

This document is preliminary one to be revised and be corrected in due course.

## **International Trade of agricultural products**

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### **Objective**

In previous chapters, we have studied the agriculture on the basis of natural sciences. However, economic sciences are also important for agricultural study. It is due to the fact that agricultural products are one of commodities to be transacted in the market, although these are directly essential to the life of humans. It is quite certain.

According to the theory of Ricardo, labors of humans have to be put to producing agricultural products, then, they have a value. We realize that some substances without value exist in the world, like air, ground water. Agricultural products are, in principle, different from these substances. In light of the nature of agricultural products, the economic aspects are important.

From the viewpoint of international relations and agricultural sciences, what we have to notice is that the strong demand for food by people under the critical famine is not deemed as effective demand in economic sense, if these people have not enough money to buy food. In this case, the economics don't care about it. In other words, the demand does not exist in the market.

From now on, we are going to study the economy related to agriculture and food. International trade of agricultural products was selected for our study among quite a lot of economic aspects, since we belong to the department of global agricultural sciences.

### **1. Free trade theory in the classical economics**

From the end of 18<sup>th</sup> century to the beginning of 19<sup>th</sup> century, the political and economic regime has dramatically changed. In France, the absolute monarchy collapsed and democratic political regime was established. England took a lead for the industrial revolution. During such political and economic development, the modern economic sciences were born.

We could cite three prominent philosophers (economists) who contributed to the development of the political economics. They are Adam Smith, David Ricardo and Robert Malthus.

Adam Smith (1723-1790) considered that the principle which governs the economy might be competition, and that it would also contribute to the order of the society as well. Then, he had a conviction that free market should be provided to assure the function of competition. Then, he

underlined that “competition” and “free” create the wealth of nations. The wealth is the common element (interest) to relate humans, societies and nations. Therefore, he concluded that the competition would be a principle to govern the economy in nations. Until that time, the competition had not necessary been regarded as “virtue” in Christian religion. However, his idea was that the competition is a “virtue”, instead of “sin” His main writing is “ An inquiry of nature and causes of wealth of nations “.

David Ricardo (1772-1823) developed Adam Smith’s idea, and he advocated the notion of “ comparative advantage” . He argued that there is a mutual benefit from trade, even if one party is more productive in every possible area than its trading counterpart, as long as each concentrates on the activities where it has a relative productivity advantage. The mercantilism, which was the previous economic theory, advocated the accumulation of precious metals (gold and silver) in a nation as much as possible by means of increase of export and limitation of import. His idea of comparative advantage is different from mercantilism. His theory is the basic principle of free trade. His main writing is “ Principle of political economy and taxation “

Robert Malthus (1766-1834) ,who was born earlier than Ricardo, proposed a principle regarding the relation between population and food. He stressed that there is a gap between the growth rate of population and that of food availability. Then, he concluded that this gap between population and food would be inevitably adjusted by misery and vice such as famine, disease and war. Malthus believed that one could not alter such human nature (which was given by God). Therefore, he argued that misery and vice of a society could not be necessary attributed to the lack of goodness of humans. Accordingly, he denied the utopian society. In this connection, we have to take much attention to his argument that the assistance to people in misery might increase the population, resulting in aggravating the situation. His main writing is “ An essay of principle of population “

Charles Darwin (1809-1882) proposed the idea of “ origin of species, inspired by the principle of Malthus. His theory of natural selection is based on the competition.

In early stage of the classical economics, the philosophers tried to explain the wealth and economy by identifying principles. They were inspired by the development of natural sciences, such as the law of gravity by Newton that could explain perfectly the movement of planets around the sun. Accordingly, they supposed that all economic and social events were also ruled by some principle/s, which could not be changed by humans. They tried to identify these principles to be applied throughout to the economy.

Adam Smith and Ricardo picked up “competition” and “free” as principles, of which their origin is the nature of humans. In a sense, this nature is supposed to be given by God. Therefore, we could say that God still existed in the deep corner of their brain. Adam Smith used the wording “ Invisible hand/s”. Humans are not able to avoid the direction to the free trade. This trend is inevitable, according to the theory of classical economics.

In fact, free economy and free trade have progressively been promoted in the world economy, particularly, after the Second World War. The agricultural sector has not been an exception. This progress could be achieved in some conditions, one of which was the continuation of sound world political situation without wars among countries preventing free trade. It seems that the theory of Adam Smith and David Ricardo has proved the actual economy after the war. Concerned countries could perform, in principle, the prosperous economy by achieving free trade and free economic system.

However, according to the recent studies, Adam Smith might consider that other principle/s other than “competition and free” must exist to govern the order of society. He published “The theory of moral sentiments “ before his major writing, which suggest another principle. In his whole life, he failed in identifying this principle, and he passed away in 1790.

In this regard, we have to notice the ideas of Utopian socialism and the Socialism/Communism by Marx. He argued that laborers would be exploited and alienated in the advanced capitalism society. Then, the social tension among classes will become intensive, and finally a socialism society will be created inevitably by revolutionary movement. The capitalism is just a temporary regime in the social progress. He stressed that the communist society would be a regime as colollary of the capitalism, which denies the competition.

The communist society was created in Russia, China and other countries, and the world was divided into two social regimes for a while after the War. However, the collapse of the Soviet Union in 1991 seems to prove that the communism would not work well in the real world, although the communist societies still continue to exist in a few countries like North Korea.

The excess of pursuing the free trade and free market have begun to demonstrate some adverse consequences in recent years, in particular, form the middle of Doha Round. We are observing the segregation between poor (losers) and rich(winners) in both inside of a nation and at the international level, difficulty of control of financial risk or crisis such as Leman shock and degradation of nation’s right for protecting the stability and safety of a nation and its citizens, caused

by the excess of free movement of goods, services, capital and humans in the borderless situation. What is necessary for us is to know how developing countries will be prosperous by applying the principle of “competition”. During around 70 years, we have enjoyed the economic development and prosperity by the free trade and free economy among developed countries so far. However, this trend has been performed under some conditions. We need to analyze how these conditions would be well applied to developing countries.

The objective of this chapter is to analyze the process of free trade system for agricultural products by adoption of comparative advantage theory. and to reflect on the future of possible application of free trade to developing countries, in view of helping students to identify an answer to the question whether the application of principle of free trade would make developing countries prosperous and happy in coming years.

## **2.Process of free trade until World War II**

Since the formulation of the classical economics, how the principle of competition has it been applied? In fact, The Britain has taken the initiative to the free trade system, as the most powerful economic country in the world, In 1846, the “Corn Act” for keeping high prices of cereals was abolished, and the trade of grains was liberalized.

On the other hand, in the United States, where the comparative advantage was low in the industrial sector, introduced the protectionism by adopting high tariffs on industrial products. The average rate of custom duties was as much high as 46% in 1846. During the protectionism that lasted for half a century, the USA achieved a remarkable economic growth. Many European countries adopted the protectionism.

Following the First World War which ended in 1918, the great depression occurred in 1929. Each country took a strengthened protectionism, aiming at protecting its economy. In the USA, very high rate of tariffs were imposed on around 60% value of import products by Smoot Hawley Act of 1930. Many countries followed the suite.

Britain set up the Commonwealth preference in 1932 that led other formation of economic blocks. Germany established Grossraumwirtschaft(広域経済圏) among Eastern European countries. France also introduced the gold block. Such protectionism, economic block and isolationism were one of causes of the Second World War.

## **3. Free trade system after the War**

Approaching the end of the War, the USA took the initiative to establish post war economic and

trade system. Considering the negative effect of protectionism and economic block, the principle of free trade, non discrimination and multilateralism was examined.

In 1944, a conference on currency and finance was held in Bretton Woods in the USA by the participation of 44 countries. Following the result of the conference, the International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) were set up, aimed at stabilizing currency and reconstructing the economy after the War. This is called “Bretton Woods System”.

Regarding the trade, Habana Charter concerning the establishment of the International Trade Organization (ITO) was agreed by 53 participating countries in 1948. However, the Charter was too ambitious that the USA could not ratify it. At the same time the USA proposed a scheme of GATT (General Agreement on Tariffs and Trade) . Not waiting for the inauguration of ITO, the USA launched negotiations on reduction of tariffs in 1947 in Geneva. Then, a provisional adoption of the GATT was agreed in 1948 by 8 developed countries.

#### **4. Objective and principles of the GATT**

In view of constructing the free trade system, the GATT adopted three principles; “most favored nation treatment”, “national treatment” and “elimination of import restrictions”. The GATT also adopted the multilateralism in negotiation process to avoid economic blocks.

The GATT system was initiated by limited number of developed countries whose society was rather homogeneous. Therefore, the difference of economic development stages, as well as difference of cultures and societies were not sufficiently treated in the scope of the GATT agreement.

##### **(1) Most favored nation treatment**

The most favored nation treatment is a principle of requiring the member country to treat equally all other member countries in applying tariffs and procedure of import for like products. For example a member country shall not apply more or less favorable tariff to a country than to other countries for a like product. The scope of the principles has been expanded in the WTO system. This principle is applied not only to tariffs, import quota, import procedures but also to service trade, intellectual property rights, technical standards, while the application of the principle was limited to tariffs, import quota and import procedures before the WTO.

In 16<sup>th</sup> ~17<sup>th</sup> century the origin of the most favorable nation treatment has been observed. In 1860 the major European powers have adopted the principle as a common rule of trade. However, conditional most favored nation treatment was applied for many countries until the creation of the GATT system.

For example, the USA continued to apply the conditional treatment until 1922.

GATT text provides some exceptions of this principle. The preferential duties for developing countries and preferential duties for the counterpart nation within the framework of a free trade agreement are the major examples of exception.

## **(2) National treatment**

National treatment means that the imported products shall be accorded treatment no less favorable than that accorded to like products of national origin in respect of all laws, regulations and requirements. For example, importing country shall not apply higher internal tax to imported like products than to products produced in the importing country.

The objective of this principle is to prevent national taxation, regulations and any other laws to be used so as to protect domestic products.

## **(3) Elimination of import restrictions**

GATT agreement introduce a principle of general prohibition of import quantitative restriction and export restriction, except, in case where a restriction of production of like products is taken due to the oversupply in the domestic market (this exception is applied to agricultural products), and for in case where there is a critical shortage of the product in the domestic market regarding both agricultural products and industrial products.

During GATT negotiations, more intensive negotiations for the elimination of import restrictions were actually pursued than for that of export restrictions.

In the GATT text, other exceptions are provided. Import restrictions and foreign exchange restrictions are permitted by the reason of deficit of balance of payment (GATT article 12 and IMF article 14). Japan tried to protect and develop Japanese economy in controlling and allocating foreign exchange and regulating import. In 1951, the special account for fund of foreign exchange was set up, aimed at collecting foreign exchange earned by export. Through this special fund, foreign exchange was allocated, on a priority basis, to importation of necessary materials for heavy and chemical industry of Japan.

When Japan achieved the balance of foreign exchange, Japan was classified as a GATT article 11 country in 1963 and as a IMF article 8 country in 1964. However, import restrictions were maintained until 1965 for automobiles, and until 1970's for products related to computer. Regarding agricultural products many import quota existed afterward, such as for rice ,beef, oranges , dairy products. These restrictions were called “ residual import quota” which meant an illegal quota.

#### **(4) General exceptions of GATT**

Certainly, there are general exceptions for the application of principles of GATT for the free trade. These general exceptions set up in article 20 are applied to the following measures:

- a) necessary to protect public morals
- b) necessary to protect human, animal or plant life or health;
- c) relating to the importations or exportations of gold or silver;
- d) imposed for the protection of national treasures of artistic, historic or archaeological value;
- e) relating to the conservation of exhaustible natural resources

We have to notice that GATT provisions do not take up measures for the protection of environment as an exception. It may be attributed to the historic reason that problems related to the environment were not serious at the beginning of the GATT. In recent years, a lot of measures have been required across the world. These measures are sometimes inconsistent with GATT principles. At present, such inconsistency is one of the important problems of the GATT.

Looking at international agreements, the “Convention on International Trade in Endangered Species of Wild Fauna and Flora (Washington Convention) of 1973”, the “Convention on Biological Diversity of 1992 and the Cartagena Protocol on Biosafety of 2000” are said not to be necessarily consistent with the GATT provisions. We can pick up an example of prohibition of import of shrimps introduced by the USA. Exporting countries claimed that the ban of import of shrimps caught with bycatch of sea turtles was inconsistent to the GATT provisions. The final decision of the appellate body justified the American prohibition by applying the exception as the conservation of natural resources, instead of the protection of environment.

#### **5. GATT Round negotiations and reduction of tariffs**

According to the GATT principles, negotiations were conducted in the form of Round with the participation of all countries concerned. It was an application of multilateralism. Until the 7<sup>th</sup> Round, Tokyo Round, the reduction of tariffs was the major subject of negotiations.

The concessions of tariffs were called “conventional (concessional) tariff” to be applied to all member countries.

These conventional tariffs were bound in general. If a country wishes to bring back a conventional rate of tariff, this country shall pay the compensation by reducing other tariff/s which is equivalent to

the raised tariff in value terms. However, concessions without bound were allowed in the negotiations.

Regarding the agricultural products, negotiations were conducted by the method of "request and offer". A country requested reductions of tariffs to a particular country. Then the negotiation started between requesting country and requested country. The accumulation of concessions by such bilateral negotiations consists the concessions of the Round. Japan offered reductions of tariffs substantially related to products that the USA was interested in.

#### GATT Rounds

	Name of round	Year	Participating country	Subject of negotiations
First	Geneva	1947	19	Reduction of tariffs
Second	Annecey	1949	27	Reduction of tariffs
Third	Torquay	1950	33	Reduction of tariffs
Fourth	Geneva	1956	36 Japan	Reduction of tariffs
Fifth	Dillon	1960-61		Reduction of tariffs
Sixth	Kennedy	1962-67	74	Reduction of tariffs, Anti dumping, Wheat convention, Expansion of import quota
Seventh	Tokyo	1973-79	76	Reduction of tariffs, Standard code, Antidumping, countervailing duty, Import license, Government procurement, etc
Eighth	Uruguay	86-94	128	Reduction of tariffs, Elimination of import restrictions, Reduction of domestic subsidies, Service trade, SPS, TBT, Safeguard, Establishment of WTO, Dispute settlement, Etc
Ninth	Doha	2001~		Reduction of tariffs Reduction of internal subsidies, Reduction of export subsidies

Source : International Economic Law, Hodoo Komuro, Japan economic journal, 2003, others



How has been treated the agriculture in the course of negotiations of GATT Rounds? Exporting countries of agricultural products, like the USA, Australia and Canada were of opinion that the agricultural sector should not be differently treated from the industrial sector. They claimed that the same procedures for reduction of tariffs and elimination of quotas should be applied to agricultural products. On the other hand, EC, Japan and North European countries were of the opinion that the special treatment should be applied, due to fact that agriculture uses the function of life, and depends much on climate and land conditions. Such gap of views has not been bridged. However, some wordings of conciliation have been agreed as follows.

- a) In Kennedy Round and Tokyo Round:  
“Special characteristics of agriculture”
- b) At the beginning of Uruguay Round  
“Non-trade concerns such as food security”
- c) In Uruguay Round and Doha Round  
“Multi-function of agriculture”

We could not assess well to what extent these wordings made an impact to the process of negotiations.

## **6. Uruguay Round**

### **(1) General characteristics of the Round**

The Uruguay Round may be the achievement of negotiations of the past Rounds of GATT, since it is the last Round that reached the conclusion so far. Areas subject to negotiations have been expanded to trade of service, intellectual property rights, food safety and technical standards. All agreements on these subjects were regarded as a package of the Round. In addition, number of participating countries has been substantially increased to 128 (78 in the previous Tokyo Round). The full swing participation of developing countries started for the first time in the Uruguay Round.

### **(2) Establishment of WTO**

In the Uruguay Round, the WTO has been established as a formal international organization as the Habana Charter of 1948 envisaged, while it had been a provisional institution for many years. In addition to that, the WTO had strengthened the function of judicial institution dealing with international disputes related to the trade.

### **(3) WTO as a judicial institution**

As above mentioned, WTO enforced the function of judicial institution. Previously, the decision or reports of Panel or Appellate body were adopted by the consensus of member countries concerned. In this procedure, it was sometimes difficult to reach the adoption of the decisions or reports. In the WTO, this approach was shifted to the negative consensus approach. Without objections by all countries concerned, the decision or report of Panel or appellate body is adopted by WTO. If one member country is for the decision or report, it is adopted, despite all other countries are against. Moreover, the duration of deliberations of the panel and the appellate body has been shortened. However, some people criticize that the WTO tend to take a conclusion on a basis of strict interpretation of texts of international agreements without careful attention to the actual problems.

According to such reform of the dispute settlement, Japan has been a winner in many cases of industrial cases, but loser in many cases of agricultural products. The situation is reverse in the USA. It has been a loser in many cases of industrial products.

### **(4) Agricultural negotiations in the Round**

In the midst of the overproduction of cereals in the world, negotiations of the Uruguay Round started. The negotiations took up wider range of subjects other than reduction of tariffs and elimination of import quota, aimed at reducing distorting effects of measures to trade as far as possible.

By the common recognition that the internal agricultural support is, in principle, has an adverse effect to trade, member countries agreed to reduce certain domestic subsidies to agriculture, in view of avoiding excess of subsidies in exporting countries, like the USA and the EU, as well as reducing the effect to preventing the import in importing countries like Japan.

Actually, many developed countries have taken quite a lot of supporting measures to agriculture by economic, social and political reasons, while developing countries do not comparatively provide much subsidies to farmers. In this situation, prior to the Uruguay Round, the OECD took the initiative to conduct a study on the amount of support of each country, and compared the level of agricultural support of each country, which was called PSE (producer subsidy equivalent). Japan was in opposition of this study and disclosure to the public. However, Japan finally accepted to make the result of the study in public.

The EU, in anticipating that this study would be used for the coming GATT negotiations, had proposed its idea how to treat domestic subsidies. The core of its proposal consisted of the idea of

“decoupling” which means that subsidies without the effect to stimulating the production could be classified as “decoupled” from the production. The EU argued that one of these decoupled subsidies is “direct payment” to farmers. As a result of the Uruguay Round agricultural talks, the aggregate measurement of support shall be reduced by reduction of internal support measures, except decoupled subsidies.

Therefore, the other subsidies such as price support measures are subject to reduction. The agreement of agricultural negotiations resulted in requiring member countries not to substantially rely on domestic support measures. In the Uruguay Round, the discipline applied to agriculture for free trade entered in another stage. The member countries have to compete each other on the same platform.

Despite the agricultural agreement of the Round, the main developed countries actually maintain huge amount of subsidies and are in a difficult position of substantial reduction of subsidies.

As to the import restriction, all quantitative restrictions were, in principle, abolished and converted to tariffs. It is called “tarification”. Although the GATT adopts the principle of the elimination of import quota, some importing countries have retained quotas for sensitive items, such as quotas for rice, beef, dairy products in Japan, quotas for dairy products, raw sugar in the USA. In Uruguay Round, therefore, very high tariffs that have the same effect as quota were allowed, in view of replacing the quota. Japan did not abolish the quota of rice in the Uruguay Round. It was in 1999 that the quota has been replaced by the tariff.

As far as technical standards on agricultural products are concerned, negotiations were intensively conducted, aiming at reducing obstacles to trade as much as possible. As a result of these negotiations many agreements concerned were adopted in the Uruguay Round. Among these agreement,” Agreement on the application of sanitary and phytosanitary measures” and “ Agreement on technical barriers to trade” are important to agricultural products.

According to the GATT provisions, measures for protection of life and health of humans and animals are exempted from the obligations of GATT free trade principles. Accordingly, excess of protection, unnecessary measures and disguised measures for food safety and for plant protection have been observed. In the Round, member countries agreed that these measures shall be strictly base on scientific evidences, and not be restrictive than necessary and be based on non discrimination by adoptionof the SPS Agreement.

Regarding technical standards on quality of food, an agreement that requires member countries not

to take more restrictive measures than necessary was adopted. In the second part, we will pick up GATT disciplines on food safety and quality in detail.

#### **(5) Agreement on agriculture**

The agreement on agriculture in Uruguay Round is the latest commitments of member countries on agriculture, since the following the Doha Round has been actually suspended. This agreement covers wide range of measures related to agriculture. In addition to these commitments, bilateral agreements, that have been adopted in many countries, control the trade of agricultural products in recent years.

The outline of the agreement on agriculture is as follows;

##### **① Market access**

Tariffs shall be reduced by 36% in average within the implementing period (6 years). The tariff of individual product shall be reduced by minimum 15% .

Import restrictions, variable levies, minimum import price and import license shall be eliminated, These measures shall be converted to ordinary tariffs (custom duties).

##### **② Minimum access**

The present actual quantity of import shall be maintained. In case where the actual import is 0, 3% of the domestic consumption shall be set as the quantity of minimum access, and this minimum access shall be increased to 5% at the end of the implementation period.

##### **③ Special safeguard provisions**

For products of which the quota has been converted to tariff,

- a) In case where the import quantity increases over the trigger level, additional duty equal to 1/3 of normal tariff is imposed. This additional duty has to end at the end of the year.
- b) In case where the import price is under the trigger level equal to the average price of 1986 to 1988, the additional duty is imposed up to 57% of normal tariff, The additional duty varies according the gap between the trigger price level and the actual import price. This is applied on the lot basis.

##### **④ Domestic support**

The amount of domestic support calculated by the aggregate measurement of support (AMS) shall be reduced by 20 % within the implementation period.

However, the product of which the amount of support is under 5% of the value of its production is exempted from the reduction.

The rate of reduction applied to developing countries is 2/3 of that applied to developed countries. The least developing countries are exempted from the reduction.

The types of support not subject to the reduction are defined in the agreement. Subsidies to rural

development, investment, materials for low income farmers in developing countries shall be exempted from the reduction.

**⑤ De Minimis**

With respect to support measures given to specific products, 5% of production value is exempted from the obligation of reduction.

With respect to support measures not given to specific products, 5% of total agricultural production value is exempted from the obligation of reduction.

For developing countries, the De Minimis is 10 %.

**⑥ Direct payment**

Direct payments under the production adjustment is exempted from the reduction for the following cases.

- a) The direct payments are related to the surface of agricultural land
- b) The amount of direct payment is under 85% of the level of standard production value

**⑦ Export subsidies**

Export subsidies shall be reduced by 36% within the period determined.

The export quantity which is given export subsidy shall be reduced by 21%.

With respect to developing countries, export subsidies for reduction of costs and for transport are exempted from the obligation of reduction.

### Support Measures to Agriculture

<b>Amber measures (AMS)</b>	<b>Bleu measures</b>	<b>Green measures</b>
Support with trade distortion effect <ul style="list-style-type: none"> <li>• Price support</li> <li>• Deficiency payment</li> </ul> <b>20% reduction of average from 86 to 88</b>	Direct payments which meet certain conditions Between "amber" and "yellow"  Direct payments under the production adjustment	Without or minimum trade distortion effect <ul style="list-style-type: none"> <li>• Research and technology</li> <li>• 基盤整備</li> </ul> Definition in detail is set up in the Agreement
De Minimis Not more than 5% of total agricultural production  <b>Derogation from reduction</b>	<b>Derogation from reduction</b>	<b>Derogation from reduction</b>

Source: Ministry of Agriculture

#### (6) Result of the Uruguay Round

To what extent the free trade system has it been changed at the end of the Uruguay Round? Custom duties in developed countries have been reduced to as low level as almost no significance to the trade of agricultural products. Tariff regime of post Uruguay Round is shown in the table as follow. Japan's average rate of tariffs of agricultural products accounts to 11.7% which is the second lowest, following 5.5% of the USA.

#### Post Uruguay Round Tariff Rates for Agricultural Products

India	124.2%	Philippines	35.3%
Norway	123.7%	Thailand	34.6%
Bangladesh	83.8%	Argentina	32.8%
Korea	62.2%	E U	19.5%
Switzerland	51.1%	Malaysia	13.6%
Indonesia	47.2%	Japan	11.7%
Mexico	42.9%	USA	5.5%

Source : Post Uruguay Round Tariffs Regime, OECD

In the Uruguay Round, import restrictions have been converted to custom duties, according to the GATT principle. However, the levels of tariffs applied to such products are as high so as to prevent the import at the moment.

Japan maintains a lot of such high level tariffs for the sensitive items, such as rice, wheat, some dairy products and some products with particular importance to regions.

In coming years, negotiations for the reduction of these high rates of tariff are anticipated to be incentive in both multilateral and bilateral fields. Japan will certainly be in difficulty to reduce further. According to the Ricardo's principle production of many products will disappear in Japan, if alternative effective measures are not taken.

#### Example of Japan's high tariff rates of agricultural products

Items	Tariffs	Tariff quota 1,000 tons
Rice	241Yen/kg Polished rice 778% Brown rice 568%	767(5.2%)
Wheat	55Yen/kg 262%	5,740 (92%)
Burley	39 円/kg 256%	1,369 (56%)
Skimmed milk powder	21.3%, 396Yen/kg 218%	Dairy products 1,676(13%)
Butter	29.8%, 985yen/kg 360%	
Starch	119Yen/kg 583%	157 (36%)
Beans	354Yen/kg 403%	120 (57%)
Raw sugar	71.8Yen/kg 305%	127(57%)

注 ( ) : Share of tariff quota of domestic consumption (01-03 平均)

Source: Ministry of agriculture

Uruguay Round introduced, for the first time, disciplines on agricultural domestic subsidies. Member countries agreed to reduce subsidies having the trade distortion effect to the international trade. However, for many years, developed countries have elaborated and maintained the support system to agriculture by social, economic and political reasons. In this situation, domestic support equivalent to as much as 30% of total agricultural production is maintained in Japan, USA and EU. We don't predict to what extent these subsidies would be reduced in the future, since domestic measures are closely related to the sovereignty of nations.

**Value of support to agriculture in Japan, USA and EU (billion Yen)**

Measures	Japan	USA	EU
Yellow measures (AMS)	641.8	1,751.6	4,042.8
De minimis	35.0	855.9	255.8
Blue measures	68.2	0	3,244.4
Green measures	2,086.5	6,158.2	2,889.9
Total	2,831.5 (32.0%)	8,765.7 (36.3%)	10,432.9 (29.8%)

Note: ( ) : Share of total agricultural production

Source: Ministry of agriculture

During 70 years after the War, free trade system seems to have been well constructed, based on the principles of Adam Smith and David Ricardo. It has been accomplished not only in the industrial sector but also in agricultural sector. Participation to the WTO of China and the Russia accelerated this trend.

We have to notice that such well elaborated free trade system after the War has been accomplished under some favorable conditions. Despite conflicts between the free world and communist regimes, peaceful time continued in the world without critical war. Limited developed countries took the lead to the free trade system. The majority of these countries are big agricultural countries and the level of development is almost same in the industrial sector. The critical handicap has not existed in these leading nations.

## **7. Doha Round**

The ninth Round , Doha Round was launched in 2001, for further liberalization of trade. Many developing countries, where various stages of economic development were observed, participated in the Round. Developed countries are suffering from some economic flaws such as financial crisis difficult to control, large amount of financial debt, segregation between poor and rich. Developing countries, in general, were opposed to the imposition of free trade obligations, in a manner as neglecting inherent concerns of developing countries. Therefore, there were no agreements on the controversial subjects between developing countries and developed countries, like reduction of custom duties of industrial products, safeguard measures of agricultural products to be applied to cases of difficulty in developing countries. Adverse criticism against the huge amount of agricultural subsidies of developed countries has been growing among developing countries, by the reason that



they are preventing the export of agricultural products of developing countries.

However, developed countries are in the common understanding that substantial support to agriculture is needed, while they agreed to reduce certain domestic subsidies in the Round. Japan is very difficult to reduce further the tariff of rice. The USA has to protect the traditional cotton production, sugar industry by some support measures, due to economic, social and historic reasons. The EU maintains its agriculture by huge amount of the direct payment to farmers.

It is supposed to be irresponsible to argue that the rice production could survive without the high tariff. According to the theory of Ricardo, the rice production in Japan would be replaced by that of more competitive countries, because Japan would be more competitive by the elimination of domestic production of rice. An appropriate alternative measure is needed to maintain the production of rice in Japan.

Doha Round has not yet reached the conclusion, despite more than 10 years discussions. The set back of the Round for the first time since 1947 is very symbolic, for the Round negotiations.

#### **8. Progress of bilateral and regional agreements of free trade**

The set back of the Doha Round does not stop the movement of free trade. In replace of multilateral negotiation, bilateral talks have rapidly emerged.

The objective of bilateral free trade agreement is to develop the economies of the contracting parties. The most advantageous nature may be the effect that the exporting contracting country is more competitive than other exporting competitors in the market of the contracting import country. As for example, Korea is more competitive than Japan to the market of the EU for export of automobiles and electronic appliances, in the framework of the Korea and EU free trade agreement. Accordingly, bilateral and regional free trade agreements are inconsistent with the principles of GATT and WTO, in inducing the block economy. Economic hegemonies will tend to be created by economic powers.

Regardless such inconsistency with the GATT principles, GATT provisions allow the bilateral and regional free trade agreements (article 24). There are 2 types of agreements allowed. One is "Custom Union" where the internal tariffs are eliminated, and single tariffs are applied toward the third countries, like EU. The other one is "Free-Trade Area" where the internal tariffs are eliminated, and single tariffs are not applied toward the third countries.

In general, free trade agreements cover intellectual property rights, standards for food safety, technical standards for automobiles and other industrial products, finance, investment, government procurement and environment protection, which have not been dealt with in the multilateral

negotiations. In recent years, intellectual property rights are regarded as one of the important issues, since the value is much greater than the value of custom duties. The economic value of fake products is very large. As for agricultural products, the difference of benefit is very large between the case where the name “Parmesan” for cheese is used and the case where is not used. This is the same the names “Champagne” for wine, “Budweiser” for beer.

### **Free trade agreements, Economic partnership agreements**

Country	Counter parts
Japan	ASEAN, Chili, Brunei, Indonesia, Malaysia, Mexico, Philippines, Thailand, Singapore, Vietnam, Switzerland, India, Peru, (Australia, EU, Korea, Canada China)
Korea	EU, USA, ASEAN, India, EFTA, Chili, Peru, Singapore (China, Japan, Canada, MERCOSOUR)
China	ASEAN, Chili, Hong Kong, Macao, Peru, New Zealand, Thailand, Singapore, Taiwan, (Korea, Japan)
India	ASEAN, E U, Srilanka, Singapore, Peru, Thailand, Malaysia, Japan, EFTA, Korea, Canada
USA	NAFTA, Australia, Chili, Singapore, Peru, Bahrein, Morocco, Oman, ( T P P )
E U	Switzerland, Chili, Algeria, Morocco, Egypt, Israel, Macedonia, Mexico, Norway, Colombia/Peru, India, (Canada, Malaysia, MERCOSOUR, Japan)

Note : ( ) countries under negotiations

Source : Ministry of Foreign Affairs

### **9. TPP (Trans-Pacific Strategic Economic Partnership Agreement)**

TPP was launched in 2006 as an economic partnership agreement by the participation of Singapore, Brunei, Chili and New Zealand. In 2008, the USA declared its intention of participating in the Agreement. At present, consultations are conducted by these original countries and USA, Australia, Malaysia, Vietnam, in view of reaching a new agreement. In 2012 Canada and Mexico were allowed to join the negotiations, while Japan has participated in the negotiations in 2013.

The USA is said to have an intention of increasing its economic presence to the Asian and Pacific regions where the economic importance has been remarkably increasing in the world. It is supposed that this agreement may have an effect to prevent Chinese growing economic hegemony over these regions. The agreement is intended to eliminate all barriers to trade, such as tariffs and trade restrictions, as well as to harmonize domestic economic systems so as to reduce their negative effects to trade. In this sense, this agreement is more advanced than any previous agreements.

Subjects to be discussed in the TPP are as follows

- (1) In principle, all custom duties and import restrictions are to be eliminated.
- (2) Following internal economic systems are to be reviewed from the point of reducing negative effects to trade, while they are based on social, cultural and historic reasons.

Medicines, Drug pricing policy, Medical and medical insurance policy, Post and telecommunication system, Insurance system, Public procurement system, Food safety system, Technical standards, System related to intellectual property rights.

- (3) Investor state dispute settlement (ISDA) is to be set.

National treatment shall be applied to foreign investors (foreign companies). Foreign companies could file a suit to an international court against the government which allows a discriminatory measure as regarded as a trade barrier.

At present, like the TPP, we entered in a new stage of the free trade, where proper domestic systems are intervened, in view of reducing negative effects to trade as far as possible, although these internal systems are regarded as under the nation's rights. Such domination of free trade principles over internal measures is under the driving force behind the notion of classical economics that "free" and "competition" create wealth of nations and the trade produces mutual benefits for countries concerned. Accordingly, such process of the free trade may continue further in coming years, while we are not able to predict to what extent it would go.

In the future, we will be much concerned about the adjustment of conflict between the nation's right to protect the life and peace of its population and the free trade to increase the wealth of nation.

### **Conclusion**

Considering the progress of the free trade that we have observed, the theory of classical economics seems to have been proven. The driving force of the principles of Adam Smith and Ricardo is so powerful that the process of free trade will be further intensified in the world. Communist countries like Russia and China have entered the same arena, while some Islamic countries still remain in the different culture.

However, some symptoms of adverse consequences of free trade have begun to be observed in recent years, while countries achieved economic prosperity. One is the social separation between rich and poor. The free competition does not care about losers. Robert Malthus argued that the humanitarian aid to people in misery would make the situation worse, which leaves the serious

question people involved in international assistance to agricultural development.

The other one is a creation of risk or crisis that could not be controlled by the excess of free movement of goods and services, like financial crisis. No effective international agreement on controlling the emission of carbon dioxide constitutes the same problem.

In the further progress of free trade in coming years, countries must be much concerned of the adjustment of conflict between the nation's right to protect the life and peace of its population and the free trade to increase the wealth of nation. At that time, we would need other principle than "free and competition" to govern the order of societies in both developing and developed countries, as Adam Smith tried to identify about 200 years ago.