I. What Is State Trading?

There are several ways to define state trading (Lloyd, 1982). Early definitions focused on state conduct (or operation) of foreign trade (Hazard, 1959), on governments monopolizing foreign trade (Baldwin, 1970), and on government ownership of an enterprise (Ghai, 1973). A functional definition gradually replaced these approaches, with Kostecki (1982) arguing that state trading occurs when a government or a government-backed agency determines the essential conditions (including prices or quantities) on which exports and imports have to take place. Kostecki emphasized government control of trade rather than the creation of specialized institutions, since it is primarily the direct government control that makes state traders behave differently from private entrepreneurs.

Sorenson (1991), picking up on Kostecki's theme, asserted *that the impact that governments exercise over individual transactions is particularly important*. He argued that state trading exists when a government, an agency of the government, or an institution granted exclusive rights by the government controls trade or materially affects the conditions of trade on a transaction-by-transaction basis. Sorenson's definition suggests that the use of tariffs, quotas, and other traditional trade instruments does not constitute state trading, while trade by government-chartered marketing boards with monopolies does. Sorenson classified the European Community's (EC) export tender system and U.S. exports under the Export Enhancement Program (EEP), food aid, and export credit guarantee programs as state trading because, in these cases, "decisions are made on a case-by-case basis [by the government] whether to export more or less, whether to influence the price, or in other ways to affect the terms of sale" (Sorenson, 1991).

Defining STEs in the WTO

The General Agreement on Tariffs and Trade (GATT 1947) defined STEs as government or private enterprises that had been granted special or exclusive privileges by their governments. The Understanding on Article XVII of the General Agreement on Tariffs and Trade 1994 expanded the 1947 definition to help countries decide which of their enterprises to report to the WTO's Council on Trade in Goods. The 1994 Understanding defines STEs as:

> . . . governmental and nongovernmental enterprises, including marketing boards, which have been granted exclusive or special rights or privileges, including statutory or constitutional powers, in the exercise of which they influence through their purchases or sales the level or direction of imports or exports. (World Trade Organization, *The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts*, 1994, pp. 509-511.)

This definition raises three major questions. First, how are STEs structured? Second, what are the "exclusive or special privileges" granted to STEs? Third, must the enterprise make purchases or sales to qualify as an STE?

How are STEs structured? Ownership structure is an important factor in explaining STE behavior, especially their influence on trade. Many of the enterprises reported to the WTO are government agencies or corporations. Some are fully integrated into government administration (departments, ministries, etc.), and the government guides their day-to-day management; others manage themselves autonomously even though the government may subscribe to their capital stock wholly or partially. Many combinations lie in between, including STEs that are subsidiaries of parastatal organizations or institutions where the government may hold minority shares but exerts influence through other means. Consequently, large differences exist in the ownership structure of entities that are notified to the WTO.

What are the "exclusive or special rights or privileges" granted to the STE and their relevance to trade? Government privileges may be statutes or decrees that establish the agency or firm as sole exporter/importer for the country or as chief administrator of import/export licenses. The government may authorize the firm to export government surpluses or import for government inventories. STEs operating in domestic markets may set producer or consumer prices in the home market or act as exclusive marketer or distributor of domestic production or of imported goods. Some "privileges" are financial—government grants, loans, loan guarantees, underwriting of operational costs, or priority for obtaining foreign currencies. Clearly, given the variety of special rights or privileges that are possible, trying to define STEs with respect to all of them is difficult.

Must the enterprise make purchases or sales to qualify as an STE? Can institutions that are not physically involved with sales but contract with exporters or importers or require applicants to demonstrate that exports or imports meet standards set by them be named as STEs? Must the STE own or buy the commodity? Regulatory boards, fiscal monopolies, and other types of agencies use financial or statutory privileges described above to affect the level and direction of exports or imports, but generally do not themselves engage in trade.

Comparing Economic and Legal Definitions of STEs

The economic and legal definitions of STEs acknowledge government control through a government agency or an enterprise that receives an exclusive trade authority from the government. They also recognize an STE's potential to affect traded quantities and prices. The economic definitions are broader in scope than the legal definitions because they focus on the trade and price behavior associated with state trading rather than the institutions that conduct such trade and their relations with government. Throughout this paper, we attempt to distinguish between government regulation of private trade and trade by STEs. We adhere to the WTO definition to define the types of enterprises that can be classed as STEs, but develop a framework for analysis from economic definitions of state trading.