regulated transfer pricing that encourages inefficient rent seeking in the distribution of these commodities.

Note

[1]International Food Policy Research Institute.

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DISCUSSION OPENING—*David W. Skully* (Economic Research Service, US Department of Agriculture)

The secondary effects of liberalizing wheat, soyabean, and sugar trade in Indonesia—substitution in production and consumption—can be significant, as the paper demonstrates with respect to Indonesian rice production and use. Clearly, our understanding of the possible consequences of liberalization is enhanced by models that incorporate off-diagonals.

All of us who are involved in measuring government intervention in agriculture and assessing the impacts of liberalization face some yet unresolved issues. Two of these are tangential to Rosegrant's paper. The first problem is, how does one know if a policy is protectionist? At its inception, Indonesia's wheat policy subsidized millers and consumers; during the base run of this paper, however, world prices were low and millers were paying above the world price for wheat. Does this mean that the policy is protectionist?

Any policy that attenuates variations in world prices could be alternatively protectionist and subsidizing, depending on the border price. If a policy is rule governed (no discretion), one can calculate a mathematical expectation of the producer or consumer bias of the rule for a given distribution of world prices. Such a technique would allow us to distinguish ephemeral protection from essential protection.

A second issue concerns the often favourable terms of payment developing countries face when importing agricultural commodities. Indonesia imports much of its wheat from the USA at below-market credit rates. The foreign exchange opportunity cost of such imports is exceptionally low, and, by this opportunity cost criterion, the Indonesian government would not have difficulty pricing "protectively" in the domestic market (and capturing rent). This issue is pervasive when trying to identify the bias of LDC intervention. If full liberalization occurs among the OECD nations, will such exports still be available?

GENERAL DISCUSSION—*Philippe Burny, Rapporteur* (Faculté des Sciences Agronomiques de l'État, Belgium)

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The first remark from the floor concerned the projection results. The differences between the three scenarios—fixed domestic prices, trade liberalization, and 20 percent import tariff—were much less important than expected, or so the verbal presentation indicated (effects on domestic prices, on farm income, on consumer expenditures, etc.). In reply, Rosegrant said that was so because the projection results included the cross-commodity effects (e.g., when the price of rice falls, farmers produce more other crops and exports increase, so rice exports decline but other exports increase). Another point concerned the possible regional implications of that trade liberalization. Rosegrant answered that the main shifts could be seen in the production of sugar and cassava.

On the impact of trade liberalization on rural employment, Rosegrant said that it was not a point of particular interest in his study, but that he will attempt to work on it more thoroughly because it is an important consequence. Concerning the way he dealt with the problem (of assuming trade liberalization instead of the fixation of domestic prices) Rosegrant answered that Indonesia has succeeded in achieving self-sufficiency for rice and so a change in policy can occur. One can take agricultural products one by one to see what happens when the usual policy is removed. Rosegrant also added that trade liberalization would avoid high costs within the Ministry of Agriculture (complicated import control).

Participants in the discussion included R.R. Barichello, A. Siamwalla, F. Tarrett, and A. Valdés.