

Welcome to the East Asian Bureau of Economic Research (EABER). EABER aims to be the premier East Asian economics research forum and provide a single point of reference for the economics, finance and governance research community throughout the region and beyond. Through building research capacity and partnering initiatives, EABER facilitates the creation of high-level analysis and forward thinking on issues of importance to the East Asian economy.

### Analysis

#### Where to for Agricultural Policies in East Asia?

Kym Anderson and Ernesto Valenzuela \*

Two decades ago a study on *The Political Economy of Agricultural Protection: East Asia in International Perspective* (Anderson, Hayami and Others 1986) provided estimates of the growth of nominal rates of protection to farmers in Japan, Korea and Taiwan from the early 20th century. When Japan switched from being a small net exporter of food to becoming dependent on rice imports, farmers and their supporters called for rice import controls. Their calls were matched by equally vigorous calls from manufacturing and commercial groups for unrestricted food trade, since the price of rice at that time was a major determinant of real wages in the non-farm sector. These heated debates were not unlike those that led to the repeal of the Corn Laws in Britain six decades earlier. In Japan, however, the forces of protection triumphed, and a tariff was imposed on rice imports from 1904. That tariff then gradually rose over time, raising the domestic price of rice to more than 30 per cent above the import price during World War I. When there were food riots because of shortages and high rice prices just after that war, the Japanese government's response was not to reduce protection but instead to extend it to its colonies and to shift from a national to an imperial rice self-sufficiency policy. That involved accelerated investments in agricultural development in the colonies of Korea and Taiwan

behind an ever-higher external tariff wall that by the latter 1930s had driven imperial rice prices to more than 60 per cent above those in international markets (Anderson and Tyers 1992).

After post-war reconstruction, Japan continued to raise its agricultural protection, just as had been happening in Western Europe, but to even higher levels. Domestic prices exceeded international market prices for grains and livestock products by around 40 per cent in the 1950s in both Japan and the European Community. By the 1980s the difference was 90 per cent for Japan, and since the 1990s has been above 120 per cent. Meanwhile, in South Korea and Taiwan, an import-substituting industrialization strategy was adopted in the 1950s. It harmed farmers for a few years, but was replaced in the early 1960s with a more neutral trade policy, which stimulated very rapid export-oriented industrialization in those densely populated economies. That development strategy imposed competitive pressure on the farm sector which, just as in Japan in earlier decades, prompted farmers to lobby (successfully, as it happened) for ever-higher levels of agricultural protection from import protection in those newly industrialized economies.

A new World Bank research project revisits this issue, extending the above estimates to the present decade and examining similar trends in other parts of Asia as well as in Africa, the Americas and Europe (75 countries in all, comprising 90 percent of global agriculture). What emerges from the results is that the tendency to move gradually from taxing to protecting agriculture relative to manufacturing in the course of economic development is not

### Paper of the Month

The paper of the month for February 2008 was **The Enigma of Toyota's Competitive Advantage: Is Denso the Missing Link in the Academic Literature?** by Evelyn Anderson.

### Latest News

The next phase of work on Institutional Foundations for Microeconomic and Structural Reform in Asia and the Pacific began with a workshop in Sydney 28-29 January, with expert participation from EABER Institutes around the region and APEC officials responsible for hosting the special APEC Ministerial Meeting on Structural Reform in Melbourne in August 2008.

#### CALL FOR PAPERS

How Globalisation is Shaping the Asia-Pacific: Multi-disciplinary Perspectives, held at Bond University on the Gold Coast, Queensland, Australia, September 26-27, 2008. LINK: [http://www.bond.edu.au/about/faculties/bus/gdc/conference\\_2008\\_gdc.html](http://www.bond.edu.au/about/faculties/bus/gdc/conference_2008_gdc.html).

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Table 1: Nominal rates of assistance to primary agriculture

	1955-59	1960-69	1970-79	1980-89	1990-99	2000-04
Japan	43	54	70	114	146	145
Korea	-2	11	56	132	171	180
China	na	na	na	-46	-8	1
SE Asia*	na	na	-8	6	11	16

Sources: Anderson, Martin and Warr (2008); Hayami and Honma (2008).

\* Weighted average for Indonesia, Malaysia, Philippines, Thailand and Vietnam, using the gross value of agricultural production at undistorted prices as weights.

confined to Northeast Asia. On the contrary, it has emerged clearly in both China and Southeast Asia. In China, the opening up of the economy from the late 1970s was accompanied by rapidly rising domestic prices for farm products – but from a very low base. The exchange rate was overvalued too in the 1980s. Together these policies meant that prices received by farmers were still well below prices at the border (while prices for non-farm tradables were above international levels). That is, the nominal rate of assistance to farmers (NRA) was negative in the 1980s. Even in the 1990s China's estimated NRA was below zero, and it became positive only in the present decade. For Southeast Asia the trend is less dramatic (Table 1), but so too was its rate of economic growth and structural change away from its earlier comparative advantage in farm products.

The dramatic decline in the effective taxation of China's agricultural sector over the past 25 years helps to explain two apparent paradoxes: why China has been able to remain food self-sufficient throughout most of that period despite rapid industrialization, and why rural poverty did not rise during the phase-in of China's commitments to WTO members to reduce some of its agricultural import tariffs.

A key question of interest to agricultural exporting countries is: will the newly emerging economies of Asia and elsewhere follow the more advanced ones of Northeast Asia into an agricultural

protection phase in the coming years? When mapped against per capita income, it appears that China and Southeast Asia appear to be on very similar NRA trajectories as Northeast Asia.

It is possible that WTO commitments on agricultural tariffs and subsidies can limit that possibility of rising agricultural protectionism in China. However, with the stalling of the Doha Round and the large gaps between earlier WTO legally bound and actual rates of applied tariffs and subsidies, that is by no means certain to happen.

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