

**RIETI-JETRO Symposium**  
**Global Governance in Trade and Investment Regime**  
**- For Protecting Free Trade -**  
**Handout**

---

**YAMASHITA Kazuhito**  
Senior Fellow, RIETI /  
Research Director,  
the Canon Institute for Global Studies

June 7, 2012

# The Necessity of Free Trade to Japanese Agriculture

**YAMASHITA Kazuhito**

Senior Fellow

Research Institute of Economy, Trade and Industry

Research Director

The Canon Institute for Global Studies

# Effect of Damage Caused by Tariffs on Japanese Consumers and Farmers

- In the case of wheat, of which 90% consumed is imported, Japanese consumers have been forced to buy not only domestic produce but also imported farm products at prices higher than international levels, due to the imposition of tariffs on the latter.
- This places the burden of agricultural protection on **low-income consumers**. High prices also result in lower consumption, which **hurts agriculture**.

# Importance of Free Trade for Japanese Consumers and Farmers

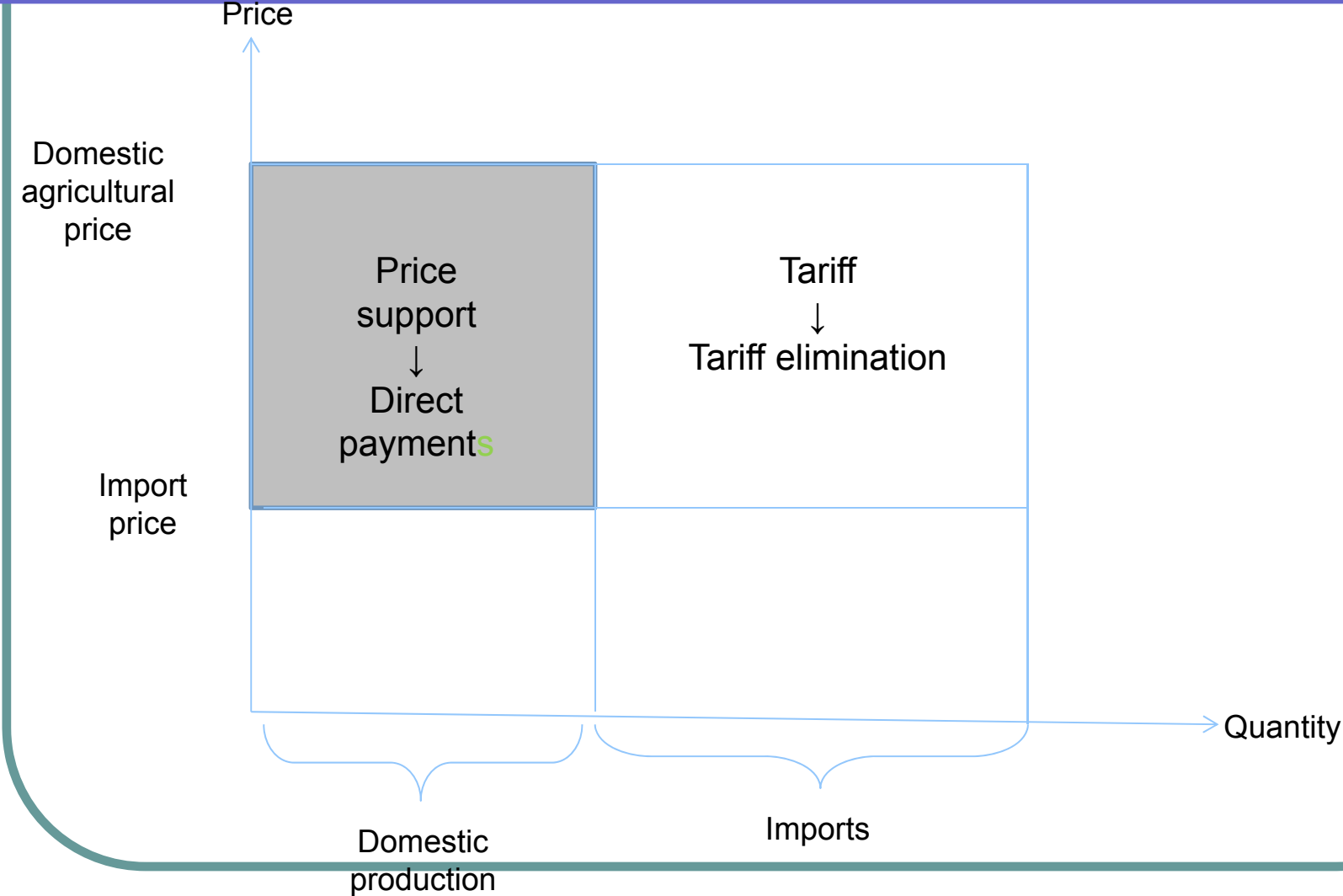
- The United States and the EU have shifted away from **price support** and moved in the direction of providing **direct payments to farmers** as a means of protecting their agricultural industries.
- If the consumer burden concerning domestic farm produce is replaced with direct payments, that **concerning imported farm produce would also disappear.**
- Reduced prices will **increase the likelihood of exporting agricultural produce.**

# Ways of Agricultural Support

The price support policy has supported inefficient small-scale rice farmers. The United States and the EU have turned the price support into direct payments from the governments.

Country	Japan	United States	EU
Decoupled direct payments	No	Yes	Yes
Environmental direct payments	Partial	Yes	Yes
Direct payments for less favorable regions	Yes	No	Yes
Production restriction program for price maintenance	Yes	No	No
Tariffs* over 1000%	1 ( <i>konnyaku</i> (a tuber))	None	None
Tariffs of 500-1000%	2 (rice, peanuts)	None	None
Tariffs 300-500%	2 (butter, pork)	None	None
Tariffs of 200-300%	6 (wheat, barley, skim milk powder, starch, beans and raw milk)	None	None

\* Specific tariffs are applied to applicable products in Japan and the EU. Here, these specific tariffs are estimated as their equivalents of *ad valorem* tariff rates, taking into account the international prices.

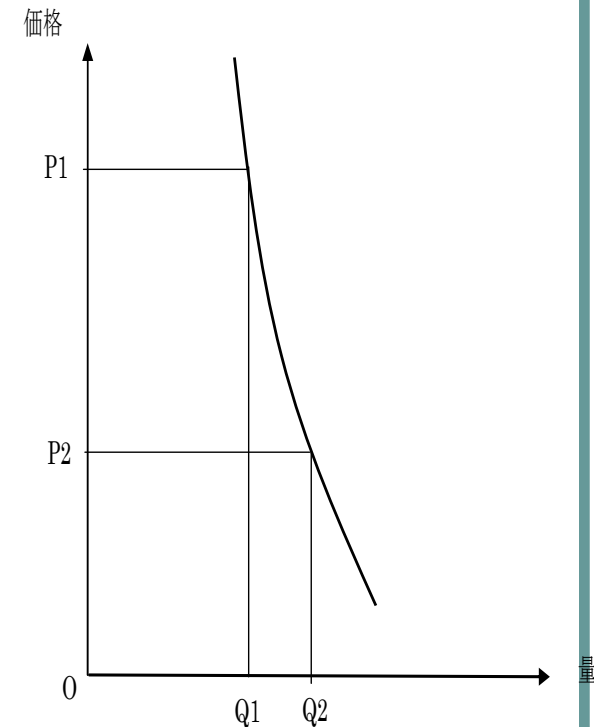


# Has Japanese Farm Policy Helped Food Security or Multifunctionality?

- A policy of reducing the acreage under cultivation (**the set-aside program**) has restricted supply and enabled high prices to be charged for rice. **Tariffs are essential to keeping rice prices higher than international levels.**
- In reality, this policy lead to **a 30% reduction in the number of paddy fields** over the last 40 years. It has damaged both **food security** by reducing farmland and **multifunctionality** (positive externalities) by keeping paddy fields idle.

# Driving Force of High Tariffs

- $OP1 \times OQ1 > OP2 \times OQ2$
- By pegging the rice prices high, the Japan Agricultural Cooperatives (JA), Japan's most powerful interest group, could not only receive high commissions but also maintain the number of part-time farmers who have been the source of its political power and who have contributed financially to it.





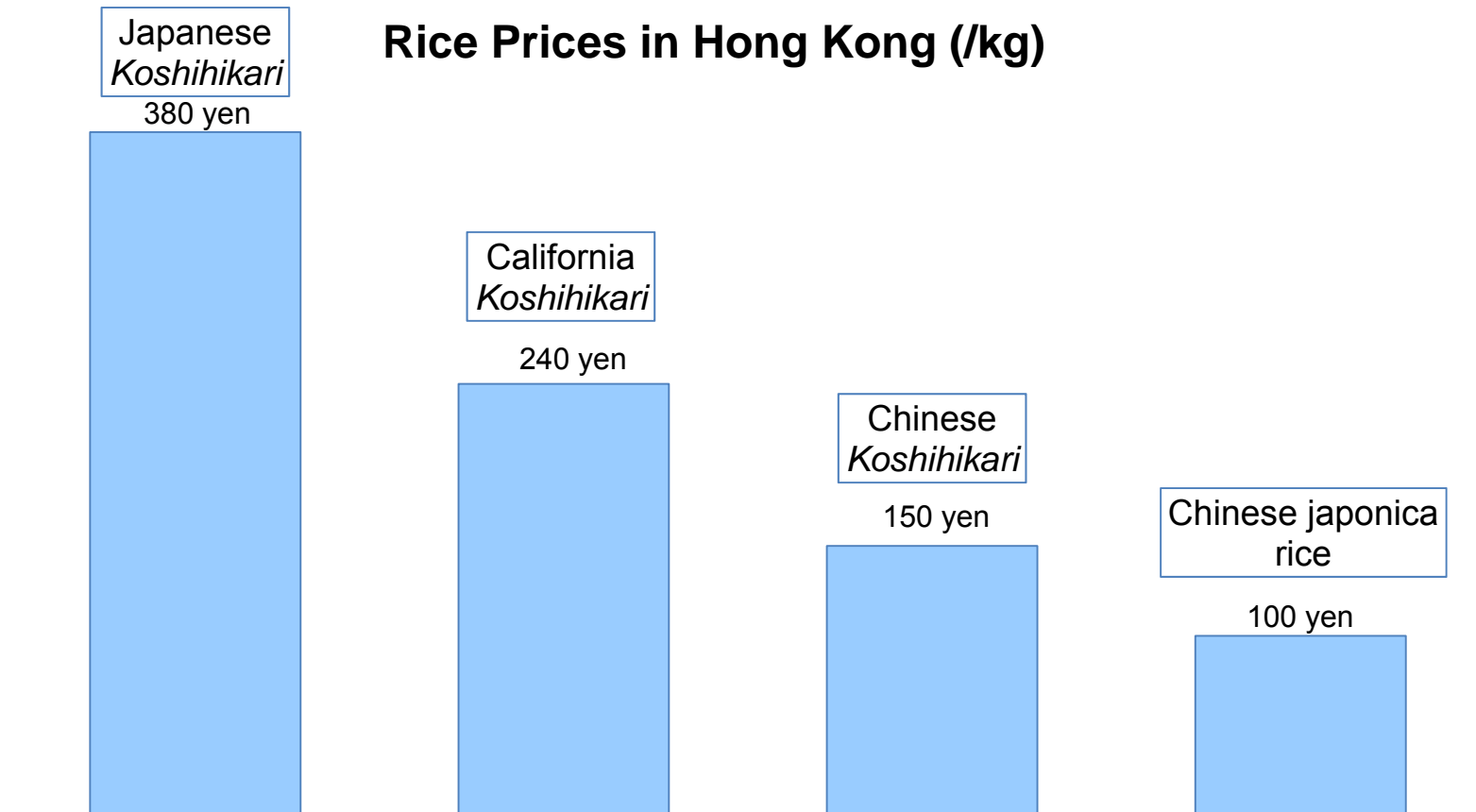
# Japanese Agriculture is Not Competitive? (1)

- The Japanese agricultural sector claims that it is too small to compete with those of other countries. Scale is certainly advantageous when other conditions are equal.
- However, large differences exist among countries in terms of crops grown, soil fertility, crop yields, and quality. **Scale cannot be the only criterion for comparison.** Even the average farm size in United States, the world's largest exporter of farm products, is only 1/20th that of Australia.

# Japanese Agriculture is Not Competitive? (2)

- Just as sizable price differences occur among various types of cars, so too among the various types of rice, reflecting the **quality**. It is a mistake to argue that high-grade rice cannot compete with that of inferior quality simply because it is more expensive.

# Japanese Rice is Highly Appraised

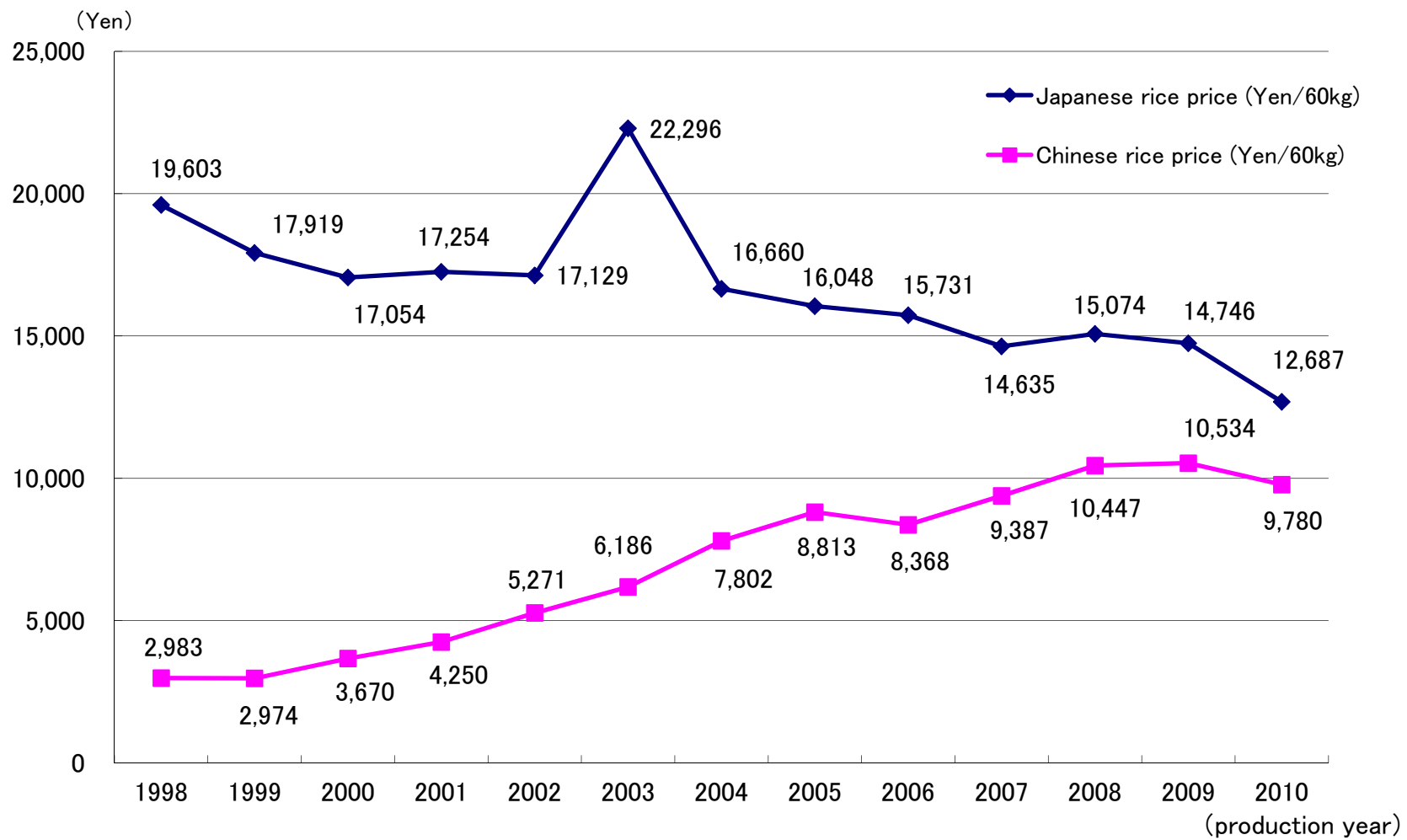


# Potential Food Crisis

- As a net food importing country, Japan can buy food even when world prices soar. There are, however, possible scenarios in which it cannot gain access to food supply even with ample financial resources, such as the physical disruption of imports due to port workers' strikes in the exporting countries or destruction of sea lanes by military attacks.
- A country can survive such situation if it has food storage. But what should we do if this has been depleted? There is no other way to expand our food production in such crisis. This calls for agricultural resources for production.

# Desirable Policy Reform

I propose **removing the set-aside program and introducing a direct payment scheme only for full-time farmers**. The decrease in the rice prices will drive inefficient small-scale rice farmers out of business. This will enable full-time farmers to expand their farm size and cut down on production costs, allowing them to compete in the international market. Japan will no longer resist the requests for tariff cuts, and it can start exporting rice.



# Importance of Free Trade to Japanese Agriculture

- Rice production has declined from 12 million tons to eight million tons in less than 20 years. In a **shrinking domestic market** due to an aging and decreasing population, agriculture is destined to decline unless the Japanese government abolishes tariffs imposed on its agricultural products by its trade partners in order to promote **exports**. Thus, **negotiations seeking to liberalize trade will be inevitable and indispensable, even for the Japanese agricultural sector.**

# Free Trade Helps Food Security

- With the policy change, Japan will no longer need tariffs but can export rice or drinking milk while importing wheat or beef under free trade. This will keep our farmland from deteriorating or vanishing.
- In case of a food crisis when we no longer import wheat and beef due to disrupted transportation, we will stop exporting rice and start consuming it in order to survive. Free trade does not help an importing country during a crisis, but **exportation of some products in normal time under free trade maintains the agricultural resources in case of necessity.** **Free trade can be a basis of food security.**