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JAPANESE BEEF TRADE LIBERALIZATION

The Fourth Quarter 1989 issue included two perspectives about Japanese Beef Trade Liberalization. Alston, Carter, and Jarvis questioned what they considered to be, "The conventional wisdom in the United States that liberalization will mean increased U.S. beef exports to Japan to the benefit of beef producers and the United

States as a whole." In contrast, Coyle and Dyck argued that, "Japan's liberalization of beef imports will probably benefit U.S. beef exports, not hurt them..."

Here Alston and his associates respond to Coyle and Dyck's presentation. Coyle and Dyck's rejoinder follows.

Our Beef With Government Beef Trade Experts

— by Julian M. Alston,
Colin A. Carter, and Lovell S. Jarvis —

In the last issue of *CHOICES* we opened up a debate on the economic impacts of Japanese beef trade liberalization. In the same issue, Coyle and Dyck published what is essentially a comment alongside our paper. They view the opening of beef quotas in a positive light, stating that the U.S. Government achieved "...a significant trade policy breakthrough."

The main point of our paper is that the United States as a whole may not benefit from Japanese beef liberalization because costs to U.S. consumers most likely will exceed the benefits (if any) to U.S. producers. Our title, "It May Not Benefit Americans," reflects this point. Coyle and Dyck take a much narrower view of the question, as reflected in their title, "It Will Benefit American Agriculture." In our view, U.S. interests extend beyond those of the agricultural sector. But even from the narrow perspective taken by Coyle and Dyck, it is not clear that the U.S. beef sector (or U.S. agriculture as a whole) will benefit from the Japanese liberalization of beef imports.

Eight Points

To reiterate and clarify, our main contentions are as follows:

- The U.S. is the world's largest (gross and net) beef importer and it protects its sector to keep imports from rising more. Even allowing for the fact that beef is a differentiated product, it is difficult to sustain the argument that the United States has a comparative advantage in beef.
- There is ample evidence that the Japanese beef quota system has been managed in favor of U.S. beef. Management of the quotas has led to a growth of the U.S. share of Japanese imports. Still, we are open on the question as to whether *some* of that growth of U.S. share was due to a higher income elasticity of demand for U.S. grain-fed beef than for other imported beef (mainly grass-fed beef) in Japan.
- We do not claim that U.S. beef sales to Japan will fail to grow under the new policy. We do say that the relevant comparison is to compare future sales under the new policy with what *they would have been* under the old policy. Under the old policy in Japan during the past 10 years

total beef imports grew by 17 percent per year and imports of U.S. beef grew by 30 percent per year.

- Several studies have projected future growth of total Japanese beef imports under the new policy at about the same rate as over the past 20 years (about 12 percent per year). We raise the *possibility* that growth of U.S. sales to Japan may be slower than it would have been under a continuation of the previous policy.
- Coyle and Dyck seem to base their argument on the assumption that the growth of Japan's beef imports would have been zero if Japan had not agreed to liberalize. This would be a major change of regime from the previous policy and seems to us to be particularly unrealistic in the light of rising incomes and a growing desire for improved living standards in Japan.
- Even in the event that the new policy leads to a greater growth of U.S. exports—and therefore benefits to the U.S. beef producing and exporting sector—there can be little doubt that the United States will remain a net importer.
- Coyle and Dyck seem to agree with us that Australian beef prices will be higher and Australian beef sales to Japan will be greater than they would have been.
- In the United States we believe there are three possibilities:
 - The United States as a whole gains along with the beef sector
 - The United States as a whole loses while the beef sector gains
 - The United States as a whole and the beef sector both lose.

We think the first possibility is highly unlikely. Among the last two, the third is more likely.

Importance of Understanding Policy Effects

We object strenuously to the inference of Coyle and Dyck that we favor managed trade. At no point did we make a "...criticism of the U.S. Japan liberalization agreement..." We indicated a preference for trade liberalization as a general rule, because of the well-known benefits broadly associated with this policy.

Our concern is primarily with whether the effects of policies are properly understood. After all, the U.S. Government lobbied hard for Japan to open up its beef import quotas and after the fact the so-called "liberalization" was touted by American negotiators as being a great success. We are concerned that Japanese beef liberalization might have been pursued by U.S. policymakers without their having first achieved an adequate understanding of the probable effects. Nothing in the Coyle and Dyck comment leads us to think that this concern is misplaced.

There are many trade issues facing the United States—and most are more important than beef—thus we also question the apparent high priority (and cost) of lobbying the Japanese to open

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beef quotas. Perhaps the U.S. Government knew that the United States as a whole would lose but was willing to make that sacrifice in order to achieve some broader benefit (e.g., across the board liberalization in other markets). Alternatively, perhaps the U.S. Government knew but was willing to inflict a loss on consumers (and a national loss) in order to achieve a transfer to producers and appease their interests (i.e., a political-economic explanation for U.S. pressure on Japan to liberalize). Perhaps it

expected a national gain. We believe these issues warrant greater debate and closer empirical examination.

Japan is very skillful at managing commodity trade and allocating import quotas according to non-economic objectives. The beef issue we addressed is only one of a number of interesting cases where the effects of any move to liberalization by the Japanese are difficult to disentangle (e.g., wheat and lumber are two important examples besides beef).

Our Beef With University Beef Trade Experts

by William T. Coyle
and John Dyck

Alston, Carter, and Jarvis bring to light a number of doubts about the 1988 U.S.-Japan beef agreement that we have encountered among some agricultural economists in the United States. However, we feel that these doubts are overblown and are reasonably confident, but not certain, that U.S. beef interests and agriculture will gain as a result of the agreement.

As to the major points raised by Alston and his associates in this issue of *CHOICES*:

- We did not "base [our] argument on the assumption that the growth of Japan's beef imports would have been zero" without the agreement. We do feel that growth will be at least as

fast as under a continuation of the quotas, and probably faster, in the aftermath of the agreement.

- We reviewed the evidence that we knew of regarding Japanese management of the quota system to favor U.S. beef, and found it wanting, not "ample." We noted that powerful interests in Japan evidently gained from the quota system, and feel that examination of their motives and activities might do much to explain the evolution of Japan's beef quota system.
- Our perspective is "narrow," but that is because we have not done, or seen, enough research to address with more confidence the broader issues that Alston and his associates raise.

Finally, we would like to note that Japanese beef imports in the second year of the agreement are expanding on schedule and the U.S. share remains high. There has been some concern about rising private and public beef stocks, to be expected with price rigidities and a marketing system in Japan adjusting to a doubling of imports in just three years. The real test for suppliers will be after April 1991, when quotas are eliminated altogether. In the final analysis, nobody knows for sure what will happen then. We have our view, which is optimistic about the potential for the U.S. beef industry; Alston and his associates see it differently. Now that we have presented our views, perhaps the best course is to wait until the market delivers its verdict.

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