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## Book Review

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### Agricultural Protection in East Asia: A Practitioner's Perspective

*The Political Economy of Agricultural Protection: East Asia in an International Perspective*, Kym Anderson and Yujiro Hayami. Allen and Unwin/Australia–Japan Research Centre, Australian National University, London/Sydney/Boston, 185 pp.

In 1973 I had a conversation with a cab driver in Tokyo that went something like this:

Cab Driver: Do you work for the American Embassy?

Me: Yes.

Driver: Do you have anything to do with agriculture?

Me: Yes, I work in the Agricultural Section of the Embassy.

Driver: Why has your government cut off soybean shipments to Japan?

Me: Well, they're not entirely cut off... (I had planned to explain that exports were under 'controls' not a complete embargo and that Japan would import more than ever before that particular year, but the driver wouldn't let me explain.)

Driver (with emotion): You are threatening to starve the Japanese people.

This occurred toward the end of a harried day at the office. Having first-line responsibility for oilseeds trade and being the only American on the Agricultural Office staff who could speak Japanese, I had been given the unpleasant responsibility of answering all press inquiries about the President's announcement that he was not going to let foreign buyers price food off American tables, and that to control this he was taking immediate action to restrict further exports of oilseeds until new crop soybeans became available. The cab driver's emotionalism was a reflection of the emotionalism of the news media in Japan over the issue, or vice versa. Japan did import more soybeans from the United States that year than ever before and more than again for several years after.

Importers and crushers visited our office during this crisis and complained bitterly about the controls, but their viewpoint was different from that of the cab driver (man on the street). These businessmen had bought ('over-bought' would be more accurate) and, for lack of storage facilities, had barges in Tokyo Bay overflowing with soybeans, and now, with the controls on, they were seeing the value of this asset decline rapidly.

I got my first lesson in economic and trade emotionalism in this experience, but by no means my last.

After four years at the U.S. Embassy in Tokyo I returned to Washington,

DC in 1976 and became deeply involved in the Tokyo Round negotiations, particularly as they applied to dairy — another emotional area. Following the Tokyo Round I became immersed in the U.S.-Japan beef and citrus negotiations as chief USDA career-level official on the U.S. team.

Now, back in Tokyo as the Embassy's Agricultural Counselor in a time of severe economic and social pain for American farmers, particularly midwestern farmers, and an 'intolerable' trade deficit with Japan and the world, the emotionalism continues.

It is pleasant and stimulating, therefore, to be able to take time out between this crisis and that crisis to study the interesting, objective and unemotional book recently published by Allen and Unwin entitled *The Political Economy of Agricultural Protection*, by Kym Anderson and Yujiro Hayami.

### **General summary**

This book details a straightforward study of agricultural protectionism in Japan, Korea and Taiwan. Based on 'the economic theory of politics' and using multiple-regression analysis, a simulation model, and other less complicated tools, the authors have amply and aptly demonstrated that these countries have, over the years, taken policies that support the theory that poor countries begin their industrial development by first taxing the agricultural sector and then, as industrial development takes off and comparative advantage in agricultural declines, protecting or assisting agricultures. The results of the study show that although the agricultural protection levels in these countries have fluctuated substantially since World War II, their long-run trends continue upward. These trends are unlikely to change substantially in the foreseeable future, the authors point out, unless "the political costs to governments for protecting farmers" are raised significantly.

The implication for less-developed countries are that (1) in spite of the very substantial economic cost of protectionism, once started it becomes extremely difficult to reverse (partly because it becomes capitalized into the assets being protected); (2) therefore, other more efficient strategies for dealing with rural-urban income disparity and food security should be developed.

The study shows that even in the case of Japan, which is generally perceived of as always having had a closed market on rice and certain other agricultural products, agricultural protection (as measured basically by the difference between domestic prices and border prices) was zero or negative in the 19th century, and became positive only in the early years of this century.

In all three country cases, the authors demonstrate that the switch from taxing to assisting agriculture occurred because of (1) the declining importance of food expense in the household budget as incomes increased, e.g., rice was no longer a 'critical wage good' to the non-farm worker; (2) the declining importance of agricultural production in the GNP, making it politically easier

to respond to the agricultural protection lobbies; and (3) the declining comparative advantage in agriculture making it easier to generate widespread public concern over 'food security'.

A basic lesson drawn from the study is that the generally accepted idea that the political influence of farmers declines as their numbers decline is far from fact. On the contrary, as agricultural comparative advantage falls along with the relative importance of agriculture in the general economy, it becomes politically attractive to protect farmers. Protected farmers are, in turn, practically driven to organize to maintain this protection. The resulting cooperatives, with their large numbers of personnel and their profitable ancillary businesses, soon develop vested interests in continued and growing protection. They may even become a formidable obstacle to increased farm scale and improved farm sector efficiency.

### **Major findings and implications**

For policy makers and negotiators intent on gaining greater access to the three markets covered in the study, the implications are a bit grim, to say the least. The study substantiates that protectionism in these countries is deeply rooted and well financed and will be extremely 'expensive' politically and diplomatically to bring to a standstill, to say nothing of the cost of rolling it back.

In spite of these costs, countries seeking greater access should continue exploring ways to improve access if for no other reason than to lessen the growth dampening effect the protectionism is having on LDC's in Asia, e.g., Thailand and Indonesia.

Japan, Korea, and Taiwan should be aware that persistent maintenance of protection will not only come at higher and higher cost to domestic consumers and taxpayers, but dogged determination to safeguard policies aimed at greater food self-sufficiency could eventually severely undermine food security in the truest sense, by undermining the free world trading system.

Analytical results in the study indicate that the apparent nominal rate of protection in Japan is far above that of the EC. Yet the direct impact on world markets (for wheat, sugar, beef, sheepmeat, etc.) of EC protectionism (including export subsidies) seems far more devastating and visible. This is probably due in large part to the major difference in comparative advantage between the two areas. A little protection goes a long way in the EC, especially with the inclusion of export restitutions. (The same can be said of the United States.)

In Japan, however, there is the mistaken perception that if policies do not have an immediate disruptive or destabilizing effect on the world market (such as with rice, where imports are consistently kept at near zero, or with beef, where imports are allowed to grow in an orderly way), such policies are legitimate and are not responsible for any real welfare loss among potential suppliers.

A related notion prevalent in Japan is that if imports are stable or steadily

increasing year after year, such imports are not contributing to world market instability. The fact is that because Japan refuses, on most controlled commodities, to absorb any of the variation that naturally occurs in world supply and demand, world market variability is magnified.

### Specific points of question

A few relatively minor oversights or erroneous statements were noted in the study by this reviewer. Perhaps the most striking occurs on page 28 where it is suggested that “feed grain prices paid by livestock producers are close to border prices in East Asia, whereas in the EC they are above border prices”. At least in the case of Japan, this statement is not borne out by empirical data. U.S. analysts have known for several years now that even though ingredients for compounding livestock feeds enter Japan virtually free of import barriers, feed costs to livestock and poultry producers in Japan are substantially higher than in the EC (the latest calculation indicates a 20 percent difference)<sup>1</sup>. This reflects the existence of significant inefficiencies in the Japanese feed compounding and distribution systems, attributable in large part to restrictive entry into the feed mixing industry (dominated by the Nokyo) and associated poor management practices. Needless to say, this fact does not bode well with MAFF’s stated policy for modernizing and rationalizing beef and dairy farming in an effort to reach protection levels and prices comparable to the EC by 1990.

On page 29 it is suggested that the three economies under study, have benefitted substantially by opening their manufactured products markets to “the rigors of international competition”. Perhaps it is true that quantitative import restrictions have been removed and tariffs lowered, but it is difficult, if not impossible, to find knowledgeable foreign business leaders who agree that the Japanese market has ever truly been that open. Numerous non-official barriers seem to appear as the official barriers have been removed. The reviewer believes that the major barrier to foreign imports in the manufactured products sector is the development and maintenance through traditional and cultural means of domestic informal economic syndicates or cartels. These privately syndicated trading systems provide stability and continuity of supply in their respective industries and are the major safeguard against individual company bankruptcies. But all this ‘smoothness’ in operation comes at significant economic cost to consumers and outside entities desirous of entering the market.

In manufactured agricultural products an added element of protection comes

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<sup>1</sup>*U.S. prices:* Agricultural Prices, 1985 Summary, USDA/NASS/ASB, June 1986;  
*Japanese prices:* Ministry of Agriculture, Forestry and Fisheries 1985 Price Survey;  
*EC prices:* Published EC Feed Prices for 1983.

from laws favoring the cooperative system with, in many cases, a monopolistic position in the market.

The authors state on page 30 "...that the United States, as the world's main exporter of feedgrains and soybeans and a net importer of beef, has little incentive to discourage the growth in protection of feed-based livestock industries in these (and other) countries". This is a rather gratuitous comment, especially in light of the fact that on a value basis the United States is a net exporter of beef, and has been the major source of pressure on the Japanese to liberalize beef imports. At another point (p. 115) the authors state that the "intense pressure applied by the United States on Japan, ...has clearly not been enough to bring about any major change". While acknowledging the correctness of this observation, the reader is left to wonder what the authors would suggest. Having been at the center of the last U.S.-Japan struggle over Japan's beef quota, the reviewer wonders if the United States has not reached the point where only two levers remain that could sufficiently raise the political cost of protecting domestic beef producers to the Government of Japan, viz., (1) imposition of strict import barriers against Japanese manufactured goods, or (2) threatened withdrawal of defense assistance. Neither of these, the reviewer believes, would yield benefits to world (or bilateral) trade large enough to offset the costs they would almost certainly generate.

A statement made on page 89 reads as follows: "Because pork and chicken are reasonably freely traded in Japan, the main effect on these other meats of liberalizing beef imports would simply be elimination of imports, with little dampening effect on their prices". This observation seems to contradict itself. If pork and chicken are in fact "reasonably freely traded" one would expect domestic product to *share* in a constricted market with imports. To say that imports would be eliminated is tantamount to suggesting that the cross elasticities for domestic products are significantly different from those for imported product, which is unlikely to be the case in a free-market situation.

It is suggested on page 102 that liberalization "spelled the end of" lemon and grapefruit production in Japan. Actually there never has been any commercial production of grapefruit in Japan and lemon production now has slightly exceeded the level (800 metric tons annually) that existed at the time when liberalization first occurred years ago. Liberalization, however, has had a significant impact on soybean product.

### **Concluding comment**

All in all, the study is well done and enlightening and should be 'required reading' for policy makers and negotiators with responsibilities related to agricultural trade in general and trade with Asia in particular.

The data used in the study cover years up through 1980. It would be highly

interesting to see what the model and other analytical methods would yield when applied to data since 1980. The rather dramatic changes that have occurred since then in exchange rate adjustments, export policies, etc., could present a significantly different picture of comparative protection rates. This would seem to be particularly relevant now as the countries involved are about to enter a new trade round with at least preliminary focus substantially on agricultural trade policy.

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