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Free Trade and Japanese Agriculture

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Abstract

This paper presents the following view on Japanese agricultural trade liberalization. Japanese view on American requests for agricultural product trade liberalization to Japan is that trade liberalization among countries should be even. The examination of the concept "Justice" in the Clause 301 of the US Trade Act will be necessary in GATT. More agricultural trade liberalization of Japan doesn't mean big improvement in the balance of payment between the US and Japan. However, Japanese agriculture should pursue higher labor productivity constantly.

Key Words : agricultural product trade liberalization, American requests to Japan, GATT, agricultural protection policies

1. Introduction*

This paper presents the following : recent agricultural trade liberalization requests to Japan ; agricultural protection measures taken by the US and EC countries ; Japanese agricultural policy to cope with a free trade age ; differences in opinion between Japan and the US ; and finally comments by the author.

At the GATT meeting held on February 3, 1988, Japan agreed to liberalize the trade of 10 items. At that time, the items on the restricted import list numbered 19, which accounted for 5% of the total amount of Japan's agricultural product import. State trade items which are excluded from Article XVII of GATT number 6.

Trade liberalization for beef was determined as an important issue between the US and Japan in June, 1988. Before the determination, the US suggested taking retaliatory measures against Japan, if Japan fails to liberalize trade within 2 to 5 years.

At the Japan -US & Japan- Australia negotiations held in 1984, an agreement was reached to the effect that the ceiling of beef imports to Japan will be annually increased by 9,000 tons, starting in 1984, for four years. From 141,000 tons in 1983, the total amount of imports reached 150,580 tons in 1985 representing 111 billion yen in value. By subject

* After my paper was presented in the annual meeting of Alberta Agricultural Economic Association, Canada, April 15, 1988, the one which I refined partly is this paper.

countries, Australia accounted for 62% and the US 32%. The imports in 1985 amounted to 214,000 tons of carcasses, equivalent to 39% of Japan's total carcass production for the year. (The value of imports reached 111 billion yen.)

Table 1. Price difference between domestic and imported agricultural products

	Domestic price (A) (yen/kg)	Import price (CIF) (B) (yen/kg)	Tariff (%)	Import price plus tariff (C) (yen/kg)	A/B	A/C	Remarks
Beef	1,318	737 (519)	25	921 (649)	1.8 (2.5)	1.4 (2.0)	*1
	Mandarin					0.7	
	164		20		0.8	(0.6)	
Orange	Natsu-mikan	195	(Dec	234		0.9	*2
	211		May 40)	(273)	1.1	(0.8)	
	Iyokan					1.0	
	245				1.3	(0.9)	
Azuki beans	473	153	10	168	3.1	2.8	
Kidney beans	333	117	10	129	2.8	2.6	*3
Starch	180	av.45 (corn 238)	25	56 (corn 298)	4.0 (0.8)	3.2 (0.6)	*4
Peanuts	367	228	10	251	1.6	1.5	*5

(Remarks)

*1 Domestic: 1985 average carcass
Imported: 1985 refrigerated/frozen partial meat
(based on refrigerated/frozen carcass)

*2 Domestic: 1985 statistics of fruit production/shipment
Imported: 1985 import price

*3 Domestic: 1984 ex-farm price "statistics of price and wages in farm villages"
Imported: 1984 import price

*4 Domestic: 1985 potato, starch
Imported: 1985 import price

*5 Domestic: 1985 ex-farm price "statistics of price and wages in farm villages"
Imported: 1985 import price

Source: "Kohko Geppo", Nohringyogyo — Kinyu-Kohko, 1987, No. 429, P,28

A price of difference between domestic and imported beef, as of 1985, indicated that the former was approximately two times more expensive than the latter (disregarding difference of quality) (Table 1). Other examples of price differences between domestic and imported products are as follows : Azuki beans 3.1 times and kidney beans 2.8 times more expensive for the former than the latter. Hokkaido's share in the domestic yield of Azuki beans is 60% and kidney beans 88%.

The present state of the import of agricultural products, for the restricted import list and domestic production, is as follows : the import of oranges amounted to 22.8 billion yen (in 1985) -imports from the US accounts for 96% ; orange juice- imported from Brazil 43% ; import of legumes ... kidney beans -US 68% ; peas- the US 33%, Canada 29%, England 19%.

2. Agricultural Protection Policies Taken by EC, the US and Japan

1) Agricultural protection policies of EC

West Germany and France established agricultural protection policies in 1955 and 1960, respectively. Since then, the emphasis of the agricultural policies of Western Europe has been put on the following : alleviation of the conventional agricultural protection policies taken after the 1930s : agricultural modernization : and reduction of the adverse effects of agricultural protection policies on international markets.

In EC countries, dairy products, sugar and cereals have become overproduced since 1980, and furthermore from 1984 and onward, beef taken from slaughtered excessive milk cows caused an oversupply of beef which resulted in stock expansion. This stock expansion can be attributed to two factors, i. e., technological innovations and prices at high levels. Import levies supported domestic agriculture, while at the same time, they resulted in oversupply. To solve the oversupply issue by promoting export, the export subsidy system has been introduced. However, due to the intensification of export competition in the world market, the EC's financial burden has tended to increase excessively. Therefore, at present, the lowering of the supported price level and production quota is being carried out according to the extent of oversupply, with the view to restricting production and to reducing the financial burden. However, the agricultural financial expenditure does not readily decrease because of the price support system (Table 2).

2) Agricultural protection policies of the US

In the 1985 US agricultural policy, stress in the agricultural protection policy was placed on the following : 1) fixing the target price, indicative of agricultural income support levels, for the first 2 years, and then gradually decreasing it, 2) decrease of the loan rate, indicative of price support levels, by 5% every year, 3) introduction of a marketing loan system in the fields of rice and raw cotton in which the US is not highly competitive, 4) continuation of the Export Enhancement Program (EEP), which was enacted in 1985, until the end of Sept., 1988.

To sum up, domestically, the present American agricultural policy maintains the agricultural income level at levels near the present one, and, internationally, streng-

Table 2. EC-financial expenditure and total agricultural expenditure

(unit: in 100 mil. ECU, %)

	Total expend- iture (A)	Agric. expend- iture (B)	Expenditure for price support				B/A	C/B
			Total (C)	Export subsidy	Expenditure for storage/ maintenance	Expend- iture for price support		
1980	163	119	113	57	16	40	73	95
1982	204	131	124	51	18	55	64	95
1983	243	166	159	55	29	75	68	95
1984	275	191	183	66	35	82	69	96
1985	284	208	200	68	48	84	73	96
1986	352	231	221	76	—	—	66	96

Note: 1985, 1986 ... budget; others ... settled accounts

Source: *ibid.* p. 10

thens the international competitive power by lowering the loan rate. As a result, the Government's financial expenditure to support agricultural product price and agricultural income has drastically increased (Table 3). The rate of this financial expenditure to the total amount of agricultural income in 1986 reached 25%, greatly up from 13% in 1980. Incidentally, the budget for the US Department of Agriculture is equivalent to 67% of the total agricultural income. Therefore, as a prerequisite condition for receiving agricultural income support, farmers are requested to take part in an acreage control scheme.

As mentioned above, the US is now faced with the problem of an expanding financial burden resulting from increased export caused by the marketing loan system and EEP, while EC countries are faced with the problem of increased financial expenditure as a result of providing export subsidies.

3) Agricultural protection policies of Japan

Since the late Emeritus Prof. Seiichi Tobata of Tokyo Univ. referred to Japanese agriculture in his book as being excessively dependent on the Government, many people, both home and abroad, have made complaints about Japan's agricultural policy as being overly protected and also about its agricultural product prices as being excessively high internationally.

During the initial post-war period, the Japanese Government put emphasis in the fields of food, iron, coal and education, and the Japanese economy was thus brought to a stage of restoration and further to its present prosperity. During this recovery

Table 3. US-budget for agriculture
(unit: \$ 100 mil., %)

	1980	1984	1986
Total budget	4,766	6,860	7,952
Budget of Dept. of Agric. (A)	348	420	542
Expenditure for price and income support (B)	27	174	204*
B/A	7.8	41.4	37.6

Note: Actual expenditure is expected to amount to \$ 260 bil.

Source: *ibid.* p. 11

period, because of a shortage of foreign currencies, the emphasis of Japan's agricultural policy was put on food self-sufficiency. Also, because there were only few job opportunities in the non-agricultural sector as well as unstable conditions of the Japanese economy, farms and agricultural organizations provided people with job opportunities, playing a role as a safety valve or buffer device in Japan's business cycle.

Furthermore, a high level of central government expenditures for education and the transfer of land, labor and funds from agriculture to the non-agricultural sector have greatly contributed to achieving today's economic prosperity in the non-agricultural sector. Today, however, because there have been no major wars since World War II, and developing countries have insufficient food buying power, while Japan has great amounts of foreign reserves, domestic and foreign demands regarding Japan's agricultural policy have greatly changed. Namely, foreign countries ask Japan to play a leading role in practicing free trade as an exemplary member nation of the world. There are quite a few Japanese tax payers who are saying that there is a need to view the food security issue more from the international strategy viewpoint at the time when Japan's self-sufficiency in oil stands at only 0.2%. In this connection, an increasing number of people maintain that the rate between financial expenditure from the nation's budget spent for agriculture and the gross agricultural products (46% as of 1983) should be reduced. Especially, voices are strongly heard asking for the steadily lowering of prices of agricultural products which are kept far higher than the international standard by the agricultural product price support system.

On the other hand, more than 70% of the Japanese people worry about the decline in the food self-sufficiency ratio and most of them want Japanese farmers to produce safe agricultural products at price levels equivalent to those of EC countries without subsidies.

Under such circumstances, Japan's agricultural policy has started to move in the following directions :

- (1) Expansion of import ceilings (Tables 4 and 5).
- (2) Narrowing of the gaps in agricultural product prices between Japan and foreign countries.

E. g. the producers' price of rice produced in 1986 was retained at the same level as the previous year but the price of rice produced in 1987 was lowered by 5.95% for the first time in 31 years. The producers' price of milk for processing was reduced for three consecutive years from 1986-an 11% price reduction in total.

- (3) At US request, efforts are being made to freely pass agricultural products which have already passed inspections for residual agricultural chemicals.
- (4) Since 1981, the agricultural financial expenditure in the nation's budget has been reduced annually, by 4.4% each year, thus the emphasis has gradually shifted from the agricultural subsidies to the governmental loan. The ratio of the expenditure for pursuing the agricultural product price policy to the total agricultural income decreased from 16% in 1980 to 13% in 1986.
- (5) Provision of subsidies mainly to farmers for fostering them to become capable of

Table 4. Import of agricultural products and others

(unit: \$ 1 mil.)

	1984	1985	1986	Annual change (%)
Agric. products (A)	18,634.8	16,762.9	18,046.7	107.7
Livestock products	4,143.6	4,067.2	4,832.5	118.8
Silk	104.9	93.8	94.2	100.4
Agric. products	14,386.3	12,601.9	13,120.0	104.1
Forestry products	4,720.8	4,517.8	4,988.7	110.4
Fishery products	4,425.4	4,940.8	6,829.6	138.2
Total of agric., forestry and fishery products (B)	27,781.0	26,221.5	29,865.1	113.9
Total import amount (C)	136,503.0	129,538.7	126,407.8	97.6
A/C(%)	13.7	12.9	14.3	—
B/C(%)	20.4	20.2	23.6	—

Source: Kokusaikikaku-ka, Ministry of Agriculture,
Forestry and Fisheries

Table 5. Japan's import of agricultural products from
major exporting countries (or region)
(in 1986)

(unit: \$ 1 mil.)

Placing (prev. yr)	Country (region)	1986 Import amount	1986 %	Annual change (%)	1985 Import amount	1985 %
1 (1)	USA	5,995.4	33.2	96.1	6,237.0	37.2
2 (3)	China	1,565.6	8.7	108.9	1,437.7	8.6
3 (2)	Australia	1,556.8	8.6	100.2	1,553.5	9.3
4 (4)	Canada	991.5	5.5	87.8	1,129.7	6.7
5 (5)	Taiwan	979.2	5.4	140.8	695.3	4.1
6 (6)	Thailand	706.9	3.9	126.6	558.5	3.3
7 (10)	Denmark	495.9	2.7	137.8	359.9	2.1
8 (7)	Brazil	472.0	2.6	105.9	445.6	2.7
9 (8)	New Zealand	469.3	2.6	106.6	440.0	2.6
10 (9)	Philippine	448.3	2.5	115.8	387.1	2.3

Source: Kokusaikikaku-ka, Ministry of Agriculture, Forestry and Fishery

carrying the prosperity of agriculture in the future. Eventually, the Japanese agricultural policy is aiming to shift its goal from the conventional one, i.e., increasing food production and creating an agriculture capable of playing a role of a buffer for business activities-to developing agriculture as an independent industry without any subsidy : efforts are being made to accomplish this goal by positively shifting stress from the agricultural price support policy to policies for raising agricultural productivity and also to an agricultural structural policy in line with cost reduction.

3. American View on Japan's Counterarguments to Requests for Agricultural Product Trade Liberalization of Japan

- 1) Though being aware that there exists no complete trade liberalization practice for agricultural products throughout the world, the US asks Japan for trade liberalization both for the benefit of Japan's consumers and American producers.
- 2) The US has been asking, in vain, Japan for agricultural trade liberalization over the past 20 years. Therefore, unless US demands liberalization within a limited period of time, e. g., 2 years, Japan will do nothing.
- 3) It is unfair that Japan does not liberalize the import of even a single grain of rice despite the fact that Japan has been blessed most by the free trade practices of the US.
- 4) Japanese agriculture would not collapse by trade liberalization, and instead, it would rather be able to become stronger by enlarging farm sizes, etc.
- 5) The introduction of a deficiency payment system would make American agriculture internationally competitive enough.

4. Japanese View on American Requests for Agricultural product Trade Liberalization to Japan

- 1) Both the US and EC countries are not really practicing agricultural free trade, and it wouldn't provide much merit even to American producers. This is because, upon complete liberalization, it would become less costly for Japan to import beef, peanuts, etc. from countries other than US, and also because improvements of the US international balance of payments would remain low.

Less than half of Japanese consumers really want trade liberalization of agricultural products. Despite this, the US asserts that it will take retaliatory measures if Japan does not liberalize agricultural trade within 2 years. Does such a US attitude really reflect the Japanese consumers' benefit? Isn't this unreasonable? Japanese consumers have strong doubts about the following : less strict pollution standards imposed on American made foods, and unstable prices and supply possibly resulting from trade liberalization.

- 2) As the result of the raising of Japan's import ceilings over the last 20 years, Japan has become the largest food importing country from the US, and also is continuously increasing the number of items subject to trade liberalization. Japan can concede in some areas but not in others.
- 3) Rice is Japan's staple ; if Japan ever begins importing it, its import would be accelerated further, and as the amount of rice imports increased, it would push up the price and also make the supply unstable. Since the state of affairs regarding US wheat is dissimilar to that regarding Japan's rice, the US cannot understand our rice issue.
- 4) The enlargement of Japanese farm sizes to the level of the US is almost impossible because of the mountains and hills which cover a large portion the land. At present, the average farm size in Japan is about one 185th of that of the US. Therefore, it means

great damage to Japanese agriculture to achieve this goal within 3 years as the trade liberalization of Japanese beef will be done.

5. Conclusion

If the US wants to ask Japan for agricultural products trade liberalization in the hope of improving its international balance of payments, I think it might be appropriate for the US to seek export of any products which could counterbalance the import of semi-conductors and automobiles from Japan.

If the US wishes to suggest that Japan introduces agricultural product trade liberalization for the benefit of Japanese consumers, then, why does the US have to ask Japan to impose self-restriction on its automobiles export to the US ; free trade of automobiles would benefit American consumers. Isn't this unreasonable?

It is unfair for the US to ask for agricultural trade liberalization of any country to which it does not apply agricultural free trade status. The US stated that the Waiver item was recognized for the members of GATT upon its establishment. However, this was more than 30 years ago. The reasons why EC countries and others don't make a complaint about this are considered to be that because they want to retain the export subsidy system and import levy system. Also, while the US criticizes the EC's export subsidy system, it adopts a similar system. Furthermore, the US is unfair in its imposition of restrictions on the import of beef from Australia, wheat from South American countries, oranges from Japan, and sugar, while at the same time, demanding Japan to liberalize trade within 2 to 3 years.

The US criticizes that Japanese agriculture is overly protected by Government subsidies. However, on the part of the US, business related to wheat, raw cotton, etc. is expected to restore its international competitiveness by adopting a deficiency payment policy. It is unreasonable. Concerning Japan's trade liberalization of agricultural products, I would like to suggest the following :

- (1) Japan should liberalize agricultural trade on a step by step basis. As proposed by the US -countries worldwide should halt providing export subsidies within 10 years- Japan should aim to achieve the goal in 10 years. As countermeasures, the Waiver item of the US and the export subsidy systems of both US and EC countries should be abolished. Unless these export subsidy systems are canceled, it should be permitted for Japan to export agricultural products imported from these countries, after adding up the export subsidies.
- (2) A "world committee for donating agricultural products" is established ; those agricultural product exporting countries which are unable to cope with overproduction of agricultural products are requested to donate surpluses to the committee ; and countries such as Japan and West Germany which enjoy trade surpluses are requested to donate money to the committee ; through the committee, surplus agricultural products are donated to less developed countries faced with famine. Since such a mechanism cannot be continued for many years, food exporting advanced countries must also endeavor to achieve results in production control.

- (3) There are people who suggest that Japan should invoke an act similar to Clause 301 of the Trade Act to refuse the US request for agricultural products trade liberalization in the event that either the US attempts to invoke the same Clause 301, or the event that Japan acknowledges that the US request for trade liberalization is unreasonable and unfair. This stand may be too extreme, but it would be reasonable for Japan to reserve the right to request the US for imposing self-restrictions on the export of agricultural products to Japan, as the US requested Japan to impose similar self-restrictions on Japanese automobile exports.
- (4) We should naturally obey GATT spirit in international trade, but the spirit for concrete problems has to be even in each country level. Accordingly, all of the negotiation should not be practised only between one country and another but among many countries at least. It means that the waiver item of the US or export subsidy system by EC should be deliberated upon together with the problem of the trade liberalization of Japanese rice.

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