

Ippei Yamazawa's* Comments on Kym Anderson's *Trade Liberalization, Agriculture, and Poverty Reduction in Low-Income Countries*
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Let me start with why I, quite an amateur on agricultural issue, have accepted this assignment of discussing the paper by Professor Anderson, a leading agricultural economist. As you all know, Japan is in a peculiar position on agricultural negotiation. Japan is one of the biggest importer of agricultural products but is criticized because of her big price differential at home and abroad. Although having implemented various reform measures at home, she takes an all-defensive attitude against external pressures for liberalization. She tries to freeze her protection at the Doha Round and exclude agriculture from any of her FTA negotiation, which critically undermines the Japanese position. Many sensible economists in Japan feel obliged to argue for modifying our agricultural trade policy. Professor Anderson's paper introduces a new argument for liberalization for the sake of poverty reduction and I expect it will strengthen this reformist position in Japan. This is the reason why I have accepted this assignment.

However, I have to warn you, dear participants, my following arguments will reflect the conflict of interest between exporters and importers of agricultural products. It is clear from Table 2 of Professor Anderson's main text, the largest beneficiary from the agricultural liberalization are the agriculture exporter DCs. Out of US\$B122 increase of agricultural import by DCs, \$B111, 91 % goes to DCs. It is difficult for agricultural importer DC economists to free from this fact, while discussing liberalization for the sake of poverty reduction.

Having said that, I have one request, three technical questions, and two policy comments on his presentation. Professor Anderson's analysis is

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based on the CGE modeling results. This is a multi-country multi-commodity model, including textile and clothing, and can be used for a broader discussion of changes in trade pattern between developed and developing countries after all remaining trade barriers are removed. In this regards I would like to encourage Professor Anderson produce another paper, modifying some of his restrictive assumptions regarding China and Taiwan and the fading out MFA's in textile and clothing. Developed and developing countries may better be reshuffled so as to classify Hong Kong, Taiwan, and Korea with exceeding US\$10,000 per capita income as high income countries.

I accept most of his conclusion based on this modeling result but lewt me ask a few questions on his modeling. We all know the CGE modeling results are dominated by its assumptions, how the model works and its parameters. The model seems to work as follows. The removal of tariffs and NTBs in importing countries reduce import price and volume of exporters, that is, exporter's gain accrues from volume increase and improved terms of trade. But they all depend upon supply elasticity in both developed and developing countries and demand elasticity of importing countries. How these parameters are set in GTAP model?

Second, how import increase is allocated to individual exporters? Third, how is the balance of payment equilibrium achieved? If it is achieved through changes in general price level, it will tend to exaggerate the terms of trade effects. These are all technical matters, which, however, affect your results significantly.

Now let me come to my policy comments inspired by Professor Anderson's presentation. First domestic reform is needed in order to link trade liberalization with poverty reduction, as is correctly pointed out by Professor Anderson. Then what about combining programs of promoting and assisting the domestic reform with trade liberalization? And why don't you encourage agricultural exporter developed countries to implement the programs out of their big gains from agricultural liberalization?

Nowadays DC consumers have become sensitive to the safety of foodstuff and they are very much concerned about excessive use of chemicals, such as pesticide and weed-killer, and artificial feedstuff as well as environmental preservation. But these concerns have not been shared by DGC farmers yet. The DC agricultural exporters should help DGC farmers

in these aspects as well.

If we wish to increase the export from developing countries to help poverty reduction, it can be achieved through DC importers providing new GSP only to developing countries without any liberalization. If agricultural exporter developed countries argue for liberalization for the sake of poverty reduction, they should also propose a total approach, sufficiently persuasive agricultural importer developed countries.

Second, I would like to suggest the liberalization of rice imports in the context of East Asia. Japanese government is all defensive on this and try to avoid any further increase of rice imports, which handicaps Japanese approach to FTA with East Asian neighbors. On the contrary, I would argue that we should put rice import in the core of our FTA talks.

Let me remind you that in 1993 Japan had a bad crop of rice because of cold weather in Summer, 26% less than average crop. Japan imported 2.6 million ton of rice in 1993 and 1994, 42 % from China, 30 % from Thailand, and 21% from the US. Since the following year we have had average or better crop and kept restricting rice planting to avoid accumulating surplus production.

However, our agricultural experts predict that in 5 to 10 years time Japan will be a big rice importer again every year because of already aged farmers and their difficulty in finding successors. Then how can we secure rice of safe quality?

It is natural for the Japanese to look to its East Asian neighbors with the similar rice production, petty family farming in the monsoon climate. Then we should dare to talk to our neighbors about secure and safe rice supply from them, instead of excluding rice from any FTA negotiation. We should help our neighbor farmers to get conscious about its safety and quality, and environmental protection. The FTA framework provides a suitable channel between consumers and producers, leading to a secure supply of rice.