Is Japan Wrong to Keep some Barriers on Food Imports?

Colloquium Presentation

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Japan is in a tight spot regarding food and its agricultural sector, for several reasons. One is that its food self-sufficiency rate (as measured on a caloric basis) is now down to 40 percent, compared with 56 percent in 1985. The purpose of this paper is for you, the reader, to ask yourself what you would do if you were Japanese faced with international trade negotiations that could easily result in the food self-sufficiency rate falling to 20 percent or lower. It is difficult, but to place this enigma in perspective, you might think of how you and others in your country would react considering historical issues with country's that are the source of your imports, food security, and the escalating seriousness of interruptions due to disease, crop reductions due to effects of global warming, etc. You are asked, in particular, to avoid confusing the term food self-sufficiency (meaning 100 percent or near it) with the term used in the presentation *food self-sufficiency rate* (meaning the proportion of net calories consumed that are derived from domestic production).

A Short Primer on Japanese Agriculture and Food

Japanese farming, as in most developed countries, accounts for about 2 percent of GDP. It is relatively mechanized, but rather than being large-scale, is extremely small scale (2 ha per household on average), and in many respects resembles other Asian nations. Continual agricultural restructuring is taking place, but despite Japanese government pronouncements to the contrary, and regardless how much funding the government drops into agriculture (which it can't anyway due to the massive national debt), the nation's geography, population density, and agricultural structure preclude sufficient cost reductions for it to compete in practically any agricultural commodity unless there are adequate tariffs or other trade barriers.

Only 12 percent of Japan's land is arable, compared with 19 percent in the United States and 13 percent in China. The population density is 28 persons per Ha of arable land in Japan, 1.5 in the USA and 10.1 in China. Rice accounts for about 25 percent of all Japan's agricultural output (value basis) and utilizes about 40 percent of its arable land area. There are 3.1 million farm households of which only 14 percent are full time, another 11 percent are part-time primarily engaged in farming and the rest are mainly engaged in other jobs. At least 80 percent of the 3.1 million Japanese "farm" households produce at least some rice, but only 42 percent sell it. About 55 percent of Japanese farmers are statistically considered as

commercial rice producers. But in practicality the term "commercial" overstates the number for it only means they have a parcel equivalent to at least 30 X 100 meters and meet very minimal sales standards.

Per capita consumption of rice has been declining while yields have been increasing. As a result, rice surpluses are such a chronic problem that enforcement of rice production reducing policies is one of the Ministry of Agriculture's greatest headaches. The changes have been significant. For example, in 1985 there were 2.3 million ha planted to rice. By 2000 it had declined 24 percent to 1.8 million ha. Production declined 17 percent over that period to 9.5 million tons in 2000.

Production-limiting rice diversion programs (the shifting of land use to other crops) are used to counter the effects of declining production and land use, but even they are not sufficient to stem loss of land from agriculture. The decline is not due to technical inability to produce enough food. Rather, it is because the cost of production and marketing in Japan is very high due to a variety of geographic, population density, climatic and agricultural system reasons. The root cause for the falling rate is market opening concessions on beef and citrus in the 1980s, and others resulting from Uruguay Round agreements effective from 1994.

There is a lot of media hype about the importance of Japanese farmers in national politics, and how their lobby is responsible for Japan's agriculture being "protected" from the rest of the world. It is true that farmers and their organizations have fought hard to preserve Japanese agriculture. However, the 776,000 full time and part-time households that mainly are devoted to farming only constitute 1.6 percent of all Japan's households. Whatever "evil" strength they might have, their tiny proportion is certainly too small to influence politicians into "coddling" farmers regardless of how Japan's legislative representation is set up. The remainder of Japan's 3.1 million households classified as "farmers" is a diverse group, substantial proportions of which are more influenced by factors other than agriculture when they vote for their representatives. What this means is that decisions about Japan's food really lie in the hands of consumers (or more realistically in the hands of elected politicians and even more realistically in the hands of bureaucrats), and not farmers and their organizations.

Japan's Trade

Total trade

Japan's total imports have continued to grow, from $235 billion in 1990, to $380 billion in 2000. It has had a substantial trade surplus running from 18 to 50 percent over that

period. This surplus is a continual bone of contention in trade circles for the implication is that it's only fair that Japan reduce it by opening its borders further.

The opposite side of the coin is that Japan has a huge trade deficit in agricultural products, continuously at about 95 percent. Agricultural commodities account for about 10-13 percent of all imports, and Japan is the largest importer of agricultural commodities in the world.

United States

One reason the United States is at the forefront of efforts to open Japan's markets further is the large trade deficit it has with Japan, running between 35 and 70 billion dollars, depending on the year. The U.S. is worried about the continual trade deficit, as they well might be, and rice is a target. Agricultural imports constitute 15-18 percent of Japan's total import value from the U.S. so that a logical question is the extent to which additional market opening would help mitigate the chronic total trade imbalance problem. It turns out that if ALL of Japan's rice was imported, and ALL from the US, it would only amount to about 5-6 percent of the total deficit. Conclusion: Rice is simply not a big-ticket item in solving U.S./Japan trade friction.

Trade negotiations are about tradeoffs. So how about cars in the trade deficit equation? The value of one exported car is about equal to the international market value of rice production by 10 farmers. So, which has a higher value to society, both domestic and international, *in the long term*? This is the kind of question that should be considered in trade opening demands related to agriculture.

China

The trade issue related to China is vastly more complicated that of the U.S., largely because of food security aspects. For one thing, there has been relatively little change in total trade between the U.S. and Japan. In contrast, total Japanese imports from China have grown from $12 billion in 1990, to $55 billion in 2000. China, in juxtaposition to the United States, runs a net trade surplus with Japan, which has grown from $6 billion in 1990 to $25 billion in 2000.

Apart from rice, Japan is what might be considered a "mature market" from the US perspective in agricultural trade. In contrast, Japan but it has great potential for China, from which Japan's imports have grown from $1.9 billion to $5.7 billion between 1990 and 2000. The proportion of food sourced from that nation is growing very rapidly, having doubled from 7 percent of all Japan's food imports in 1990 (in U.S. dollar terms) to 14 percent in

2000. Looking at it another way, although China has industrialized quickly, and Japan's imports of manufactured goods from it have grown dramatically, food still accounted for 10 percent of all types of Japanese imports from China in 2000.

A very few commodities, such as rice, have very high tariffs in Japan and even a moderate reduction in them would lead to a tidal wave of imports, particularly from China, which has considerable production capacity and cost advantages in vegetables, fruits and other specialized commodities—and rice (e.g. Ito, Rosegrant and Agcoaoili-Sombilla, 1995; Rozell, 2003; Simpson and Li, 2001).

Japan's imports of vegetables and fruits from China grew from $0.5 billion in 1990, to $2.0 billion in 2000. Fresh and chilled vegetables accounted for 47 percent of all kinds of vegetable and fruit imports in 2000, up from 36 percent in 1990, a 14 percent annual rate of growth. This is a fast growing food category, and has been the major source of contention about trade between China and Japan since late 2000 because of the substantial negative impact it is having on Japanese producers. By 2000, China accounted for 44 percent of all Japan's fresh vegetable imports, and 32 percent of all types of fruit and vegetable imports. Twenty percent of Japan's vegetable consumption is now imported, and it can easily reach 30 percent or more in a few years.

Safety of food imported from such a large exporter is of equal importance to Japanese consumers as is dependency on a huge neighboring country. It is true that great strides have been made in improving safety standards in China, but there is still lack of ability to monitor much of the food chain. For example, widespread lack of farmer compliance with use of agricultural chemicals is a reason for serious unease among Japanese consumers as well as among Chinese.

Trade theory teaches that competitive advantage is the driving force of international trade. It is, and in most cases it is a sufficient condition for arguments on opening markets further. But Japanese have reason to believe that they could become a trade prisoner of sorts if they have an overwhelming dominance on imports of one food group from one country. This is a potentially serious regional problem given long-term animosity that still lingers toward Japan as evidenced by the fierce backlash when Japan invoked its safeguard on 3 very minor commodities (shiitake mushrooms, stone leeks and rushes for tatami mats) in April 2001. A formal closure on the safeguard issue was reached in December 2001, but the issue has never really been resolved as WTO (World trade Organization) regulations on safeguards prohibits two countries from making an agreement on market access—as the Japanese and

Chinese would like to do in order to foster good relationships. Should all of this matter in deciding on WTO trade rules? The answer by most of those who follow East Asian politics, and are concerned about stability in the region, is a resounding yes.

Welfare: Benefits—and—Costs

It is true that food prices to consumers would decline somewhat with further liberalization, as have been pointed out in global studies on welfare benefits from expanded agricultural trade liberalization. Proponents of further Japanese agriculture market access allege that substantial market opening would lead to great welfare benefits for all Japanese. How accurate is that assertion?

Consumer Welfare Studies

An Australian study by Bull titled *Agricultural Trade Policies in Japan: The Need For Reform* released in May, 2001 contains estimates that Japan would derive $US9 billion in direct and indirect annual welfare benefits if its food and agricultural tariffs were cut in half, and that would be enough to really help stimulate the ailing Japanese economy. But, just how much is $US9 billion, anyway? The answer is just $US71 per person, only 0.2 percent of GDP per capita, and unlikely to have much net positive impact on the economy.

A May 2001 report from the United States Department of Agriculture (USDA) edited by Burfisher titled *Agriculture Policy Reform in the WTO: The Road Ahead,* revealed that if *all* agricultural tariffs and subsidies were eliminated (which translates to the demise of Japan's agriculture and most of its food processing industry), welfare benefits to Japan and Korea together would be $US6.2 billion. That translates to $US36 per person. The two studies use different approaches to the calculations. Nevertheless, they are reasonably close and most important; the "*welfare*" benefits are small.

Validity of Assumptions

One of the major assumptions in welfare studies is that farmers, food processors and allied businesses really have viable, rewarding alternatives for their land, labor and capital. Unfortunately, that assumption is not valid in Japan considering demographic aspects of farmers, small farm size and production practices. This is a fundamental issue since the agricultural sector includes many economic activities beyond the farm gate such as input supply, wholesaling, processing and retailing. For example, Edmondson (2001, as cited in Blandford and Boisvert, 2002b) calculates that in the United States the expanded agriculture

and food sector contributed about 12 percent of national income in 1999, in addition to 17 percent of total employment. Japan is likely similar.

The deepening recession and declining land prices are other variables. It is widely accepted that high costs are a major reason Japanese manufacturing sector companies are relocating to other East Asian countries, especially China. That structural readjustment, which is a natural phenomenon in economic development, is widely expected to accelerate if tariffs on agricultural commodities are decreased substantially so that food imports would increase significantly. In effect, the outcome of deliberations in this round of WTO negotiations might be a deciding factor on whether Japan's agriculture and related industries survive or not.

So, why not just write off agriculture in Japan, simply depend on what is left of the manufacturing and services sectors, and concentrate on signing free trade agreements (FTAs)? Why not just let the 3 million small, mainly part-time farmers, and a host of food chain industries die out and just turn the job over to large-scale, low cost producers in the agricultural resource endowed countries as strongly argued by the Cairns Group? That leads to a question about the benefits to the exporting countries from essentially decimating Japan's agriculture. The USDA study is particularly instructive on this point. It turns out that New Zealand and Australia would gain $US158 per person. The United States would gain the equivalent of $US49 per person. So, where does this really leave Japanese and their $US36?

There is a major social issue related to Japanese farmers, as nearly half are 65 years and older, and another one fourth are 55-64 years of age. If Japan is forced to reduce its tariffs on rice substantially, half of them could easily be forced to abandon rice production. Most would be the aged, who, like their younger counterparts, realistically have very few viable alternatives for their land, equipment and labor. The national pension for aged people is low, which means they have deep concerns about how to pay taxes, health costs, and so forth. They, like farm families all over the world, think about quality of life in their older age and most want to be able to continue in food production. Nowadays in Japan there is much discussion about ways in which older urban people can continue to work, and there are even ideas being projected about make-work plans by the government. Well, why not keep farmers, even part-time ones, in agriculture?

There are, of course, other benefits to Japan keeping its farming workforce beyond those espoused in multifunctional aspects of agriculture that are the heart of many country's (such as Mauritius, south Korea, Switzerland) agricultural trade policies if one wishes to

focus on cold, hard economics. One is tourism, another big topic as bureaucrats try to lure more foreign visitors. Japan has relatively few natural areas that lend itself to foreign tourism, and consequently much of the hype is about viewing the idyllic traditional farming villages. If a substantial amount of rice is imported the more marginal land, most of which is in the most scenic areas, will be the first to be taken out of production.

Why Not Ask Consumers What They Want?

The principal assumption in consumer welfare studies is that consumers will be better off by being recipients of cheaper food. But how about asking them? Why not ask their views about greater market access by providing facts on benefits and costs. Take rice for example. Consumers would get a clear view by understanding that if just 40 percent of Japan's rice were imported (compared to 5 percent today) it would mean that one million average size commercial rice-producing farm households would be forced out of business. As another way of looking at the tradeoffs, if the retail price of rice were to be cut in half due to significantly expanded imports, it would be equivalent to a savings of about $75 per household annually. That may seem like a lot, but is only about $0.20 per day per household, or $0.08 per person. Is that worth one million farmers and associated industries? How many Japanese would feel comfortable under this scenario? Even absent this kind of information simple opinion polls do clearly reveal that Japanese want some basic level of domestic food production, and they would like that level to be even higher than it is at present.

A proposal was forwarded by Simpson and Schoenbaum (2003) for use of conjoint analysis or other methods to be used to determine consumer willingness to pay higher prices for food when concerned about food security. We argue that such interviewees should be provided with information on costs as well as benefits, and tradeoffs from alternative decisions. The sad fact is that under the rules agreed to by Japan in the Uruguay Round, and what now constitute the core of WTO regulations about agricultural trade, Japan has no way to set some minimum level of food security from domestic production even its citizens overwhelmingly want it. This is because, while countries do have a right to pursue domestic agricultural policy objectives, and WTO cannot pass judgments on them, the WTO "box system" does restrict countries' agricultural and trade policies based on the instruments (in effect the methods, procedures or rules) they use to achieve these objectives. The cold hard fact is that currently Japanese are caught in a "black box" from which there is no escape unless there are rule changes in WTO law.

The reality is that Japan is in a very unique situation as it is an economically developed nation, and as such is exhorted to help developing nations achieve a higher level of food security and income by opening its borders wider. The big question the international community should be asking is whether it is in national, regional and world interests to make Japanese sacrificial lambs by decimating their agriculture sector. There has never been a discussion about the extent to which Japan's food self-sufficiency rate should be pushed down, or even if its citizens have a right to decide the level for themselves. I believe food is somehow different than other commodities, and that these topics hark back to the original concepts of economics as "political economy" rather just cost reduction as epitomized in contemporary trade theory.

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