two elements of successful trade strategy on the home front. The first requires directly involving the members of Congress whose committees bear responsibility for trade matters so they develop a feel for what negotiators cryptically refer to as the "modalities" of this process. Earlier this year, House Agriculture Committee Chairman "Kika" de la Garza left for Geneva in a highly agitated state, worried that "the farm bill was being written in Switzerland." The trip turned out well and helped to allay his fears. Other key members of Congress, including Senator Patrick Leahy, chairman of the Senate Agriculture and Forestry Committee; Dan Rostenkowski, chairman of House Ways and Means; and Sam Gibbons, chairman of the Trade Subcommittee of Ways and Means, have all been briefed in Geneva on the process.

Beyond the members of Congress, and perhaps even more important, stand the interest groups that exert enormous influence over Congressional decision-making (Rapp). In agriculture, these include the commodity groups and general farm organizations as well as the agribusiness sector.

At USTR, an elaborate network of policy advisory councils, composed of thousands of representatives of U.S. business, labor and farmers, meets regularly with negotiators to provide input into the process. The highest level of this pyramid of advisory committees is the President's Advisory Committee on Trade Negotiations (ACTN), a general advisory board on which agriculture is prominently represented. Members have included the head of the American Farm Bureau Federation and the California Almond Growers Exchange, among others.

Despite these formal advisory groups, much more must be done outside Washington to inform (and be informed by) farm interest groups as the final year of the Uruguay Round commences. This is especially significant in light of the simultaneity of the farm bill and GATT processes (Drabenscott, et al.).
Two Concerns Dominate Home Front

In my view there are two tactical concerns that will dominate the home front. The first is the likely development of a large "war chest" of threatened export subsidies, perhaps in the form of "marketing loans across board," if the GATT talks fail. This is what nuclear strategists refer to as a "credible threat," one form of which is MAD, for "mutually assured destruction." The problem, of course, is that to work, the threat must be credible; but to be credible, it must be disastrous for all concerned. Despite these risks, I expect to see some such threat emerge from the 1990 farm bill process.

The second tactical issue on the home front concerns what I would call weak points in the domestic line. These weak points are defined precisely around commodities heavily protected from foreign competition by U.S. law, and thus standing to lose the most from trade liberalization.

Uncoincidentally, these are the commodities that have the most highly developed lobbying skills in Congress. Examples include sugar, some parts of the dairy industry (especially outside the Midwest, in California and Florida), and other, smaller commodities like peanuts. Despite the fact that the beneficiaries of these programs are few (10,000 sugar producers receive $1.5 billion annually, according to one recent estimate), they happen to be located in places like Kika de la Garza's district in Texas and in the Red River Valley of Minnesota (Mehra).

Weak points in a line, in my view, should not be exposed to undue fire or the entire tide of battle may be turned. I thus am inclined to suggest an aggressive liberalization thrust at our strongest points (feed grains, oilseeds), saving weaker commodities for subsequent treatment. While some argue that such an approach is "inconsistent," it is far from clear that consistency is the path to reform, anymore than an effective assault requires uniform pressure along all points in the line.

Conclusion

In conclusion, I have described three fronts of the battle for trade liberalization: the multilateral, bilateral and home fronts. Each is vital to the process of trade liberalization, and each will require its own approaches. Yet all must be planned and executed in a coordinated fashion. Little wonder that trade liberalization comes slowly. But a war is not won in a day.

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