

**THE DILEMMA OF AGRICULTURAL REFORM  
IN JAPAN**

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## ABBREVIATIONS

AMS	Aggregate Measurement of Supply
BSE	Bovine spongiform encephalopathy
CAP	Common agricultural policy
CEFP	Council on Economic and Fiscal Policy
DDA	Doha Development Agenda
DSB	Dispute Settlement Body
DSU	Dispute Settlement Understanding
EEC	European Economic Community
GATT	General Agreement on Tariffs and Trade
GMOs	Genetically Modified Organisms
JFY	Japan fiscal year
LDCs	Less developed countries
LDP	Liberal Democratic Party
MAFF	Ministry of Agriculture, Forestry and Fisheries
MHLW	Ministry of Health, Labor and Welfare
MMD	Multi-member district
ODA	Official Development Assistance
PARC	Policy Affairs Research Council
SMD	Single-member district
UR	Uruguay Round
URAA	Uruguay Round Agreement on Agriculture
WTO	World Trade Organization



## **ABSTRACT**

Global free trade has evolved since World War II in a state of tension between two differing ideas: 1) how international common rule binds each nation, and 2) how the sovereignty of individual countries can be maintained. The function of international governance has been drastically strengthened by the World Trade Organization (WTO) regime with the Dispute Settlement Understanding (DSU) system; this system makes it possible to establish integrated international economic order, while respecting the sovereignty of each nation or region. This integrated economic order seems to have strength in that even major powers such as the United States have to abide by it, although this makes the current negotiations to revise the order more challenging.

There is a possibility that negotiations under the current Doha Round will help establish a new international economic order. But the advent of the issue of how to harmonize economic order with non-trade concerns, such as the environment, food safety, and so on, seems to have made the prospects for the current negotiations unpredictable and uncertain. Even Japan, one of the world's major economic powers, opposes further openness of domestic agricultural markets on the grounds of non-trade concerns. The argument is sometimes criticized for being casuistic in an effort to protect domestic industry, when the real issue is lack of international competitiveness.

This paper examines the background of this opposition on the part of Japan from the historical, economic, and political aspects. Historically, Japanese agricultural policy has been closely connected to politics, especially after World War II. Without doubt, this is among the factors to have deprived the domestic farm sector of international competitiveness. This is because it encouraged people to become part-time farmers; most of the lands of such farmers

were allotted through agricultural land reform during the allied occupation of Japan after World War II. It was the Uruguay Round Agreement in 1993 that initially attempted to deal with the agricultural field according to the international free trade principle, and the Uruguay Round Agreement on Agriculture (URAA) had a great impact on the domestic industry, comparable – in its own way – to the arrival of the black ships of Commodore Perry in Japan in the mid-19<sup>th</sup> century.

Since the URAA in 1993, Japan has tried to promote domestic reform to prepare for post-URAA negotiations. More recently, the political conditions in Japan changed drastically after Junichiro Koizumi became prime minister. These circumstances have established some kind of momentum for structural reform even in the agricultural field. Despite the fact that economic considerations are at the heart of this reform, non-economic arguments are in the mix as well.

## INTRODUCTION

The purpose of this paper is to explore how Japan has enhanced its reforms of domestic policy in agriculture in response to the trend to globalization. Agriculture is said to be one of the most conservative fields in Japan; in other words, it reflects the most traditional aspects of the nation. Agriculture is one of the focal issues in the current Doha Round of WTO negotiations, and the relationships between and among each member country are extremely complicated. This complexity comes from the unique characteristics of agriculture.

Some members – mostly food exporters such as the United States, the EU, Australia, Brazil, and India – assert that agricultural products should be under the same rules as non-agricultural materials. Others – mostly developing countries – argue that agriculture is a symbol of oppression by the industrialized world, especially the United States and the EU. And still others – most of them food-importing countries such as Japan, Korea, and Switzerland – are calling for diversity in agriculture.

The first chapter of this paper will focus on the current international situation of trade and inspection relationships involving international rule, the WTO regime, and domestic policy.

The second chapter will summarize current domestic policy in Japan. In this chapter, we will cover how this policy has been drastically reformed since the Uruguay Round (UR), which was the first round in which a trade rule was adopted under the principal of international free trade.

In Chapter 3, we will investigate the prospects for domestic agricultural policy in Japan under various political, financial, and international circumstances. In this chapter, we will compare the situation in Japan and the United States, especially from the political point of view.

Debate surrounds the question of whether the structure of Japan's farm sector is undergoing fundamental change in response to the forces of globalization. This sector has been criticized as being one of the most conservative in Japan because the nation has been insisting on the sensitivity of its products, and that attitude sometimes seems to make it difficult to promote multilateral and bilateral trade agreements. The model of agricultural politics and policy has been considered one the major sources of the closed nature of Japan's farm sector. Thus, Chapter 3 will also examine the impact of international agreements on the domestic system, especially agricultural politics and policy, through comparison of the pre- and post-URAA situations, and will investigate whether political developments after the URAA have resulted in changes of domestic agricultural policy.

The conclusion will suggest some possible future directions for Japan's political and policy systems in the field of agriculture in the face of globalization on the one hand and the domestic public on the other.

## CHAPTER 1

### THE SITUATION OF INTERNATIONAL AGRICULTURAL TRADE

#### **Implications of the General Agreement on Tariffs and Trade (GATT)/WTO as an International Rule**

From the international legal point of view, international law can generally be divided into “customary” or “conventional.” Customary international law is defined as rules of national behavior that can be ascertained from the practice of nations when such practice reveals that nations are acting under a sense of legal obligation, but customary international law norms are quite ambiguous and controversial. The latter term refers to treaties that are often called “conventions.”<sup>1</sup> Apart from these legal issues, however – i.e., the difference between customary law and treaties – the most interesting concern is their effect on the domestic law of nations that are parties to the laws and treaties.

The sovereignty and equality of states represent the basic constitutional doctrine of the law of nations, which governs a community consisting primarily of states having a uniform legal personality. The principal corollaries of the sovereignty and equality of states are categorized as follows: (1) a jurisdiction, prima facie exclusive, over a territory and the permanent population living there; (2) a duty of non-intervention in the area of exclusive jurisdiction of other states; and (3) the dependence of obligations arising from customary law and treaties on the consent of the obligor.<sup>2</sup>

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<sup>1</sup>John H. Jackson, William J. Davey, and Alan O. Sykes, *Legal Problem of International Economic Relations*, 4<sup>th</sup> ed. (2002) (Jackson).

<sup>2</sup>Ian Brownlie, *Principles of Public International Law* 289 (5<sup>th</sup> ed.1998).

“Sovereignty” is sometimes used to justify and define the “privacy” of states, i.e., their political independence and territorial integrity, as well as their right and the rights of their peoples to be let alone to go their own way. According to Oxford University law professor Ian Brownlie, sovereignty means exclusive jurisdiction over territory and “permanent populations,” a duty of non-intervention in the exclusive jurisdictions of other states, and international legal obligations depending on consent.

In any case, decisions are made by the WTO under the principle of unanimity considering “sovereignty and equality,” but some have urged that the voting system should be introduced in decision-making in order to increase the effectiveness of this process.

In the field of trade, there have been many arguments about whether or not international governance is needed. The relationship between international governance and states is that minimal international governance represents greater autonomy and privacy for states and societies, and these are important values in international as well as in national life. Given the fear that excessive international governance might be a threat, international law and institutions are still primitive. More international regulation generally and stronger international institutions may come with the enlightenment that is associated with democracy in national societies, but there is a need for effective international governance at least to maintain international peace and prevent genocide and other massive, gross violations of human rights.

## **The Main Characteristics of the WTO**

### *The Principle of “Single Undertaking”*

The WTO consists of the WTO Agreement itself and 17 additional agreements covering subjects including agriculture. The contents of the WTO Agreement are diverse, ranging from traditional rules concerning goods (Annex 1A: Multilateral Agreements on Trade in Goods) to intellectual property rights (Annex 1C: Agreement on Trade-Related Aspects of Intellectual Property Rights). The difference between the WTO and GATT is that, in order to be a member of the WTO, members have to go along with all of these agreements, and exploiting the organization for their own advantage is prohibited. Under the GATT regime, a general agreement was applied to all members, but, as for the 12 agreements that were added through the Tokyo Round, participation was optional. This caused an imbalance of rights and duties among the members.

The principle that the entire WTO agreement should be applied is called “single undertaking,” and, through it, the legal imbalance under the GATT regime was resolved. But in any attempt to revise the WTO rule, if a conclusion cannot be reached on even one part of it, there can be no consensus among the members. That is one of the reasons that, under the current Doha Round, unless there is consensus in the agricultural field, agreement cannot be reached, and this will cause the collapse of the round.

### *Integrated Dispute Settlement Mechanism*

John H. Jackson, a professor of international law at Georgetown University (2004), believes that: “to a large degree, the history of civilization may be described as a gradual

evolution from a power-oriented approach, in the state of nature, towards a rule-oriented approach.”<sup>3</sup> I quite agree with this opinion, and this is why the rule-making process and application of the rule is becoming increasingly important. In the current WTO negotiations, each nation is struggling to ascertain how to shape the new rule to meet its particular needs and interests.

On the other hand, in the application of the current rule, an integrated dispute settlement system has been provided, even though there is still the problem of enforcement of the results of the appellate body.

The WTO was created in 1995, incorporating the DSU, Annex II, and Article III. The function of this mechanism is the interpretation or construction of the language of each agreement. It says: “The dispute settlement system of the WTO is a central element in providing security and predictability to the multilateral trading system” and “it serves the rights and obligations of Members under the covered agreements, and to clarify the existing provisions of those agreements in accordance with customary rules of interpretation of public international law. Recommendations and rulings of the DSB (the Dispute Settlement Body) cannot add to or diminish the rights and obligations provided in the covered agreements.”

What are some of the major benefits of the WTO DSU, and what are some of the major problems? The DSU is applied to all WTO agreements and annexes; this is different from the GATT regime in that the procedure of dispute settlement is built into each agreement, and this is said to cause a lack of efficiency and effectiveness in the function of the dispute settlement. Under the integrated dispute settlement mechanism of the WTO, establishment of a panel, adoption of the panel report, and authorization of withdrawal of concessions, all by reverse

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<sup>3</sup>Jackson, *Restructuring the GATT System*, supra note 5 at 52.

consensus, have been established, and these are said to be major advantages. There is an Appellate Body for quality control. In addition, unilateralism is suppressed under Article 23, which sets forth the rule of procedure of remedy in case of nullification or impairment. Time limits for settlement are set. These can also be mentioned as advantages for strengthening the effectiveness, efficiency, and transparency of the settlement procedure.

On the other hand, problems include issues such as remedies, remand to panels, and applicable law, as well as those related to sovereignty and balance with treaty amendment mechanisms.

From the standpoint of political economy, the noncompulsory nature of the application and enforcement of the DSB's recommendation, the so-called "Prisoner's Dilemma," tends to be an issue. International dispute resolution does not directly result in domestic effects. This can be seen in the beef hormone case; even after the recommendation of the appeals body, the EU did not obey it. It can be also mentioned that, in order to legitimate provisions, appeals to the DSU are abused; this phenomenon is particularly pronounced in the United States.

### *Relationship Between World Rule and Domestic Rule*

It cannot be denied that the WTO has become the organization that will facilitate the implementation, administration, and operation, and further the objectives, of the WTO Agreement and of multilateral trade agreements. On the other hand, its administrative functions are limited to the DSU according to the Understanding on Rules and Procedures Governing the Settlement of Disputes in Annex 2 to this Agreement. The "sovereignty" of each member remains, and implementation of these agreements is guaranteed only by amendment of domestic rules through a nation's own interpretation of these agreements. Under the conflict of how to

create a balance between international governance and “sovereignty,” full nation-state sovereignty is not required for membership in the WTO, which is open not only to states, but also to separate customs territories possessing full autonomy in the conduct of their external commercial relations and other matters.

### **What Happened in the UR in the Field of Agriculture?**

#### *Market Access (Tariffs)*

Before the URAA went into effect on January 1, 1995, international trade in agriculture had remained almost completely outside the purview of GATT. The agreement was implemented in developed countries between 1995 and 2000 and in developing countries between 1995 and 2005. It required each WTO member to replace all broad barriers (tariffs, quotas, and combinations of the two) against the imports of agricultural commodities with an equivalent tariff. The resulting tariff was bound as the maximum legal tariff on the commodity. It must be pointed out that evaluating the “equivalence” of the level of bound tariff should be decided on the basis of the gap between domestic and international prices. This gap means the difference in the cost of producing the commodity; in that sense, it should be emphasized that the URAA admitted that the level of bound tariff is reflected by the cost gap between domestic and international products. The URAA required member countries to cut their bound tariffs by a predetermined percentage according to an agreed-upon timetable (Table: Japan's Recent Market Access Efforts).

### *Domestic Support*

Even though the focus tends to be on the level of the tariff in agricultural trade issues, the first point to be discussed concerning the URAA is that it restricts the extent of domestic support provided in favor of agricultural producers. Under the URAA, this domestic support is divided into four categories: those in the “green” and “blue” boxes, certain development measures, and separate *de minimis* support. Subsidies in the green box have minimal or no distorting effect on production and, hence, none on trade either. They include measures decoupled from output, such as income-support payments, safety-net programs, payments under environmental programs, and agricultural research-and-development subsidies. The blue box contains direct payments under production-limiting programs, such as payments based on acreage, yield, or number of livestock in a base year. The URAA assigns all subsidies outside of the green and blue boxes and development measures – such as support prices, direct production subsidies, and input subsidies – to an “unbar” box. These are generally trade-distorting and, therefore, the proper subject for reduction. The URAA targets the Aggregate Measurement of Support (AMS), defined as amber-box subsidies. This requires member countries to report their total AMS for the period between 1986 and 1988, bind it, and reduce it according to an agreed-upon schedule.

### *Export Subsidies*

Like the AMS, the URAA requires all countries to report, bind, and reduce their export subsidies. Countries reporting no export subsidies on a commodity have to bind the relevant subsidy at zero. The latest year for which complete data from the WTO on export subsidies are available is 1998. The total amount of export subsidies spent by all WTO members that year was \$5.4 billion. The EU accounted for \$4.95 billion of this and the United States for \$147 million.

The level of U.S. subsidies dropped to \$80 million in 1999; that of EU subsidies declined to \$2.6 billion in 2000.

## **What Is the Issue in the Negotiations in the Current Round?**

### *The Current Situation of the Doha Round*

Before attending the Hong Kong Ministerial at the end of 2005, Japanese Minister of Agriculture Shoichi Nakagawa, stated the following:

We are negotiating both for Japan and on behalf of 10 food-importing countries (the G10 group). Since the Doha Round's stated objective is to promote trade-based growth among the developing and less developed countries (LDCs) of the world, we hope our interests and objectives will receive greater attention than during previous negotiations. We remain firmly committed to pursuing our development goals through liberal economic policies. The Hong Kong Ministerial provides us with an opportunity to pursue our agenda by trading liberalization concessions that we will pursue regardless of the negotiated outcome for important concessions from our major trading partners. It is inevitable that protectionist agricultural policies, like those of the EU, have come under attack, even though not all countries have a strong interest in Japan's market.

### *Skeptical on Free Trade*

It is debatable whether free trade enhances the growth of each member so that it can utilize its comparative advantages. Walden Bello,<sup>4</sup> executive director of the Bangkok-based Focus on the Global South and professor of sociology at the University of the Philippines, vigorously criticizes the trend to free trade. First, he says, trade liberalization is the *raison d'être* of the WTO, and it is increasingly evident that greater economic liberalization has had exactly

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<sup>4</sup>Bello is author of *Dilemmas of Domination: The Unmaking of the American Empire* (New York: Metropolitan, 2005) and numerous articles on the WTO-and developing countries.

the opposite results from those predicted by free traders. After 20 years of structural adjustment and other radical pro-market policies in the developing countries, there are more poor people in the world today than in 1985, he argues, and there is much more inequality both within and among countries. Second, he asserts, the rhetoric of the WTO may be free trade, but its key agreements promote corporate monopoly. The URAA was never meant to liberalize global agricultural trade, but to allow the EU and the United States to manage their monopolistic competition to dump highly subsidized goods on third-country markets, while conceding cosmetic cuts in subsidies to gain legitimacy for the arrangement.

### *Aid for Trade*

On December 20, 2005, during the 6th WTO Ministerial Conference in Hong Kong, as a result of the negotiations of the Doha Development Agenda (DDA), an ambitious market access package was accompanied by Aid for Trade to help developing countries and LDCs take advantage of new export opportunities and build up their capacity to trade.

Aid for Trade is a substitute for ambitious results from the DDA and contains a financial aid mechanism that is in addition to existing Official Development Assistance (ODA) flows with other development and poverty reduction priorities.

In this trial, one of the missions of the WTO, which is to help developing countries and LDCs expand their production and exports of goods and services, was recognized. Behind this notion is the idea that some countries are succeeding quite well, but others – including a large number of LDCs where trade is failing to make the contribution that it should to economic growth and poverty reduction – are not.

A comprehensive Aid for Trade initiative needs to respond to two sets of concerns. One is the assistance that some WTO members will need to help them implement the results of the trade negotiations and to cope with any economic adjustment costs that may be incurred. The second, a broader set of concerns, is about the insufficiency of trade-related capacity in many WTO members to benefit from the opportunities that the multilateral rules-based trading system creates to increase investment and expand the production of tradable goods and services.

### *Prospects for Negotiations in the Doha Round*

Echoing Nakagawa's comments concerning the prospects for current negotiations, the goal of concluding these negotiations by end of 2006 should be maintained. In order to do so, there are only a few months now remaining and, within that period, agreement on the “modality” is the first requirement. Following this, the deadline for each applicant contracting party to submit the Schedule annexed to GATT through negotiation and agreement with the contracting parties primarily concerned must be decided. In that sense, even if an agreement on “modality” can be finalized by March 2006, the agreement cannot be concluded by the end of the year, which is generally agreed upon by all the members as the deadline for this negotiation.

It will be useful to investigate the experience of the last process of the UR to deepen an understanding of the current state of the negotiations. Just after the ministerial concession in Geneva recessed, in November 1992, the United States and the EU reached a bilateral agreement concerning the liberalization of agricultural trade, the so-called Blair House Agreement, in an extremely short time. After this agreement under the leadership of Peter Sutherland, Director-General of GATT at the time, the negotiations were concluded in only six months, by December

15, 1993. With this kind of experience in the recent past, pessimism about the progress of the current situation is not necessarily warranted.

## CHAPTER 2

### **BACKGROUND REVIEW OF DOMESTIC POLICY IN JAPAN: IMPLEMENTATION OF THE URAA AND PREPARATION FOR THE NEXT ROUND**

It is important to understand the background of Japan's proposal in the WTO agricultural negotiations. The current negotiations on the market access of agricultural products should be conducted in accordance with the provisions of URAA Article 20, which stipulates that the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an ongoing process, and factors such as non-trade concerns will be taken into consideration. The negotiations should also aim at resolving the difficulties encountered in the food and agricultural policy of each country since the implementation of the URAA, as well as at achieving well-balanced results for the purpose of enabling the various types of agriculture to co-exist.

Keeping this background in mind, the tariff levels of the products that became subject to tariffication as a result of the UR should be considered in the current negotiations by paying particular attention, *inter alia*, to the multi-functional roles of agriculture and food security.

Since the tariff system has become the only legitimate tool for adjusting differences in the natural and economic conditions of members with regard to agricultural trade, it is necessary to duly maintain its function. Under such circumstances, it is essential that an appropriate tariff level be determined considering the situation surrounding each product and the negotiating history, thereby providing flexibility for each product. This is important in order to continue the reform momentum for substantial progressive reductions in support and protection.

In the current agricultural negotiations, various products having considerable differences in their economic and social significance are subject to discussion. In particular, the out-of-quota

tariff rates for the products that became subject to tariffication as a result of the UR should be determined, taking into full account such factors as the differences between domestic and international prices, as well as the progress of reform of domestic agricultural policy. The in-quota tariff rates for these products should also be decided, considering such factors as the trend of international supply and demand and the actual situation of domestic consumption of each product; it is not appropriate, therefore, to treat all products in the same manner.

The international environment surrounding agriculture and agricultural policies subsequent to the UR agreements clearly shows that it has become more important to recognize that the market mechanism alone can hardly suffice for managing the public good aspect of agriculture, let alone agriculture itself.

For example, world agricultural trade has increased on the whole, but only a limited number of countries have enjoyed the benefit of such expansion. While the agricultural output in developed countries has increased, causing problems of overproduction, food shortages in developing countries have worsened. Consequently, the situation surrounding food security in many countries has become quite grave.

Although many countries are implementing policy reforms in response to the URAA in order to reduce the degree of intervention in the agricultural market and are making a policy shift toward an approach more focused on stable farm management, the recent decline in the price of agricultural products has created new problems, and some countries have had no choice but to implement additional support measures.

In addition, agricultural management, both in importing and exporting countries, faces various difficulties due to the increase of imports and the unstable supply-and-demand situation.

New issues related to consumers' daily lives have emerged along with technological progress, such as in the area of genetically modified organisms (GMOs).

In this regard, it is necessary to thoroughly examine the global situation of food, agriculture, and rural areas as well as the implementation of the URAA in each country since the UR agreements. It is also necessary to conduct negotiations in order to resolve the difficulties in each country and to allow the sustainable use of limited global resources in the long term.

Under the circumstances described above, Japan has been implementing the URAA, and the basic philosophy that underlies these proposals is the “coexistence of various types of agriculture.” Agriculture is the foundation of society in every country, and it provides a variety of beneficial functions to the society. As there are differences in the natural conditions and historical backgrounds from one country to another, the diversity and coexistence of agriculture among various countries need to be preserved. In this regard, it is important for all to recognize the necessity of overcoming differences among various countries in production conditions.

Japan's negotiating proposal is based on the fundamental philosophy of coexistence, as mentioned above, and pursues the following five major points:

- Consideration of the multi-functional nature of agriculture;
- Ensuring food security, which is the basis of the society in each country;
- Redressing the imbalance between rules and disciplines applied to agricultural-exporting countries and those applied to importing countries;
- Consideration for developing countries; and
- Consideration for the concerns of consumers and the civil society.

These five points reflect the consensus of the people of Japan, which itself is the world's largest net food-importing country, having imports equivalent in amount to the consumption of 75 million people.

The trade rules that enable only a particular type of agriculture, which focuses on efficiency, to thrive would naturally be rejected not only by Japan, but also by other countries. Similarly, Japan is in no position to agree on the outcome of negotiations if this only enables a small number of competitive exporting countries to benefit from the international agricultural market.

Japan sincerely supports establishing, through the current agricultural negotiations, fair and equitable rules and disciplines that will not only avoid damaging the agriculture of each country, but will allow for the coexistence of all.

In concluding this chapter, I would like to emphasize the necessity of the establishment of disciplines on exports. In the URAA, it was decided that all non-tariff border measures were, in principle, to be replaced by tariffs and then bound and reduced. In contrast, the current rules and disciplines concerning exports, including prohibitions, restrictions, and subsidies, remain less stringent than those on imports.

Mindful of this background, the rules and disciplines on exports need to be strengthened much further, if those on imports are also to be strengthened. If not, the imbalance between the two will be further aggravated.

It is also important to strengthen the rules and disciplines on exports in light of the food security of importing countries. Given the characteristics of agricultural exports, a field in which a small number of exporting countries are predominant, rules and disciplines to increase the

stability and predictability of trade are required in order to ensure that the measures taken by exporting countries will not threaten the food security of importing countries.

## CHAPTER 3

### PROSPECTS FOR DOMESTIC AGRICULTURAL POLICY IN JAPAN

#### Development of the Argument on International Trade in the Field of Agriculture

Before examination of the impact of the URAA in 1993 on the domestic farm sector in Japan, as a beginning, an inquiry into the development of the argument of international trade in the field of agriculture will be helpful. This will confirm the importance of the URAA in relation to the impact of globalization on the agricultural trade issue.

The development of agricultural trade policy after World War II can be divided into two categories.<sup>5</sup> One is the response to the international free trade regime, the GATT/WTO regime, which has been enhanced mainly by the United States; the other is bilateral negotiations between the United States and other nations and regions, including Japan and the EU.

Let us start with GATT/WTO. It is clear that GATT was established in 1948 in order to enhance free trade worldwide, but, as for the agricultural field there was a completely different situation.<sup>6</sup> From the beginning, some important exceptional provisions and treatments were introduced to the general principle of free trade in GATT by the United States itself. One exception was to the quota ban in Article XI: 1 and Article XI: 2 (c) of GATT.<sup>7</sup> The other was the exception to the prohibition of export subsidies, Article XVI of GATT. The United States introduced these exceptions in order to justify export subsidies as well as import restrictions.

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<sup>5</sup>Yasuo Endo, *Sengo Kokusainogyo Kosho no Shiteki Kosatsu: Kanzei Kosho kara Noseikaikaku Kosho e no Tenkai to Shakai Keizaiteki Igi* (Tokyo: Ochanomizu Shobo, 1994) 11.

<sup>6</sup>Endo.

<sup>7</sup>“International Economic Relations cases, materials and text Fourth Edition” John H. Jackson, William J. Davey, Alan O. Sykes, Jr. (St. Paul, MN: West Group, 2002).

U.S. agriculture has a dualistic structure. It has an internationally competitive sector that includes wheat, other grains, and corn, which have had the problem of excess production and have needed adjustment of supply and demand by utilizing such measures as export subsidies, food aid, and so on. It also has a sector that lacks international competitiveness, for example, sugar, dairy products, cotton, and peanuts, which have needed import protection while allowing unrestricted domestic production. Although these exceptions were guaranteed by the power of the United States, it cannot be denied that the EU and Japan utilized them as well.<sup>8</sup>

One explanation for the development of negotiations in agricultural trade may be that it is a path of correction of exception to the general principle of free trade. Let us examine this chronologically. In the 1950's, the notable developments in U.S. agriculture were large-scale increases in production of wheat and corn and exports to Europe.

In the 1960's, economic recovery in Europe polarized the world into the United States and Europe. The establishment of the European Economic Community (EEC) in 1958 started negotiations concerning compensation between it and the United States. The EEC tried to introduce the common agricultural policy (CAP), which meant stimulating production within Europe and a decline of imports from the United States. At the Kennedy Round from 1963 to 1967, one of the most important economic questions was how to prevent the trend of begging for protection in Europe, while there was a surplus of demand for domestic production in the United States. And the U.S. strategy of negotiation was based on its dualistic trade policy – exploring free trade in the sectors in which the nation had international competitiveness, while retaining restrictions on imports in those where there was a relative lack of competitiveness, such as dairy and meat products. The European strategy was to establish CAP, which consisted of three

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<sup>8</sup>Endo.

elements: variable tariffs, export subsidies, and domestic support. Japan was able to maintain price support measures in the domestic market, while prohibiting imports with high tariff levels and import quotas. At that time, a result of the struggle between two major powers, the United States and EEC, the Japanese domestic market was totally separated from the rest of the world.

Entering the 1970's, bilateral negotiations with the United States started to bring serious issues for Japan's agricultural trade policy to the fore. The United States began to put pressure on Japan to open its markets for highly valued products, such as beef and oranges, for which Japanese agricultural policy had enhanced production in order to increase the income of farmers. In the 1980's, the United States demanded that Japan change the exception in market access to adjust to the principle of GATT. This trend led to the UR, which began in the late 1980's.

Three rounds of bilateral negotiations concerning the opening of Japanese markets for beef and oranges had some impact on Japan's domestic industry. But compared to the UR in 1993, it was modest in that these negotiation issues did not influence the farm structure itself. This was because the rice sector was little affected and even conflicts concerning improvement of market access for beef and oranges could be categorized as just another trade conflict between the United States and Japan in the 1980's, which also included non-agricultural issues, such as export regulations on Japanese automobiles and semiconductor materials. So far as the agricultural market was concerned, the situation at that time could be compared to the period before Commodore Matthew C. Perry's first visit to Uraga port in 1853 with a mission to open Japan's commerce, which, prior to that, had been largely closed to the West. The lack of awareness in Japan of a serious situation concerning international trade precluded the Japanese government from enhancing "risk communication" – a notion that came to light just after the first case of bovine spongiform encephalopathy (BSE) in 2001, when the Japanese government was

heavily criticized for not having warned the Japanese public sufficiently of the possibility of such an outbreak in their country.

Looking at background of the UR from a different angle, from the standpoint of agricultural economic policy, the following can be said. Taking price support measures in order to stabilize farm management caused the state of excess supply because that kind of measure causes the state of moral hazard on production without awareness of market price. Though worldwide demand for agricultural products expanded steadily in the 1970's, it dropped in the 1980's. This led to the decline of markets and resulted in serious damage to countries worldwide. This, in turn, drove some developed regions such as the EC and the United States toward severe export competition. On the other hand, developing countries were suffering from starvation and malnutrition. This serious imbalance between the developed and developing world and the trade conflicts between developed countries made the leaders of each nation keenly aware of the necessity of reforming agricultural policy to "establish a fair and market-oriented agricultural trading system,"<sup>9</sup> which was realized by the URAA .

### **Results of the Uruguay Round Negotiations**

Let us turn now to the implications of the Uruguay Round negotiations. What has to be noticed when the URAA is examined is that it converted, in principle, all non-tariff border measures into tariffs; was the outcome of a series of broad-ranging negotiations; and covered not only border measures, but also export subsidies and domestic supports. Prior to the UR negotiations, countries had been allowed to maintain various non-tariff border measures for agricultural products: quantitative import restrictions, variable import levies, minimum import

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<sup>9</sup>Preamble of GATT Agreement on Agriculture, 1994.

prices, discretionary import licensing, non-tariff measures maintained through state trading enterprises, voluntary export restraints, and other similar border measures. Such approaches were then out of the scope of trade negotiations. In the URAA, a set of specific disciplines on agricultural trade was introduced for the first time, and all border measures were converted into tariffs.

This was a new step in the area of trade rules for agricultural products. Before the UR, in the field of agriculture, negotiations and agreements had been limited largely to border measures (tariff, tariff-rate quota, and so on). Three fields (border measures, export subsidies, and domestic supports) were targeted to reduction.

Let us examine the adaptation of Japanese domestic farm policy to the URAA. We will begin by considering border measures because Japanese domestic products are mainly protected by such means, which are, in fact, methods of passing the cost of protection on to the consumers. The URAA demanded that members convert all non-tariff border measures into tariffs. According to URAA 4:2: “Members shall not maintain, resort to, or revert to any measures of the kind which have been required to be converted into ordinary customs duties, except as otherwise provided for in Article 5 and Annex 5.” According to this rule, all agricultural products (wheat, barley, dairy, meats, etc.) except rice became subject to tariffication.

The important point to notice is that, under the bruising negotiations of the UR, Annex 5 was established to grant special treatment to Japanese rice. According to this provision, Japanese rice was the exception to the principle that all market barriers on agricultural products would be subject to tariffication. Annex 5 provides that a developed country such as Japan will allow “minimum access” for imports in the first year of URAA commitments equal to 4 percent (instead of 3 percent in the general rule) of average annual consumption in the UR base

period 1986-88. This rises in annual increments of 0.8 percent (instead of 0.4 percent in the general rule) of the base period consumption until it reaches 8 percent (instead of 5 percent) in the final year.

Japan imported rice according to this commitment from Japanese fiscal year (JFY) 1995 through JFY 1998, with imports reaching 6.4 percent of the base period consumption. Japan did not take this measure until the final year, however. From JFY 1999, Japan converted this more unfavorable measure into “tariff” rice.<sup>10</sup>

Let us leave the details of these developments and turn to why Japan chose a more disadvantageous measure such as “minimum access,” which was mandatory as the compensation to the exception for the principle that substituting tariffs on imports for fixed quantitative limits trade under the URAA. According to one of negotiators at the time, to negotiate to ensure more advantageous terms for “tariffy” rice was taboo, even though there were more advantages to “tariffy” rice in the quantity of imported rice than “minimum access.” The government of Japan did not have the option to admit the “tariffy” rice of Japan because “tariffy” was understood to be a liberalization of the domestic market for rice, and the mandate of the negotiator was to ensure the exception of the principle of “tariffization” under the political and social situation in the final stage of the UR.<sup>11</sup> The lack of transparency in the negotiations at that time sometimes caused disadvantageous results, and this unfortunate experience made Japan take notice of the necessity not only of implementing the international rule, but also of preparing for the next negotiations for the revision of the URAA.

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<sup>10</sup>It would lower annual market access increases in 1999 and 2000 from 0.8 percent of base period consumption to 0.4 percent at the beginning of JFY 1999. Although Japan had to continue to meet its existing minimum access amount (606,000 tons in 1998), the smaller increases in minimum access would put the import quota in 1999 at 644,000 tons instead of 682,000, and in 2000, the quota would be 682,000 tons instead of 758,000.

<sup>11</sup>Kazuhito Yamashita, *Shosetu WTO to Noseikaikaku* (Tokyo: Shokuryo Nogyo Seisaku Sentaa, 2000) 130

## **Process of the Delay of the Reform of the Structure of Agriculture in Japan**

Let us now attempt to extend the observation into the reason why rice production has been so sensitive as to need protection from the world market. Protection of domestic industries is criticized because of its close connections with politics. This is true not only in Japan, but also in the United States and the EU. What, then, is the uniqueness of Japan? Before examining the relationship between politics and policy in the farm sector, we must draw examine the process of domestic farm policy in Japan.

Just after the Allied occupation, farm reform succeeded in democratizing rural areas; and, starting in the mid-1950's, Japan entered an era of rapid economic growth.<sup>12</sup> This phenomenon, in turn, became the background for the establishment of the Agricultural Basic Law in 1961. First, younger workers migrated in large numbers from rural districts into urban areas, and the number of farm personnel declined dramatically. Second, the gap in productivity between the manufacturing and agricultural sectors steadily expanded. Finally, eating habits were gradually Westernized; consequently, rice consumption declined, while that of meat and animal oil and fat increased.

Against this background, the Agricultural Basic Law was created in 1961. It established two political goals: (1) correction of disparities between agriculture and industry, and (2) fostering the income of farm households to the same level as in other sectors. In order to realize these goals, two types of policy programs were introduced. One was reform of the structure of agriculture. This was to be accomplished by encouraging farmers who had decided to pursue other professions in more urban areas to sell their farmland, thus making large-scale farming

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<sup>12</sup>In 1956, an economic white paper by the Japanese government declared: "Japan is no longer in the post-war period." Between 1956 and 1972, the economy grew by an average of 9.3 percent annually in real terms. These years are called the "rapid growth period."

possible. The reality, however, was that those who chose to engage other industries did not give up their farmland due to the drastic increase of values; instead, they became part-time farmers.

The other measure was price supports. In order for farmers to realize a level of income equal to that of other workers, the price of rice had to be supported at a level sufficient to guarantee the cost of production. This measure was based on the expectation that improvement of agricultural productivity would cause the cost of rice to decline. What happened, though, was that the price supports reflected the robust increase of salaries in other industries, which were experiencing rapid economic growth, while farm productivity did not improve due to the delay in structural reform. Thus, the measure resulted in encouraging lower productivity of rice and a significant price gap between Japan and other countries.

### **Current Structure of the Farm Sector in Japan**

Let us turn now to the current situation of the farm sector in Japan. This examination is essential to examine the relationship between politics and policy in agriculture.

In the past, farmers were most often classified into "full-time farm households" and "part-time farm households," but in recent years, it has become more common to separate them into "business farm households," "semi-business farm households," and "side-business farm households," a system that takes into consideration the average age of the agricultural workforce.

"Business farm households" are those that have at least one person 65 years of age or younger engaged in farming for 60 days a year or more and whose agricultural income is higher than its income from the non-agricultural sector. "Semi-business farm households" are those that have at least one person less than 65 years of age engaged in farming for 60 days a year or more and whose agricultural income is lower than that from the non-agricultural sector. "Side-business

farm households" are households with no one less than 65 years of age engaged in farming for more than 60 days a year.

Looking at farm households as a whole, only 20 percent are business farm households, with semi-business farm households and side-business farm households accounting for the remaining 80 percent. The rate of agricultural income for business farm households is 62 percent, and the total per capita income of business farm households is almost the same as that of the average worker household. On the other hand, the rate of agricultural income for semi-business and side-business farm households is no more than 10 percent and 5 percent, respectively, and total per capita income is much higher than that of the average worker household.<sup>13</sup> (See Figure 1 for a comparison of income between farm types.)

Let us now look at the structure of rice production, which is the symbol of land-intensive agriculture in Japan. Rice production accounts for one-fourth of the gross value of agricultural output. But looking at the share it holds in the value of output in 2003 by type of farm household, the rate of farm households that are engaged mainly in agriculture (business farm households) is no more than 36 percent, while the rate of other farm households (semi-business and side-business farm households) makes up 64 percent. By way of comparison, business farm households account for 85 percent of vegetable cultivation and 96 percent of raw milk production. On the other hand, the level of income of business farms that are engaged mainly in paddy rice production is lower than the average of business farms, whereas the income of business farm households that are engaged mainly in vegetable cultivation and production of raw

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<sup>13</sup>The average annual income per person in business farm households is ¥1,860,000, which is same as in worker households (¥1,800,000). On the other hand, the average annual income per person in semi-business farm households and side-business farm households is ¥2,050,000 and ¥2,080,000 yen, respectively, figures that are much higher than the average of worker household.  
(nougyoukeidoukoutoukei,nougyoukouzoudoutaityousa,2005(MAFF),kakeityousa2005(MOHA))

milk is higher than the average level of business farms.<sup>14</sup> (See Figure 2 for share of total agricultural output by commodity and farm type.)

The question is why such part-time farmers have continued to own farmlands and produce rice? There are two possible answers to this question. First, part-time farmers, especially in suburban areas, are not only able to obtain cash flow from their farm earnings, but can also realize capital gains because of the high asset value of their farmlands. Second, in spite of the existence of such non-agricultural income effects, rice price support policy, including the rice set-aside program, has indiscriminately supported part-time farmers. The only thing they have to do is produce rice or join the set-aside program to get benefits from the government. This advantage encourages them to hold on to their farm land.

### **Economic Characteristics of Agriculture**

The necessity of exceptions to the general free trade principle is derived from two major economic characteristics of agriculture.<sup>15</sup> First, the agricultural labor force does not decline particularly smoothly even if the economic value of agriculture declines with the development of the economy of the nation. This phenomenon makes it vital to adjust the industrial structure. As for Japan, agriculture accounts for less than 2 percent of the GDP, although more than 80 percent of the nation's land is used for agriculture and forestry.

The second characteristic is that agricultural production is subject to both a surplus of demand and a lack of demand. Just after World War II, both Europe and Japan suffered from a lack of food, and this caused surplus production in the United States. Once agricultural

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<sup>14</sup>The average income of paddy rice in business farms is 95 when the average income of business farms is set at 100, while those of vegetable cultivation and production of raw milk are 114 and 165, respectively (nougyoudoukoutoukei2005 [MAFF]).

<sup>15</sup>Endo.

production was resumed in Europe and Japan, however, there was a surplus of production. This caused a decline in the price of agricultural products, which, in turn, necessitated political intervention to maintain the income of farmers.

### **Background of Reform After the URAA (Political Point of View)**

Since the URAA, certain factors have caused drastic changes in the political situation surrounding agriculture in Japan. First was the 1994 electoral reform, which replaced multi-member districts (MMDs) in the Lower House with single-member districts (SMDs). This reform seemed to have triggered the decline in the level of political involvement in agricultural policy. According to Mulgan (2005),<sup>16</sup> this reform reduced the disparity of voting values at the extreme of from 5:1 to something over 2:1 in the Lower House. In addition, it considerably reduced the electoral bias in favor of less densely populated areas. Therefore, the reform has gone some way toward rebalancing electoral power away from rural to urban interests. In addition, in 2003, the proportion of farm voters to total eligible voters was less than 8 percent.<sup>17</sup>

This electoral reform will gradually shift the concerns of politicians from special interests like the protection of part-time farmers to more general issues, which deeply resonate with the public, such as the privatization of postal services.

Secondly, the Koizumi government has led to a relative weakening of the relationship between the government and the Liberal Democratic Party (LDP). As Mulgan (2005) accurately pointed out, within the larger group of farm politicians, a core group of Diet members who are agricultural policy specialists (so called "*norin-zoku*" or "agricultural tribe") has exercised formidable powers of intervention in agricultural policymaking and interference in the

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<sup>16</sup>Aurelia George Mulgan "Where Tradition Meets Change: Japan's Agricultural Politics in Transition" *Journal of Japanese Studies*, 2005 Society for Japanese Studies.

<sup>17</sup>Mulgan.

administrative affairs of the Ministry of Agriculture, Forestry and Fisheries (MAFF). The *norin-zoku* comprise past and present executives of LDP agricultural policy committees in the Policy Affairs Research Council (PARC) and have, therefore, dominated party policymaking processes for agriculture. In other words, the key to the success of agricultural policy is how to win over such agricultural policy specialists and obtain the consent of agricultural policy committees.

After the reform of the central government in 2001, especially after the formation of the Koizumi cabinet, however, policy decision-making has changed drastically, and this has considerably reduced the power of the LDP's agricultural policy committees. Basic macroeconomic and fiscal policy has been decided by the cabinet based on the guidelines provided by Council on Economic and Fiscal Policy (CEFP, *Keizai Zaisei Shimon Kaigi*), which reports directly to the prime minister. This cabinet decision is made in July, before the budgetary ceiling understanding by the cabinet based on the plan of the Ministry of Finance in August, in order to make it clear that it is the cabinet, not a political party such as the LDP, that leads the policymaking process. This change in the policymaking process put pressure from the LDP on the administrative affairs of MAFF, which makes it easy for MAFF to enhance structural reform that could go against political interests.

Finally, the crisis of the first case of BSE in Japan aroused the public's anger toward the government. This was because the government's decision-making process had been heavily affected by political pressure exerted by farmers, and there had been little concern for the interests of the consumers.

In September 2001, the first BSE-infected dairy cow was detected in Japan. Subsequently, consumption of beef declined drastically because of consumer fear. In October 2001, MAFF established a system to monitor cattle at risk for BSE by acting with concerned agencies and

enhancing the quarantine system, including a ban on the use of all livestock feed containing meat and bone meat. This was the almost first experience for the Japanese government to handle panic concerning food safety because, up to that time, the public had paid little attention to this issue. On this occasion, however, the government came under heavy criticism by the media and the Diet for not having communicated with the public concerning the possibility of a crisis. Against this background, in 2002, a private advisory body was established by MAFF and the Ministry of Health, Labor and Welfare (MHLW), to investigate the proper manner in which the government should handle livestock and food sanitation in the future. The group's report was critical, which touched a raw nerve in the government. The criticism involved not only sanitation of food and livestock, such as the absence of a risk management system and minimal attention to consumer protection, but also the lack of transparency in the policy decision-making process and incomplete disclosure of information in the administrative system.

It will be useful to quote from the part of the report describing the relationship between MAFF and politics.

It is rare that a specific person is assigned responsibility in decision-making because this process has been left vague, discounting the importance of continuity of policies.... Politics should play an important role of surveillance of validity in policies. Agricultural policy decision-making, however, has been biased in favor of the producers by political pressures exerted by political interest groups composed of the *norin-zoku* elected from electoral power bases in rural areas of Japan.... We believe that such a close relationship between politics and government administrators has promoted a lack of transparency in the decision-making process and that that the relationship has made it difficult for politicians to carry out a surveillance role. Along with farm politicians, MAFF has attached too much importance to producers. It should be appreciated, however, that a movement to correct this situation is gaining momentum, not only among government officials including ministers, but also among agricultural politicians, in the wake of BSE problem. Their common idea is shifting the base of policy

decision-making from the viewpoint of the producers to the viewpoint of the consumers.<sup>18</sup>

### **New Strategy for "Structural Reform" in Agricultural Policy in 2005-06**

We are now in a position to say that what is going on in farm policy in Japan is reflecting the situation both in international and in political change. For the purpose of this paper, it is not necessary to enter into a detailed description of reform, but at least it can be said that the goal of this reform is challenging, not only in that it requires a drastic change of the traditional system for the stabilization of business in the agricultural sector, but also with regard to political meaning. MAFF is preparing new programs for the reform of the farm sector, and the bills will be passed in the current Diet. If all goes smoothly, these programs will start from the autumn of 2006. In this connection, there are three points that should be noted.

First, these new programs have been designed to harmonize with the international system, i.e., the WTO system. The modalities of systems attuned to advancing globalization are examined. With regard to modalities of agricultural policies, initiatives that do not distort trade are being advanced under the WTO system. In the UR completed in 1993, as I have already mentioned, the participants agreed to reduce not only "border measures" (tariffs and other measures), but also "domestic supports" (domestic price supports), and this resulted in an advancement, to a certain level, in the liberalization of agricultural products. Based on this approach, the United States and the EU are currently implementing a shift from price support policies for individual goods to decoupling policies such as direct income supports,<sup>19</sup> and the

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<sup>18</sup>“BSE Mondai Chosa Kento Iinkai [The Report of the Private Advisory Board for the BSE Problem.” 2002, MAFF and MHLW. Translation by the writer.

<sup>19</sup>Although the U.S.1996 Farm Bill eliminated the deficiency payment system and introduced production flexibility contract payments, the U.S. government provided emergency farm assistance packages four times

concept that national protective policies should not block the international market mechanisms of agricultural products is gaining ground. Decoupling policies are centered on providing direct income support to producers, and their significance is that they are not connected with the annual market price and production level of agricultural products.

Japan is also exploring a shift from price and management security policies for each individual commodity to a system for support of a proactive agricultural management entity that encompasses various commodities in the field of paddy rice and upland crops. Such initiatives to end price support will bring domestic prices of agricultural products closer to international prices in the long-term, and, in order to facilitate this, it is necessary to improve agricultural productivity and raise the international competitiveness of the sector.

Second, this program might be a receiver to compensate for the cost gap between domestic and international products. In the principle of "tariffication" in the URAA, the calculation of the tariff equivalents are to be made using the actual difference between internal and external prices in a transparent manner.<sup>20</sup> Putting it differently, if the reduction of the tariff level is offered as a concession, the gap between the level before and after reduction will be compensated for by financial resources as a domestic measure, i.e., a subsidy.

Finally, this is much more challenging in that the introduction of this program could be a complete conflict of interest for conventional politicians. This new program will explore the definition of business farmers by clear standards, such as the rate of cultivation. There are two important points to note. First, the clarification of this definition guarantees transparency for the public, and this, in turn, does not allow the government to undertake discretionary activities

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between 1998 and 2001 totaling \$27.3 billion. In addition, the 2002 Farm Bill reintroduced the counter-cyclical payments.

<sup>20</sup>See the URAA attachment to Annex 5.

affected by political pressure. Second, this will be a declaration for putting an end to supporting small-scale farmers through industrial policy, a change that motivated officials have tried to effect since the 1960's. Their attempts to date have been in vain because of strong political pressure.

### **The Relation Between Structural Reform and Protection of Domestic Industry**

The question to be considered next is whether this reform can achieve international competitiveness of rice production and respond to the expectations of export countries that Japan will accept demands to reduce border measures such as tariffs. It is probable that this would push domestic prices of agricultural products closer to international prices in the long-term, and, in order to facilitate this, it is necessary to improve the productivity of paddy rice and upland crop cultivation. My opinion, however, is that there is a limit to how much international competitiveness can be acquired to respond to the level of international prices because of fundamental factors such as total farmland area; this is a crucial limitation that cannot be completely resolved by improvement of productivity and efficiency. Of course, it is important to promote more efficient use of farmland by enhancing reform of the farmland system, promoting the entry of motivated new farmers – including corporations – into the farm sector, and securing superior farmland.

Having decided on the necessity for unremitting efforts at structural reform in the farming sector, the major issue left to discuss is how to maintain the land of the home country. In 2002, the area of Japan totaled about 37.79 million hectares. Of this, forest land accounted for about 25.1 million hectares, followed by land for agriculture, some 5 million hectares. Forest and

agricultural land account for about 80 percent of the national total.<sup>21</sup> If forest land is excluded in order to focus on the situation of land used for economic purposes and assuming that the forest industry is negligible, the rate of land for agriculture amounts to over 32 percent (Figure 4).

The question that should be discussed now is how to maintain such a huge proportion of land in the long-term. The development of the information society might allow people to stay in rural areas, but it seems that, in the long-term, most people in mature societies would prefer to gather in urban areas; this phenomenon is particularly noticeable in Japan. Some farmlands that may be difficult to improve further with regard to efficiency and profitability might be returned to forest land.

How to maintain a nation's domestic land over the long-term seems to be a key notion worldwide, and this is one of the background reasons for Japan's advocacy in the current WTO negotiation. Various types of agriculture in different countries and regions must be able to coexist in the 21<sup>st</sup> century. For that purpose, it is important for each member to acknowledge the diversity of agriculture resulting from differences in natural conditions and historical backgrounds. Based on this notion, it is essential to ensure that the benefits of the multi-functionality of agriculture can be sufficiently reaped through sustainable production. It is true that farming activities can exert both positive and negative effects on the environment, so I will not argue that agriculture is only way to preserve environmental benefits. But it can be said that, in rural areas, there are some elements beyond economic factors that have been enhanced through domestic agricultural activities (Figure 5). These would include traditional senses of values such as age-old festivals in rural areas, which cannot be evaluated by market mechanisms.

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<sup>21</sup>White Paper on Land 2004 (Ministry of Land, Infrastructure and Transport). The cultivated acreage in Japan totals about 5 million hectares. In the breakdown, the paddy rice field is about 2.59 million hectares, and the upland field soil field is about 2.14 million.

This might be difficult for people who do not have such a history and tradition in the use of land, especially those in a country that began as plantation colony, to understand.

A fuller study of the multi-functionality of agriculture is outside the scope of this paper. Two factors, however, need to be noted. The first is whether non-trade concerns, such as history, culture, and so on, should be taken into consideration in international trade rules. The second is whether such characteristics of farm production activities, especially paddy rice activities, are really valued by the public in Japan.

As for the former point, there is a limit to economic productivity and efficiency in the field of land-intensive industry such as paddy rice. And without certain supports, the diversity of culture and social values that is derived by maintaining activities that utilize the land will definitely vanish. The question is whether non-trade concerns, such as culture and social values, can be evaluated by objective rules or standards. Without such rules or standards, the attitude of maintaining border measures will be wide open to criticism by the international free trade regime because such measures are understood to be "disguised restrictions on international trade."

As to the latter issue, that is, whether protecting the production of rice is really a national interest for Japan, government administrators should clarify the following points. First of all, it needs to be ascertained whether Japanese citizens are able and willing to pay for the maintenance of farmland.

The second thing to be clarified to the public is that there is a huge price attached to protecting domestic rice production.+ On the other hand, although the Japanese people might choose to offer partial concessions on market access for rice as a "national interest" in order to adjust to globalization, the new WTO rule, they will have to pay substantial compensation to current rice producers. It should be clearly understood that adjusting to global rule sometimes

requires huge social costs to bend to current reality. Preservation of confidentiality is crucial in international negotiations, but the government should not avoid showing reality to and maintaining discussions with the public about the effects of the results of negotiation. "Risk" is the potential harm that may arise from some present process or future event. In everyday usage, "risk" is often used synonymously with "probability," but, in professional risk assessments, risk combines the probability of a negative event occurring with how harmful that event would be. Financial risk is often defined as the unexpected variability or volatility of returns, and thus includes both potential worse-than-expected as well as better-than-expected returns. The results of actions dictated by the new WTO regime might have placed some burdens on both taxpayers and producers; in that sense, there might be "risk" for them in the future. Therefore, making the risk clearly understandable for the public now, i.e., "risk communication," is needed to avoid the same failure that was seen at the end of the URAA in 1993 and in the first case of BSE in Japan in 2001. Politicians and the government have an important role to play in this effort.

## **CONCLUSION**

Agriculture is one of the most conservative fields for any nation at any level of development, and the challenge to apply international free trade principles to the agricultural sector, especially after the UR, has demanded that each nation adjust its domestic industry to a respectable degree. As for agricultural policy in Japan, the relation between agricultural industry and politics has historically been a close one, and the key to a successful adjustment between international demand and the domestic system depends on political conditions. In that sense, analysis of the adjustment of agriculture to the global standard provides a window to the broader process of Japan's political and policy systems.

In the history of the international free trade regime beginning with GATT after World War II, the UR in 1993 had a distinctly important meaning in that the exception to the principle of free trade for agriculture was thoroughly reviewed, and the trend of the adoption of free trade to agriculture has raised many issues throughout the world under the current Doha Round. Therefore, comparison of conditions of international agricultural trade before and after the URAA will be effective in order to understand the level of the agreement's impact on the domestic political and policy systems of Japan.

Until the URAA, there was bilateral pressure, from the United States on Japan, in the field of beef and oranges, but it was thought that the national isolation policy in rice, the staple food of Japan, should be defended at all costs. Lack of preparation for opening itself to the world in both policy and political systems forced Japan to pay high compensation in order to acquire exceptions to the URAA principle that all measures concerning market access shall be converted into ordinary customs duties. This humbling experience made Japan aware of the necessity of

enhancing the reform of the domestic policy system, especially in the field of land-intensive industry, and has encouraged the nation's preparations for the post-UR period.

Additionally, after the URAA, some factors have brought drastic change into the political situation surrounding agriculture in Japan. The 1994 electoral reforms have led to the declining level of political involvement in agricultural policy. The Koizumi government has also led to a relative weakening of the relationship between the government and the LDP. Finally, the crisis over the first case of BSE in Japan aroused public anger over the relationships among government, politicians, and industry.

These political changes have made it easy to enhance domestic reform and prepare for international negotiations with Japan in the position of an importing country. The undeniable fact, however, is that there is a huge gap in the cost of production between Japan and other countries and that it takes some time to adjust to full-fledged openness to the world. Serious discussions will be necessary as to how the taxpayers will bridge this cost gap to maintain sustainable domestic agricultural production. This situation will require a sincere response from both the political and policy systems related to agriculture to persuade both international stakeholders and domestic taxpayers. Playing this role would be the best way for the Japanese agricultural sector to alter the widespread perception that it is conservative and closed. Debate about globalization needs to improve accountability, not only in international negotiations, but also vis-à-vis the domestic public.

**Table: Japan's Recent Market Access Efforts**

1995: “Tariffication” (= conversion of non-tariff barriers to tariffs or tariff-rate quotas)  
– all agricultural products except rice

1995-2000: Tariff Reduction – Average 36%, Minimum 15%  
Tariff Rate Quota Expansion  
– Up to 5% (7.2% in case of rice) of domestic consumption

1999: “Tariffication” – Rice

2003: Tariff Reduction for Developing Countries – Expansion of GSP Products

2004: Accepted “Tiered Formula” (= Higher the Tariffs, Deeper the Reductions??) – WTO  
Framework Agreement

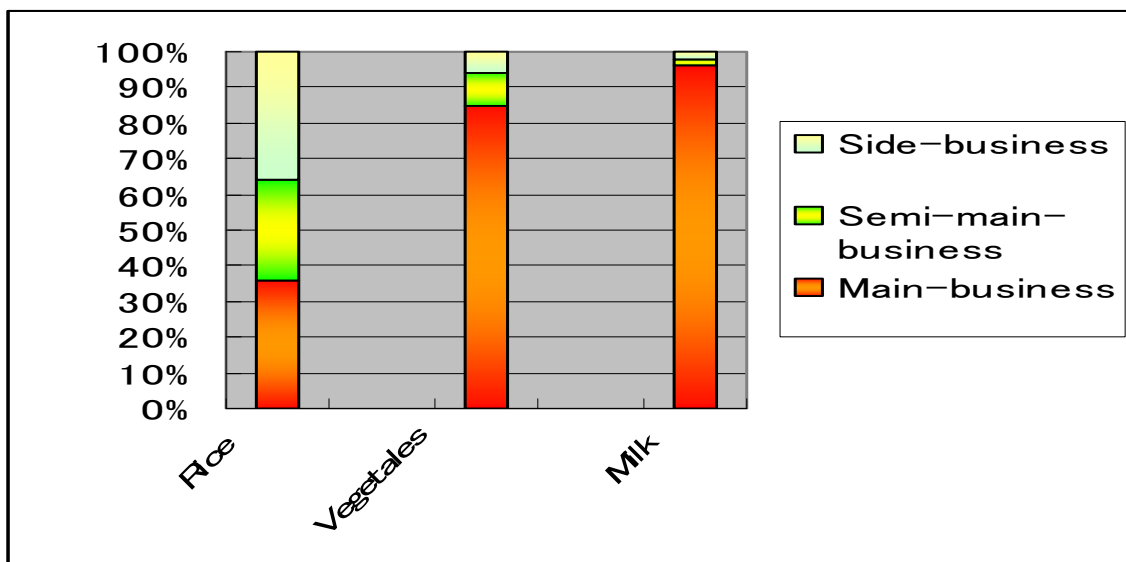
2005: Tariff Elimination/Reduction for FTA Partners (Mexico, etc.)

**Figure 1. Comparison of Income Between Farms Types (FY2003)**

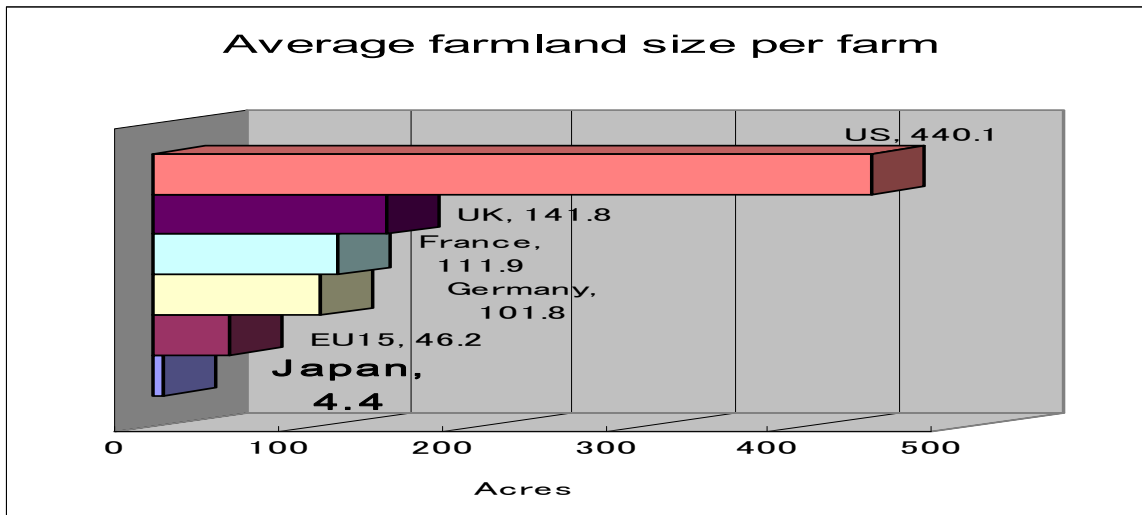
<i>Type of Farm Households</i>	<i>Number (10,000 households)</i>	<i>Percent</i>	<i>Total Income (¥10,000 )</i>	<i>Agricultural income (¥10,000 (ratio of total income))</i>	<i>Average per capita income (¥10,000)</i>
<b>Commercial farm households</b>	<b>216</b>	<b>100%</b>	<b>772</b>	<b>111 (14%)</b>	<b>204</b>
<b>Main-business farms</b>	<b>43</b>	<b>20%</b>	<b>765</b>	<b>474 (62%)</b>	<b>186</b>
<b>Semi-business farm households</b>	<b>51</b>	<b>24%</b>	<b>847</b>	<b>86 (10%)</b>	<b>205</b>
<b>Side-business farm households</b>	<b>122</b>	<b>56%</b>	<b>752</b>	<b>34 (5%)</b>	<b>208</b>

**Figure 2. Share of Total Agricultural Output by Commodity and Farm Type (2003)**

Type of commodity	Value of Agricultural output (¥100 billion)	percentage
<b>Total</b>	<b>89</b>	<b>100</b>
<b>Rice</b>	<b>23</b>	<b>26</b>
<b>Vegetable</b>	<b>21</b>	<b>24</b>
<b>Milk</b>	<b>7</b>	<b>8</b>
<b>Beef Cattle</b>	<b>4</b>	<b>4</b>



**Figure 3. The Average Acreage per Farm**

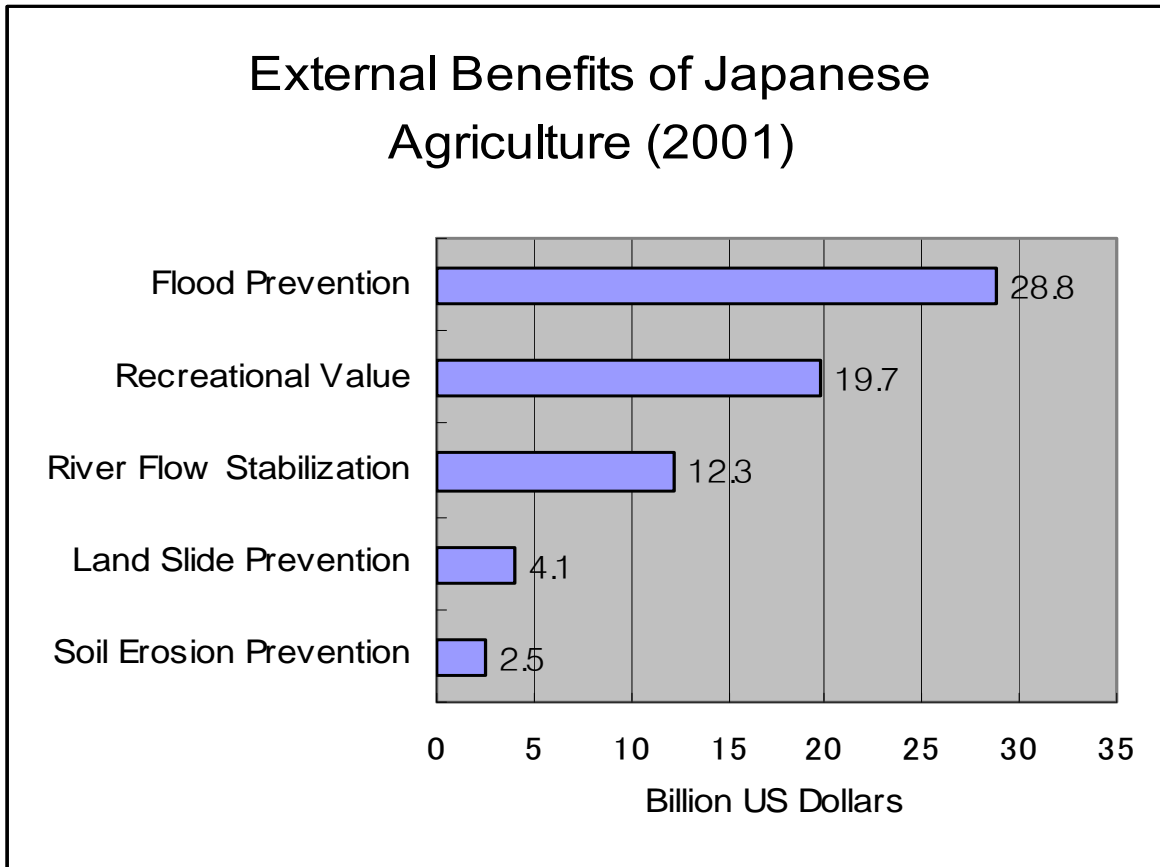


**Figure 4. The Ratio of Agricultural Land to the Area of the Country**

	Ratio of forest land of total land (%)	Ratio of agricultural land of total land (%)	Ratio of agricultural land of total land excluding forest land (%)
<b>Japan</b>	<b>63.7</b>	<b>11.8</b>	<b>32.5</b>
<b>United Kingdom</b>	<b>11.5</b>	<b>69.8</b>	<b>79.9</b>
<b>Germany</b>	<b>30.1</b>	<b>47.7</b>	<b>68.2</b>
<b>France</b>	<b>27.8</b>	<b>53.9</b>	<b>74.7</b>
<b>EU-15</b>	<b>43.1</b>	<b>43.4</b>	<b>76.3</b>

FAOSTAT (2000, 2001), the world agricultural statistic (2002)

**Figure 5. External Benefits of Japanese Agriculture (2001)**



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