An Introduction to State Trading in Agriculture

Karen Z. Ackerman
Praveen M. Dixit

Introduction

State trading enterprises (STEs) have been an important part of world agricultural trade for decades. The General Agreement on Tariffs and Trade (GATT), which governs global trade in goods and services, first recognized state trading enterprises as legitimate participants in international trade in 1947 when state trading was widespread in agriculture. State trading has been more prevalent in agriculture than in other industries because many countries use it as a means to achieve agricultural policy objectives such as domestic price support, efficiencies in agricultural marketing, and availability of affordable food supplies for low-income populations (WTO, 1995a).

In the mid-1990's, policymakers focused again on agricultural state trading enterprises after the Uruguay Round Agreement on Agriculture (URAA) eliminated many of the exceptions from GATT rules for agricultural trade. Prior to implementation of the URAA, countries could restrict imports and exports of agricultural products to support domestic policy objectives. Now that stricter GATT rules apply to agriculture, interest in STEs has been growing. There are concerns that some countries might use STEs to circumvent rules forged in the URAA. And China's impending accession to the World Trade Organization (WTO) has heightened discussion on this topic.

This paper will discuss some of the difficulties involved in applying current definitions of state trading to agricultural institutions. The paper also will lay out the importance of state trading to agricultural trade especially in the context of a rapidly changing policy environment. Countries' objectives for choosing a state trading enterprise rather than another policy regime will be weighed. An economic framework will explain how state traders might distort trade, and a classification scheme is developed to assist trade policymakers in determining which state traders have the greatest potential to distort trade. The behavioral factors were applied to four export-oriented STEs, four import-oriented STEs, and China's state control of grains to illustrate qualitatively how STEs influence trade.