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## Japan's non-trade concerns: legitimate or protectionist?

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**Abstract:** The purpose of this article is to explain why Japan, with its food self-sufficiency rate at 40%, is at risk from severe tariff reductions and why it should be accorded special dispensations in WTO agreements on agriculture. The main issue evaluated is whether substantial net food importing countries like Japan, with their extremely high-cost agricultures, should be granted some exemptions in trade negotiations in order to meet the goal of a 'fair' and 'equitable' trade system. Included are implications for regional stability, impacts on consumer confidence and concerns about the well-being of all citizens. Studies on purported benefits of consumer welfare in Japan from liberalisation of agricultural trade were found to be flawed due to invalid assumptions and failure to account for losses. It is concluded that exclusions should be adopted as part of non-trade concerns (NTCs) mandated to be taken into account at the WTO agricultural trade negotiations.

**Keywords:** agricultural trade; Doha agenda; Doha development agenda; globalisation; human rights; non-trade concerns; WTO.

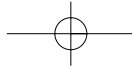
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**Biographical notes:** James R. Simpson, an international agricultural economist, is Professor Emeritus, University of Florida. He has served on long-term assignments outside of his native USA for over 15 years in addition to having short-term work in over 30 other countries. Dr Simpson is author of nine books in international topics and of 400 articles and shorter publications. He has done extensive consulting for many national and international organisations.

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### 1 Introduction

Japan is in a difficult position regarding its food and its agricultural sector. Its food self-sufficiency rate (a measurement, on a caloric basis, of the extent to which the country produces its own food) is now down to 40%, compared with 56% in 1985. Thought of another way, 60% of its food consumption (on a caloric basis) is now imported. Its dependency on imports for food could climb to 80% if there were significant reductions in tariff rates due to its very high production costs. A word of caution right at the beginning – the term food self-sufficiency rate is practically unknown outside net food importing countries. For this reason care must be taken to really understand the term as



it is often confused with autarky, the desire for complete self-sufficiency. That is not what Japan aspires to. The rate is simply a measure, like the amount of trade surplus or deficit, and not an end in itself.

Casual observers, and many economists steeped in neoclassical trade theory, might say 'so what's the problem with 40%, food is just like any other commodity to which the laws of comparative advantage apply. After all, trade theory has a very rational basis by opening the opportunity for consumers to buy more, and a wider variety, of goods at cheaper prices.' Detractors raise the question: should economic criteria always be given predominance in a quality of life based welfare function? How about food security, regardless whether threats are real or imagined?

It is probably quite difficult for anybody living in a nation that has a high food self-sufficiency rate, or is a net exporting country such as Australia or the USA (Table 1), to understand the fear faced by the Japanese from the knowledge that their food supply could be threatened. The uneasiness is not concern about starvation or not having enough to eat, as it is in some developing countries faced with periodic famines. Rather, a whole host of concerns are involved that can be quite frightening such as worry about what might happen if a substantial portion of their staple food, *Japonica* type rice, were produced primarily in another country, a major ecological disaster happened there, and Japan's supply of it was cut off. A related situation happened in 1973 when the USA placed an embargo on soybeans after a bad crop and essentially said 'Sorry Japan, but we have to take care of our people first.'

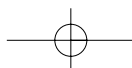
**Table 1** Food self-sufficiency rates in selected countries 2002

Country	Percent	Country	Percentage	Country	Percentage
Australia	230	Japan	40	Sweden	87
Canada	120	Korea	49	Switzerland	54
France	130	Netherlands	67	UK	74
Germany	91	Norway	52	USA	119
Italy	71	Spain	90		

*Note:* Data are on a caloric basis rather than a value basis due to a variety of commodities, use of some commodities in the production of others, and exchange rate fluctuations.

*Source:* Ministry of Agriculture, Fisheries and Forestry, Japan, September, 2004. Available online at: <http://www.kanbou.maff.go.jp/www/jikyu/report15/h15refer4.pdf> and from Ministries of Agriculture, Korea and Norway.

Ostensibly, simple concerns of the Japanese due to the low food self-sufficiency rate, such as not being able to get a particular product if an exporting country responsible for a large portion of Japan's consumption decided to place an embargo on exports of it as a retaliatory trade weapon over some bilateral grievance, are not life threatening. Are they enough to make some consumers lose sleep over them? Yes. Are they enough to cause stress and reduce quality of life? Definitely. Are Japanese consumers really apprehensive? Absolutely. For example, a large scale survey released by Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF) in 2004 revealed that 90% of citizens are concerned about the low food self-sufficiency ratio (Japan Agrinfo Newsletter, 2004a). More than 80% felt that the current rate of 40% should be raised by a significant margin. Another 2004 survey



showed that 66% of consumers were concerned about the safety of imported foods (Japan Agrinfo Newsletter, 2004b).

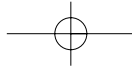
Similar findings to those reported from MAFF surveys, revealing great insecurity, desire for the preservation of domestic agriculture, and concern about the future, have continuously been reported in nationwide polls. For example, 55% of respondents to a 2000 poll answered a 'strong yes' to the question of whether agriculture and the multifunctionality components of it should be kept for future generations. Another 38% replied, 'Yes, if possible.' The strongest indicator of concern about food security was that 79% in the survey replied that 'definitely yes,' Japan should establish a basis for food security and another 15% replied with a 'medium yes.' These data show why the mandate to take non-trade concerns (NTC) into account in the current round of negotiations is so important.

Food security is definitely on the minds of Japanese and they want government to do something about it because they feel they should have the right to protect themselves – in the way they want to – in international trade matters. And, they do indeed have a basis for that right in Article 1 of the *International Covenant on Economic, Social and Cultural Rights* (ICESCR) promulgated by the United Nations. That Article states:

“All peoples have the right of self-determination. By virtue of that right they freely determine their political status and freely pursue their economic, social and cultural development. All Peoples may, for their own ends, freely dispose of their natural wealth and resources without prejudice to any obligations arising out of international economic cooperation, based upon the principle of mutual benefit, and international law. In no case may a people be deprived of its own means of subsistence.”

Japan, and a number of other economically developed nations that signed the covenant, are in a very unique position in WTO negotiations. One problem is that while countries have the right to determine policies to achieve their desired goals in agriculture, agreements can be, and are, so onerous on net food importing countries with relatively low food self-sufficiency rates that the goals cannot be met. Another constraint is that while WTO member countries may have signed the UN covenant, it is not binding in WTO as the legal basis of the two entities is separate. The third difficulty is that developed countries are under great pressure to help developing nations achieve a higher level of food security and income by increasing imports from them. Additionally, these net-food importing countries are also exhorted to reduce their trade barriers to meet the long-term objective stated in the Preamble to the Uruguay Round Agreement on Agriculture (URAA) 'to establish a fair and market-oriented agricultural trading system.' The big question the international community should be asking is whether it is in national, regional and world interests to make Japan, and other countries with relatively low food self-sufficiency rates, sacrificial lambs by further decimating their agricultural sectors. Is the obvious objective of globalisation – enhancing the continuing integration of economies and societies around the world – unabashedly worth it?

There has never been a pointed discussion in WTO 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. However, in this round of negotiations the Preamble states that 'commitments under the reform programme should be made in an equitable way among all Members, having regard to Non-trade Concerns, including food security



and the need to protect the environment.' Is food different than other commodities and services? To many it is a resounding yes, and that a balance must be struck between agricultural trade liberalisation, on the one hand, and NTC on the other.

The purpose of this article is to put a human face on the NTC issues by showing why Japan cannot be competitive internationally in food production, and why it, and other nations in a similar predicament, should be provided special treatment in agricultural trade negotiations. The chronicle is important because these countries are examples of 'market failure', the major reason why NTC were written into the Uruguay Round Agreement in Agriculture in an effort to meet the goal of a 'fair' and 'equitable' trade system. The following account details why the Japanese look on food security as a form of insurance, political independence, the right to social and cultural aspects of their choosing, welfare for the growing proportion of aged people involved in agriculture and other parts of the food chain, and even sustainability of scenic aspects of their rural areas.

## **2 Japan's consumer welfare: who loses and who gains?**

Consumer welfare is the main analytical tool used by economists to measure trade distortion costs. The idea is that if countries with a competitive advantage in agriculture increase their proportions of global agricultural products, that will lead to increased production efficiency at the global level. That, in turn, will result in total higher incomes, lower prices and increased purchasing power at the global level. The concept is that the world's consumers will also benefit from a better match of products with their preferences and thus, *on the whole*, trade liberalisation will provide a greater array of goods and services to consumers than without liberalisation. Indeed, in the aggregate this is what has happened.

Proponents of further Japanese agriculture market access have alleged that substantial market opening would lead to great welfare benefits for all Japanese. How accurate is that assertion? There are two major reports about how the world and the Japanese will purportedly achieve great welfare gains from reducing Japan's agricultural trade barriers. The problem, particularly regarding net food importing countries with medium to low food self-sufficiency rates, is recognition that there are losers as well as gainers. Quantitative analyses concerning consumer welfare benefits from trade liberalisation have concentrated on measuring benefits with little attention given to costs.

An Australian study by Bull and Roberts 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% of GDP per capita, and unlikely to have much net positive impact on the economy.

A May 2001 report from the USA 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, yet they are reasonably close. The

conclusions were that the 'welfare' benefits are small. One very troubling aspect is that economic modelling of welfare benefits at best necessitates numerous assumptions.

### 3 Validity of assumptions

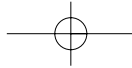
One of the major assumptions in welfare studies is that producers, food processors and allied businesses really have viable, rewarding alternatives for their land, labour and capital if tariffs are substantially lowered and 'sensitive' commodities are not somehow protected. Unfortunately that crucial assumption, as explained in this article, is not valid in Japan, thus leading to wrong conclusions. 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. The drastic effect on them must be incorporated in economic analyses but it is not a part of the methodology. For example, Edmondson (2001, as cited in Blandford and Boisvert, 2002) calculated that in the USA the expanded agriculture and food sector contributed about 12% to national income in 1999, in addition to 17% of total employment. Japan's proportion is likely to be smaller, but these data indicate that with a significant decline in their activities, rural as well as urban economic viability would be dramatically – and irrevocably – negatively impacted.

Japan's long-term recession, from which it is still reeling, and declining land prices are other variables. In fact, falling land prices are a major reason aged people are reluctant to sell or even rent out their land, and a reason why the MAFF programme to increase 'core' farmers has not met its targets. It is widely accepted that high costs are a major reason many 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 reduced to the extent that food imports increase substantially. In effect, the outcome of deliberations in this round of negotiations might be a deciding factor on whether Japan's agriculture and related industries survive or not.

So, why not just write off agriculture and related economic activities and simply depend on what is left of the manufacturing and services sectors? Why not just let the three million small, mainly part-time farmers, and a host of food chain industries drop out and simply turn the job over to large-scale, low cost producers in the resource endowed countries, as strongly argued by the Cairns Group? That leads to an examination and comparison of 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 USA would gain the equivalent of \$US49 per person. So, where does this really leave the Japanese and their \$US36?

### 4 Why not ask citizens what they want?

A major assumption in consumer welfare studies is that consumers will be better off by being recipients of cheaper food. It is true that food prices to Japanese consumers would decline somewhat with further liberalisation. But, is that enough to compensate citizens for national economic losses, and taking on food trade prisoner risk? How about asking them? The survey, mentioned at the beginning of this paper, revealed that 90% of Japan's



citizens are concerned about the low food self-sufficiency ratio. Since the results were released in February 2004, numerous reports about the threat of animal diseases such as the spread of a highly pathogenic strain of avian influenza (fowl plague) through Asia have heightened their concern over the safety of food, and it is likely that wariness of dependence on imported food will grow even further.

It is clear that the falling food self-sufficiency rate is a big concern, and has resulted in increased anxiety about food. In 1990, 13% of respondents to the periodic MAFF surveys replied that they felt very insecure by the food self-sufficiency level (which was 47% at that time). By 2000 (when the rate had fallen to 40%) the proportion feeling very insecure had doubled, to 27%. By 2004 it was over 40%. There is no question about it. The food security issue is resulting in a definite increase in an already high stress level among the Japanese.

Why not ask consumers their views about greater market access by providing facts on benefits and costs? Take rice for example. They would get a clear view by understanding that, if 40% of Japan's rice was imported (compared to 5% 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 trade-offs, how about explaining that 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 \$US75 (actual calculations) per household annually? That may seem like a lot, but is only about \$US0.20 per day per household, or \$US0.08 per person. Is that worth one million farmers and associated industries? How many Japanese would feel comfortable under this scenario? The conclusion is that even absent information about national and household level costs, benefits and trade-offs, simple opinion polls, 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. But, why can't Japan simply restructure its agricultural sector to meet desires of citizens?

## **5 Japan has little arable land**

Japanese farming, as in most developed countries, only accounts for about 2% of GDP. It is relatively mechanised, but in contrast to other developed countries, is extremely small scale (2 ha per household on average). In many respects it resembles most other Asian nations in its land tenure system, farm size, and its rice-based crop makeup (that accounts for about 25% of all Japan's agricultural output on a value basis, and utilises about 40% of its arable land area). Only 12% of the nation's land area is arable, compared with 27% in the Netherlands and 15% in China (Table 2). Japan is mainly a mountainous country, which leads to very high production, transportation and marketing costs.

## **6 Japan has a very high population density**

Japan's population density is 29 persons per ha of arable land, as opposed to 18 in the Netherlands and 9 in China (Table 3). It is similar to Korea in population density and in having about two thirds of its land area in the forms of mountains or covered in forest. Another similarity is that irrigated land accounts for 50% of all Japan's agricultural land, and 59% of Korea's agricultural land. Fields are mostly very small in both countries. The conclusion from this is that Japan has little flat land suitable for large- or even medium-scale agriculture.

**Table 2** Agricultural areas in selected countries as a percent of total land area, 2002

<i>Country or region</i>	<i>Total land area</i>	<i>Agricultural area<sup>a</sup></i>	<i>Arable land area</i>	<i>Permanent crops</i>	<i>Permanent pasture</i>
<i>Percent</i>					
World	100	38	11	1	27
Australia	100	58	6	0	52
France	100	54	34	2	18
Germany	100	49	34	1	14
India	100	61	54	3	4
Japan	100	14	12	1	1
Korea, Republic of	100	20	17	2	1
Netherlands	100	58	27	1	30
Taiwan	100	25	24	NA	0
UK	100	70	24	0.4	46
USA	100	45	19	0.4	26
China	100	59	15	1	43

*Note:* <sup>a</sup>Agricultural area includes arable, permanent crops and permanent pasture.

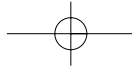
*Source:* All except for Taiwan derived from online [www.fao.org](http://www.fao.org). Taiwan from online: [www.coa.gov.tw](http://www.coa.gov.tw).

**Table 3** Population density in Japan compared with selected countries and regions, 2002

<i>Country or region</i>	<i>Total land area</i>	<i>Agricultural area<sup>a</sup></i>	<i>Arable land area</i>	<i>Permanent crops</i>	<i>Permanent pasture</i>
<i>Persons per ha</i>					
World	0	1	4	48	2
Australia	0.03	0.04	0.40	65	0.05
France	1	2	3	53	6
Germany	2	5	7	400	17
India	4	6	6	125	95
Japan	3	25	29	371	298
Korea, Republic of	5	25	28	246	847
Netherlands	5	8	18	487	16
Taiwan	6	24	25	NA	4653
UK	2	3	10	1186	5
USA	0.3	1	2	142	1
China	1	2	9	113	3

*Note:* <sup>a</sup>Agricultural area includes arable, permanent crops and permanent pasture.

*Source:* All except for Taiwan derived from online [www.fao.org](http://www.fao.org). Taiwan from online: [www.coa.gov.tw](http://www.coa.gov.tw).



## **7 Rice is life, but a government headache**

Seven percent of all households in Japan are considered 'farm households', but less than 1% are full-time farmers. About 55% of the 3.1 million 'farm households' are statistically considered as 'commercial,' a term that drastically overstates the number for it only means they have a parcel equivalent to at least 30×100 m and meet very minimal sales standards. The reality is that 86% of the 3.1 million 'farm' households are part-time, mainly engaged in other jobs, are retired or aged people, are residents of areas that have urbanised around them, or are simply people living in rural areas. At least 80% of these 'farm' households produce at least some rice although just 42% sell part of it.

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 2004 it had declined 30% to 1.7 million ha. Production fell 22% over that same period. The decline is not due to technical inability to produce enough food. Rather, it is because the population has stabilised, an increasingly high proportion of Japanese are elderly, diets are shifting, and agricultural imports are being liberalised.

Production-limiting rice diversion programmes (i.e. the shifting of land use to other crops) are used to counter the effects of the declining production and land use, but even they are not sufficient to stem loss of land from agriculture. Most important is that potential entrants are fearful – as are current farmers – about uncertainties regarding international demands for further trade liberalisation. They know that their costs are not competitive with major exporting countries, and they know there is little they or their government can do about it. The conclusion is that farming in Japan, or at least land cultivation, is as much a social issue as an economic one.

## **8 Why can't Japan restructure and improve its competitiveness?**

A logical question is what makes Japan so special that they cannot restructure. Actually, continual agricultural restructuring is taking place but, despite Japanese government pronouncements to the contrary, and regardless how much funding the government injects into agriculture (which is unrealistic due to its 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 allowances governing trade liberalisation.<sup>1</sup> A large portion of potential 'core' farmers, or ones that might like to reach that level, do not believe their government can protect them. Indeed, the Ministry of Agriculture, Forestry and Fisheries (MAFF) announced in mid-2004 that the programme initiated in 1999 to concentrate farmland in the hands of 'core' farmers had fallen short by 50%. Apart from international competitiveness concerns, potential entrants are stymied by their inability to amass economically-sized farms from the hodgepodge of tiny scattered irrigated fields to increase average farm size, reduce production costs, and achieve a relatively high level of net income.

Naturally, each country has comparative advantages and disadvantages in natural resources and in agriculture. One important factor is population density. Nations with a very

low density, such as France with just three persons per ha of arable land, can easily maintain a high food self-sufficiency rate (130% for France) (Tables 1 and 3). The corresponding figures for Germany are seven persons and 91% self-sufficiency. It is two persons and 119% in the USA, and 0.4 persons and 230% in Australia. In contrast, Japan has 29 persons per ha of arable land, and only 40% self-sufficiency. Clearly, Japan's extremely high population density is a major negative in terms of its food self-sufficiency ratio.

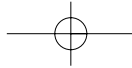
The Netherlands provides a good comparison with Japan as it has a relatively high population density (18 persons per ha of arable land) and is a net food importing country with a 67% food self-sufficiency rate. One difference is that the Netherlands is a substantial food exporter as well as being a large agricultural commodity importer.

Japan has about 10 times the land mass of the Netherlands. But, because Japan is so mountainous and the Netherlands is nearly completely flat, only 14% of Japan's land is classified as agricultural compared with 58% of the Netherlands (Table 2). Japan has very little permanent pasture (1% of all land area) while the Netherlands has a great deal (30% of all land area).

It is true that the Netherlands' 18 people per ha of arable land is relatively high when compared with China's nine people and the USA at two (Table 3). However, flat terrain in the Netherlands, large farms, large fields conducive to irrigation (62% of its agricultural land is irrigated compared with 50% in Japan), and use of large size machinery are some of the invaluable factors of production that have permitted the Netherlands to attain the economies of size necessary to be a relatively low-cost producer.

Farms in the Netherlands are extremely large compared with Japan, 20 ha opposed to 2 ha, although modest compared with the average of 200 plus ha in the USA. The myth that farms in Europe are quaint small ones struggling to survive is still widespread, but in reality the trend in the European Union (EU) is towards farms being 50 ha or more. Currently, although physical size per farm is smaller, the Netherlands has the greatest proportion of economically-sized operations in the EU because they are capital and production system intensive. The reality is that even though the largest amount of farms in the Netherlands are family owned or operated, they have considerable economies of size and production intensity that Japan cannot conceivably begin to match in the foreseeable future.

The Netherlands has a few other factors on its side. One is great specialisation in a few commodities, such as pig production. Unlike Japan, urban areas are quite separated from most agricultural production, and appropriate cropping systems support the use of pig manure for fertiliser (a big problem in densely populated Japan). Close proximity to seaports and grain exporting countries is also an advantage to the Netherlands which has resulted in it being a large net pork exporter. Japan, on the other hand, is doomed to being a very high cost meat producer due to, among other factors, its rugged geography, high cost transportation system and dependence on animal feedstuffs. The relatively large amount of pastureland in the Netherlands (an average of 16 persons per ha versus 298 in Japan) also allows it to specialise in production of beef, much of which is exported. In summary, the comparative advantage in resources is an indispensable advantage to a country being an exporter or importer of agricultural commodities. The conclusion is that Japan has virtually no possibility of restructuring sufficiently to reach a competitive level and rice, its staple crop, is the only commodity for which it is really suited. So, does that mean the Japanese should simply recognise their almost complete lack of competitiveness and give in to the inevitability of agricultural trade liberalisation?



## 9 Support for agriculture

The Japanese strongly support the need for an even stronger agriculture even though, as MAFF surveys reveal, they feel uninformed about their nation's agriculture and agricultural policy. They are not alone. Two surveys reported on in Elliott (2001) revealed that only 50% of Europeans had ever heard about the Common Agriculture Policy (CAP). Despite this, almost half of the general public surveyed said European governments should boost spending on agriculture. Furthermore, over 90% of the general public in the EU recognise the importance of agriculture and want to learn more about it. A significant aspect of the two surveys was that both the general public and farmers put food safety and environmental protection as their top goals for farm policy. Both groups in the surveys regarded protection of farm incomes and small farms as being inadequate, support protecting farm incomes, and ensuring the competitiveness of European agriculture in international markets.

Europeans place a great deal of attention on protection of the environment – both urban and rural. They strongly value beauty, both human-made and natural, and are proud of their culture, nations and the communities where they live. It is not unreasonable to suppose that if surveys were available, they would show that nearly all Europeans believe that food *is* life. The conclusion is that these non-quantifiable factors are a major reason why the EU in general, and several of its members specifically, have supported Japan's proposal for a multifunctionality approach in the WTO negotiations – and understand why efforts should be made to preserve its agricultural sector despite all the insurmountable constraints to cost reduction and international competitiveness in food production.

## 10 Political influence by Japanese farmers

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 (Simpson and Yamada, 2004). It is true that farmers and their organisations have fought hard to preserve Japanese agriculture. However, the 750 thousand full-time and part-time households that mainly are devoted to farming only constitute 1.6% of all Japan's households. Whatever 'evil' strength they might have, their tiny proportion is certainly too small to influence politicians into 'coddling' farmers only to improve their incomes, 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, most of who are more influenced by factors other than agriculture when they vote for their representatives. In conclusion, Japanese farmers (like US farmers whose numbers are about 2% of the population, for example) do seem to wield considerable power out of proportion to their numbers. But, it can be strongly argued that Japanese citizens recognise that food *is* life, and they feel it is important to nurture the safety and non-market aspects of it.

## 11 Social issues in the rural areas

Welfare of farmers has been a major social issue ever since the occupying forces in Japan oversaw land reform after WWII. In due course, concern about food production as a

primary target of national policy gradually shifted to income parity of rural residents with urban dwellers. Currently, the primary issue is what to do with aged people as nearly half of household heads classified as 'farmers' are 65 years and older, and another quarter are 55–64 years of age. If Japan is forced to reduce its tariffs on rice and other 'sensitive' food commodities 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 labour. The national pension for aged people is relatively low, and many people help meet their daily living requirements by food production. 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. Why not keep farmers, even part-time ones, in agriculture? True, Japan is one of the primary countries providing domestic support to 'farmers.' But, why should Japan be forced into simply paying welfare subsidies when a large portion of affected people can produce food, and want to provided 'sensitive' commodities are protected from significant market opening?

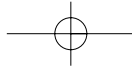
There are, of course, other benefits to Japan keeping its farming workforce beyond those espoused in multifunctional aspects of agriculture if one wishes to focus on cold, hard economics. One is tourism, another big topic as bureaucrats try to lure more foreign visitors. Japan has relatively few natural 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 were to be imported, the more marginal land, most of which is in the most scenic areas, will be the first to be taken out of production.

## 12 Agricultural trade liberalisation has virtually no impact on trade deficits

Japan is the largest importer of agricultural commodities in the world and the USA has been its biggest supplier. Japan also runs an overall trade surplus; a constant bone of contention for the implication is that it's only fair that it open its borders to even further food imports in an effort to reduce the surplus. The USA has been Japan's number one deficit country with the result that, even though it is Japan's largest food supplier, there are continual calls for Japan to import even more to reduce the trade deficit, and rice has been the main target.

It turns out that if ALL of Japan's rice was imported (meaning that 2.5 million households would be affected, and the food self-sufficiency rate would fall to below 20%), and ALL from the USA, it would only amount to about 5–6% of the total deficit. In conclusion, rice is simply not a big-ticket item in solving US/Japan trade friction. The example of the USA has been chosen because it is easy to understand. Clearly, drastic opening of Japan's rice market would benefit several countries, not just one. But, the inescapable conclusion is that the impact on Japan's entire trade deficit would be negligible and cannot be used as justification for liberalisation of its agricultural sector.

Trade negotiations are about trade-offs. So how about cars – one of Japan's major exports – in the trade deficit equation? It turns out that 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?* In conclusion, these are the kind of questions that should be considered in NTC related to agriculture.



### 13 Market opening, tariff rates and 'sensitive' commodities

The previous example of Japan losing its entire staple crop may seem ludicrous as WTO member governments are permitted, as part of the Uruguay Round Agreement on Agriculture (URAA), concluded in 1994, to pursue domestic agricultural policy objectives they choose, and WTO cannot pass judgments on them. *However*, the WTO does restrict countries' agricultural and trade policies based on the instruments (in effect the methods, procedures or rules) they use to achieve these objectives. These policies must be minimally trade distorting, and cannot lead to a *reduction* in trade access by other countries. All signatories must live up to agreements in the Uruguay Round. That means, in actuality, under current rules, Japan has a right to set some minimum food self-sufficiency rate it might desire, but in practicality cannot enforce it.

The agreement divided domestic support policies according to their effects on production and trade, and placed them in three boxes, 'green', 'blue' and 'amber.' The green box policies are the most desirable as they are exempted from any expenditure limits by government on agriculture. By definition these policies have very minimal trade distorting effects. The blue box policies are those that exempt direct payments to producers in cases where they are tied to limits on supplies produced. Amber box policies (the so-called 'bad' ones) are the most contentious, and most troublesome to a country.

The blue box policies are direct payments (subsidies) to producers, linked to production of specific crops, but which impose offsetting limits on output. The URAA made an exception for 'blue box' policies and allowed these subsidies. This is because the limits on supply partially offset the subsidies' incentives to over-produce and disrupt global trade. Japan can, for example, provide subsidies to restructure rice farming provided (as now takes place) rice production does not exceed 85% of the base level. It seems that Japan can benefit from the blue box category. The problem is that due to very high domestic debt Japan really has little fiscal leeway to increase payments – and the payments are income enhancing rather than being a tool to really restrict imports, as are tariffs.

'Green box' policies, domestic farm programmes that meet certain criteria causing only minimal trade distortions, were exempted from any expenditure limits. But, any programmes in this box must be financed by the government (rather than consumers) and must not provide price support to producers. Exempt support includes public stockpiling of agricultural commodities and ones provided as a matter of course by most governments such as domestic food aid (school lunch programmes for example), disaster assistance, and government support of research and extension, and pest and disease control. 'Green box' policies occupy the largest share of Japan's total domestic support in notification to the WTO, mainly because infrastructure expenditures are classified as 'green box.' Incongruously, as shown earlier, the funds spent on infrastructure really have little payoff in meeting goals of expanding 'core' farmers or raising the food self-sufficiency rate.

Part of the problem is that *de minimis* exemptions are biased against countries like Japan that have a relatively small agricultural production compared to the level of their subsidies. The country with the small agricultural production may well have a subsidy amounting to more than 5% of the total value of their agricultural production, although they may spend less on subsidies, just because they have a relatively small denominator (subsidy divided by production). In contrast, a country with a relatively large production

will be able to write off some of its subsidies (particularly those that are not crop-specific) as *de minimus* since those subsidies may be less than 5% of their total agricultural production.

The result may be very perverse since the overall change in production (and thus the trade effects) may be much smaller for the low food self-sufficiency rate country (since, even with high subsidies it may only be encouraging a tiny extra amount to be produced – say due to a very inelastic supply curve). In contrast, net agricultural exporting countries, or ones with a very high food self-sufficiency rate, may be increasing their quantity produced even with a small subsidy as they may have a very elastic supply curve (and thus distorting trade). In conclusion, the URAA–AoA is most constraining on the high-cost countries that want to keep a minimal portion of their agricultural sector even though they have very little effect on other countries. This is just one more reason why Japan, Korea, Norway and Switzerland are in, what can be termed, a ‘black box’ and are arguing for exemption of some ‘sensitive’ commodities as a way to get out of it.

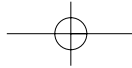
#### 14 More about tariffs on rice

Ito, Rosegrant and Agcoaoili-Sombilla reported in a 1995 paper on their evaluation of foreign *japonica* rice in terms of prices relative to Japanese domestic retail prices. They carried out marketing margin studies and found that tariff rates ranging between 238 and 432% (depending on variety) would be needed on US rice to equalise prices for Japanese consumers. However, a tariff rate of 1,755% would have been required for Chinese Ha-chiang 19 utilising estimated production costs at that time.

Japan historically relied on non-tariff barriers to avoid rice imports. That changed during the Uruguay Round of GATT negotiations when tariffs were substituted for fixed quantitative limits to trade. It was agreed that Japan would allow ‘minimum access’ to its rice market beginning in 1995, and that the amount would grow at 0.8% per year until it reached 8% of the base year (1986–1988) consumption. Japan decided to ‘tariffy’ its rice imports starting April 1 1999. At that time, an annual minimum access (a quota) of 682,000 tons beginning in 2000 was adopted. A tariff of 351.17 yen per kg on over-quota imports was adopted for 1999, and 341 yen beginning in 2000. Japan’s tariffication policy, combined with a marketing mark-up method used in actual purchases of foreign rice, has effectively kept rice imports from increasing to any large degree. In conclusion, the big question, apart from Japan’s need for incredibly high subsidies to support producer incomes if tariff rates on rice are reduced or ‘sensitive’ commodities are not given special exemptions, is which country will step in to capture the additional market share.

#### 15 The China factor

The trade issue related to China is vastly more complicated than complaints by the USA about its trade deficit with Japan, largely because of food security aspects. For one thing, while there has been relatively little change in total trade between the USA and Japan, trade between Japan and China has grown tremendously, to the extent that China has superseded the USA as Japan’s major trading partner. Also, in contrast with the USA, China runs a net surplus with Japan, has a population nearly nine times that of Japan, and



is an up-and-coming powerhouse. It is relatively well-endowed in natural and agricultural resources while Japan is resource poor. Japan depends on trade for its economic livelihood while China, much like the USA, can generate substantial economic growth internally rather than primarily depending on export led growth. In brief, China is quickly shifting into a superior bargaining position *vis-à-vis* Japan.

Continuing the comparison, Japan is what might be considered a 'mature market' from the US perspective in agricultural trade as grains and oilseeds constitute most of its exports to Japan. The situation is vastly different from China's viewpoint as the proportion of Japan's food sourced from China is growing very rapidly, having doubled from 7% of all Japan's food imports in 1990 (in value terms) to 13% in 2003. The majority of consumption of an increasing number of food commodities is imported almost exclusively from China.

Japan's vegetables illustrate the case. The tariff rates on most vegetables were negotiated down to 3–5% in the Uruguay round AoA. During the 1995–2000 period immediately following conclusion of the Round, imports of vegetables from China increased 35% compared to 21% from all sources. Simultaneously, China's proportion of all vegetable imports grew from 30% of the total to 38%. Agricultural imports from China, and vegetables in particular, became a major source of contention about trade between the two countries because of the substantial negative impact it was having on Japanese producer's livelihoods, and concern among consumers about safety and increasing reliance on horticultural products from China.

Japan invoked a safeguard on three very minor commodities (shiitake mushrooms, stone leeks and rushes for tatami mats) in April 2001. China responded by impounding a variety of goods in customs resulting in a serious diplomatic battle. By the end of 2001 China accounted for 42% of all vegetable imports. A formal closure was reached in December 2001, but the issue has never really been resolved as WTO regulations on safeguards prohibit 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 the current WTO trade negotiations?

Trade theory teaches that comparative 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. It is true that the food security issue in Japan is not one of simply having enough to eat, as is the case in most of the lowest income countries. Thus, stockpiling, acceptable under the 'green box', is not the issue. Rather, it is what can happen if Japan were to become heavily dependent on China for a large portion of rice, its staple food (see Simpson, 2002 for feasibility of it). Japanese almost exclusively eat *japonica* rice, and are quite concerned with quality, taste and type. Why not? Japan is a developed country and certainly consumers should be able to have access to the type, quality and selection of foods that suits them.

This example is not an attempt at scare mongering or to denigrate a country. The problem, whether hypothetical or actual is that if Japan were to become dependent on China for a large portion of its rice, Japan would be setting itself up for a food trade prisoner scenario. This situation has to be viewed in light of ongoing, often acrimonious, diplomatic rows such as incursion of submarines into Japanese waters, feuds over undersea oil, regional power politics accentuated by Japan's weakening economic position, and chronic bickering about Japan's pre-World War II incursion in China. At first blush these concerns may sound trivial, but food can be a potent weapon. The

Japanese are truly fearful as China develops, exacerbating losses of Japanese jobs. As Gomory (2000) has pointed out, the overall welfare of developed nations can be irrevocably harmed in such conditions. In conclusion, is this a realistic state of affairs? The answer by most of those who follow East Asian politics, and are concerned about stability in the region, is a resounding yes, given the long-term animosity that still lingers between the countries. NTCs, and food security in particular, are very much a part of political economy and long-term effects of agreements must be taken into account so that countries can protect themselves. This is not protectionism – it is just common sense.

## 16 Why not discuss human rights at the negotiating table?

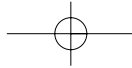
Globalisation is in fashion, but there is no reason that unfettered trade based only on economic principles should be the mantra for every commodity, every nation and all peoples. Member countries of WTO should be more than statistics measured by how well they are complying with paradigms based on economic efficiency, cheap food, and consumer welfare measured only by these criteria. Clearly, the numbers are important as is progress in removing trade barriers. But the ultimate goal should be maximising quality of life, of which benefits from trade is only one variable. In conclusion, WTO rounds of negotiations should be a forum for that end and careful attention must be given to the mandate of including NTCs. There is no crisis and there is no hurry.

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**Notes**

- <sup>1</sup> There are some farmers, with some crops, that can compete internationally, but not on average nationally, and that is the issue regarding FSSR.

