

# Japan's Grand Strategy for Agriculture in Globalized World

By Masayoshi HONMA

## Introduction

In what direction should Japan's agriculture proceed in the future in the midst of structural change in the international food supply/demand balance and a financial crisis-induced global economic downturn? The economic stagnancy makes it all the more important to bring the Japanese economy in line with the trends of globalization. Against that background, Japan is faced with a variety of challenges such as making a breakthrough to the stalled Doha Round of trade negotiations under the World Trade Organization (WTO) and concluding free trade agreements (FTAs) with a greater number of countries. To resolve these challenges, Japan can no longer maintain the traditional policy of protecting its agriculture.

The ongoing change in the international environment, however, can be seen as a prime opportunity for Japan to review its agriculture. Specifically, fluctuations in international prices for farm produce make Japanese people more conscious about price differentials between Japan and elsewhere. Japan should hereafter explore ways to reinforce competitiveness of domestically produced agricultural products against imports and map out a strategy to boost exports of differentiated products. The Japanese government needs to steer its policy in the direction of opening agriculture to the rest of the world and making it target the global market.

In terms of agricultural land, technology, and capabilities of farmers, Japan's agricultural resources stand out as being at one of the world's highest levels. But it is hard to say Japan is fulfilling its potential. The decades-old policy of rice acreage reduction, coupled with regulations on farmland, has hampered growth of Japanese agriculture. Looking ahead, it is imperative to create an environment more favorable for farmers so that they will be able to fully prove themselves. The creation of such a climate will surely make it possible to satisfy the needs of world markets and open the way for Japanese agriculture to help resolve global food and environmental problems. Japanese agriculture should be categorized as a growing industry.

From the viewpoints mentioned above, some policy recommendations are presented below on how to restructure the nation's agricultural policies. They are selected from among those made in the 31st Policy Recommendations titled "Japan's Strategy for its Agriculture in the Globalized World" by the Japan Forum on International Relations Inc. in January 2009. The recommendations below have been rearranged; hence their order is different from that of the 31st set of proposals.

## Key Viewpoints on Japan's Agricultural Reform

**[Recommendation 1] Regard Japanese agriculture as a growing industry and make it target world markets.**

Amid drastic changes in the environment surrounding Japanese agriculture, we need to regard it not only as a means to provide food for the Japanese people but also as a growing industry with an eye on international markets. This approach requires proactive promotion of agriculture in Japan.

**[Recommendation 2] Open Japan's agriculture to the world.**

Japan needs to use food exports as a way to spur food-related business in the world marketplace and open up agriculture in Japan to the world. In particular, Japan's agricultural technology should be utilized to address food problems and promote economic development in the world.

## Seeking Comparative Superiority of Japanese Agriculture

Amid dramatic changes in the climate surrounding Japanese agriculture, a paradigm shift is taking place globally concerning food and the environment. Japan has always taken a passive stance in international agricultural negotiations such as the WTO round. But the paradigm shift is forcing Japan to take a more proactive stance. The Uruguay Round of global trade negotiations in the 1980s was aimed primarily at optimizing the food supply/demand balance by curbing government intervention in agricultural production and trade amid a global excess of food supply. This goal was attained to some extent with the inception of the WTO.

Japanese agriculture is now given a good opportunity to boost production and fuel growth with international markets as its main target. Sharp changes in international food prices have led us to have a fresh look at the differential between food prices in Japan and elsewhere. The number of exportable farm products is increasing, and it is expected to grow further if cost-reduction efforts are made. High-grade brands of Japanese-grown rice are being welcomed by wealthy consumers abroad while demand for low-priced, large-yield brands is expanding strongly.

Taking account of these factors, Japanese agriculture needs to pursue comparative superiority, with world markets in sight. On the back of superior technologies and human resources, Japanese agriculture has a high growth potential. In particular, rice has a potential to develop into a leading industry in the world. With this in mind, policymakers should nurture such a growth potential. The rice supply/demand balance should not be looked at only from a domestic viewpoint. Policymakers need to map out a grand strategy setting their sights on the world rice market whose overall consumption is currently estimated at 25 million tons. In response to diversified needs, production of many varieties of rice such as indica should be boosted. To this end, it is an urgent task to promote structural reform.

Under this concept, the following policy recommendations were made about rice in particular.

### **[Recommendation 3] Abolish policies that reduce rice acreage.**

Rice lies at the heart of Japanese agriculture. But mandatory rice production quotas limit the freedom of farmers to grow rice, and restrict their ability to take full advantage of their expertise. Production quotas make it impossible for producers to respond properly to consumer demand and needs. The government should draw a road map toward abolishing the policies of reducing paddy acreage and imposing production quotas.

### **Bold Reform to Give More Incentives to Farmers**

The biggest problem in Japanese agriculture is that little headway has been made in assembling farmland. Statistically, the total area of concentrated farmland given to authorized farmers and other people supporting regional agriculture exceeds 2.2 million hectares. But many scattered farmland plots are cultivated separately, leaving productivity low due to inefficient farming even though acreage under cultivation expands. Production costs per unit area rather tend to rise in rice cultivation areas of 10 ha or larger. For example, a farmer is managing rice fields with a total area of 60 ha but this acreage is scattered in 180 locations. To take advantage of the economies of scale in expanded farmland, it is necessary to assemble and integrate tracts of farmland by such means as exchange and consolidation of land lots.

The liquidation of farmland has been promoted under lease contracts in a manner bypassing existing restrictions – based on special legislation that makes it possible to exempt farmers from the application of the Agricultural Land Law, which was established to protect the outcome of postwar farmland reforms. But the current agricultural land system is impeding progress in liquidation.

In order to rectify the inconsistent system, it is desirable to create “special economic zones,” where agricultural land can be utilized without any restrictions, as part of efforts to prioritize agricultural production. Let’s call the plan to create special zones for deregulating farming a “Food Production Base Area” scheme. Under the plan, use of agricultural land will be liberalized, with priority areas designated for agricultural investment and food production bases created across Japan. In such base areas, agricultural land lots will be assembled on a large scale, beyond administrative boundaries. Further, 21st-century high-tech production systems will be introduced. The food production base areas will lead to the establishment of a food supply system that can adequately respond to international trends and eventually develop into food export bases.

The Japanese government has used subsidies as a means of its agricultural induction policy. It needs hereafter to shift its policy and give farmers more freedom and leeway in their agricultural management and incentives to help boost efficiency and management scale, mainly by extending loans to them. Although policy finance had been employed as an agricultural policy measure, more effective, selectively prioritized policy measures should be implemented, let alone preferential interest rates and repayment terms. Specifically, the government should not only examine management plans of farmers applying for loans but also forgive loan repayments depending on the degree of attainment of their planned goals. It should also differentiate interest rates according to managerial elements and extend greater financial assistance to management plans that match the promotion of structural reforms.

Specific policy recommendations related to the food production base

scheme are mentioned below. These are the main pillars of the 31st Policy Recommendations.

### **[Recommendation 4] Establish 21st-century food production base areas to ensure a stable food supply.**

The Japanese government should identify priority areas for the better use of farmland and agricultural investment, and establish food production base areas in Japan. Under the strategy, large plots of arable land will be assembled for farming, using advanced technology to produce high-quality food at low cost. These production base areas should eventually be developed into Japan’s food export bases.

### **[Recommendation 5] Assemble 1.5 million ha of land into 10,000 core farms in food production base areas measuring about 100 ha each.**

About 1.5 million ha of land – approximately one-third of the 4.6 million currently under cultivation – should be appropriated to create food production base areas. In these areas, priority should be placed on infrastructural development and measures for environmental care. Also, farmland use should be liberalized by setting up special economic zones to encourage new entry into agricultural production, and about 10,000 core farms, each responsible for managing about 100 ha, should be established.

### **[Recommendation 6] Establish financing policies to encourage production, and forgive loans of highly effective farm managers.**

Today’s policy measures for agricultural support should be completely transformed into financing programs. Large amounts of loans and other incentives should be established to encourage and boost production. Excellent farm managers are to be exempted from reimbursing some or all of loans as another incentive encouraging enthusiasm toward management. However, these measures should be of limited duration.

### **Agricultural Policies from Public Viewpoint**

Expectations of farms for the conversion of farmland to non-agricultural use are cited as one of the reasons for little headway in the assembling of farmland tracts. Japan’s prime farmland lots, notably paddy fields, are widely flat and well-drained. In addition, they are accessible due to paved agricultural roads. That kind of prime land can be utilized not only for agriculture but for industrial, commercial and housing purposes as well. Furthermore, such tracts may be converted to those for public works projects such as construction of roads and public facilities. Accordingly, there are growing opportunities of arable land being converted to non-agricultural use in the suburbs of major cities and elsewhere in Japan. Strong expectations for farmland conversion to non-agricultural purposes stem in part from low costs for owning farmland. Another reason is that fixed asset and inheritance tax breaks for farmland prompt farmers to hold such land lots for a long period of time, thereby hindering the liquidation of farmland blocks.

More fundamentally, bottlenecks lie in Japan’s land system that makes it easy to convert farmland to non-agricultural use. Legally, strict regulations are in place on farmland conversion. The reality, however, is that numerous conversion deals are taking place in various parts of Japan through flexible application of regulations and alteration

of delineated areas. Basically, Japan's land use planning lacks consistency and integrity between the farmland system and urban planning, thus making the effective use of whole national land difficult. It is expected to become more important than ever to preserve the landscape of farm villages and draw up landscape plans for regions as a whole. The question of farmland use should be addressed from the standpoint of not only production but also how to utilize regional environmental resources in the interests of all local residents and what national land we should hand down to the next generation. In short, coordination, including the use of zoning, should be made between farmland and non-agricultural land use from a public viewpoint.

As a result of the study above, the following recommendations were made regarding how to effectively use farmland from a public perspective.

**[Recommendation 7] Introduce land use planning that emphasizes optimal use of farmland and the surrounding environment.**

Plans for the use of farmland and non-agricultural land should be integrated with plans for the effective use of national and urban land to consider land use from a public perspective. Regional land use committees with strong zoning powers should be established so that local residents can draw up land use plans on their own.

**[Recommendation 8] Assemble large blocks of farmland rapidly by helping farmers transfer ownership of their land by retiring early.**

Once regional agreement is reached on the use of farmland, farmers with small tracts of land should be encouraged to retire so that farmland may be concentrated on professional farm managers. For retiring farmers, assistance programs should be introduced on condition that they transfer their land ownership. To ensure speedy assembly of farmland, assistance programs should be in place for a limited period only.

## Various Charms of Japanese Agriculture

Agriculture is an attractive industry having various charms. It is valuable not only because it produces food. Beautiful pastoral scenery itself is valuable. Agriculture also provides those who are engaged in it with opportunities to live meaningful lives and, in many cases, farming experience gives people therapeutic effects. Moreover, it helps nurture regional community culture in farming villages. Cooperative rural activities add dynamism to the community concerned. If the attractiveness of agriculture lies not only in food production but in farm villages themselves, the process of agricultural production and byproducts, it may be necessary to consider maintaining and developing agriculture from perspectives different from the viewpoint of production efficiency.

Agriculture, however, cannot display such multifunctionality unless it stands on its own as an industry. Therefore, how to meet what the public demands of agriculture while pursuing agricultural policies as industrial ones is a big challenge facing Japan's agricultural policies and agriculture as a whole today.

Meanwhile, it must be kept in mind that efforts should be made to have agriculture fulfill its multifunctionality on its own strength. It is desirable to enlist public cooperation by conducting characteristic agriculture and making it appealing to the public. Both individuals and

regions need to make strenuous efforts to publicize their agriculture and agricultural services with full ingenuity. Local economies would otherwise remain stagnant. For instance, you may ask people how much they are ready to pay for beautiful countryside scenes such as terraced paddy fields and characteristic local agricultural activities such as village festivals. It is necessary to start with adding specific value to individual agricultural activities and resources.

Agriculture will be maintained on its own if its multifunctionality is recognized by the public. All the government should do is to improve infrastructure for public information and help create meaningful funds. In addition, it is a good idea to introduce an agriculture-based or farming village version of the *furusato nozei* scheme ("hometown tax remission system") that enables taxpayers to allocate some of their local tax payments to their hometowns where they no longer reside as tax-deductible donations. Similar donations may be made to agricultural funds. Agriculture remains multifunctional as long as public agreement is in place. Ways to have agriculture display its multifunctionality and share cost burdens should be discussed thoroughly. Further, public needs and what role agriculture should play need to be fully examined.

The study about the multifunctionality of agriculture as well as the rejuvenation of local economies has led to the following recommendation.

**[Recommendation 9] Establish tax- and donation-based mechanisms to support the employment of retirees and the establishment of multifunctional farming.**

Local agricultural ventures should be multifunctional, drawing from the skills of managers of independent agribusinesses and others who can apply their different skills. Some retirees and those who move from urban to rural areas could be encouraged to participate through wages paid directly to them. Their wages could be paid through funds established for that purpose in each region, the fund capital coming from tax-deductible donations and tax measures using a farming village version, or agriculture-based version, of the *furusato nozei* system.

## How Best to Implement Food Security Policy

Gyrations in food prices these days have widely spawned concern among the general public about a stable food supply. It is desirable that more efficient domestic production, combined with management efforts, will result in greater domestic food production. But it is no easy task to raise the nation's food self-sufficiency. It is necessary to consider ways of securing food security from two components – steady, sufficient daily supplies, and rapid and effective response in the event of an emergency. The former can be achieved through a combination of greater and more efficient domestic production to the extent of meeting demand, establishment of friendly relations with food-exporting countries, and diversified sources of food supply to hedge against risks. A possible severe food shortage would have to be regarded by the government as a dire crisis – the government needs to have food security measures in place to deal with a variety of possible crises, and needs to show the general public that these measures would be practical and effective.

There are so many aspects in food security that the government must consider measures to deal with a variety of possible risks, ranging from stable, daily food supplies to avoiding public anxiety about

food safety and securing food supplies in the event of an emergency. The issue of food security should not be addressed only by promoting agriculture within Japan. In response to public requirements, an inter-ministerial, effective organization should be set up within the Prime Minister's Office to examine these issues comprehensively and propose measures to ensure economic security, including food security, for the general public. The issue of comprehensive security and whether to prepare a bill regarding a national security council were discussed in the past. But the discussions did not focus on food and other issues related to economic activities of the general public.

The question of how to secure food supplies in the event of an emergency should be regarded as part of the nation's comprehensive security just like defense and energy, with measures to cope with a variety of possible crises to be incorporated into a legislative framework on national security. On this score, the current program to protect the general public is inadequate because it is designed to deal with armed attacks on Japan only. It goes without saying that oil and other energy sources are necessary to produce and transport food. The government needs to work out a specific, detailed food production system meant to cope with emergency conditions, including how to distribute energy sources, and present it to the general public.

From this viewpoint, the following recommendations were compiled regarding basic ways to deal with food security.

**[Recommendation 10] Implement food security policy from two perspectives: a stable, daily supply of food, and a possible severe food shortage due to emergency conditions in Japan.**

It is important to realize that food security has two components: steady, sufficient daily supplies, and rapid and effective response in the event of emergency conditions. The former can be achieved through a combination of domestic production, imports and storage. To cope with an ultimate food crisis in the event of an emergency, the government needs to have food security measures in place different from those in peacetime.

**[Recommendation 11] Establish within the Prime Minister's Office a pan-ministerial organization responsible for the economic security of the Japanese people.**

Everyone in the country is concerned about food security, an issue that cannot be addressed only by promoting agriculture within Japan. Security issues involve more than just food – energy, transport, distribution, and protection of the living standards of the Japanese are also interconnected with the issue of food. An independent organization should be established within the Prime Minister's Office to examine these issues comprehensively and propose measures to ensure economic security.

## Response of Agricultural Policies to Globalization

Food exports are being highlighted as a trump card for the promotion of Japanese agriculture, and the Japanese government is supporting export-promotion efforts. What is important along with product quality and pricing are market information and practical know-how on export marketing. To address these issues, a scheme to promote exports of Japanese farm produce should be established by quickly introducing know-how from trading companies and non-agricultural

exporters. It is desirable for the government to take measures to help young farmers launch strategic moves into overseas markets by making use of existing public facilities. It is only natural that Japanese farmers should pay due heed to existing WTO rules when they export their products. In WTO negotiations, the government should adopt sophisticated negotiating techniques so that Japan will be able to secure more leeway in pursuing agricultural policies.

The multilateral trading system spearheaded by the WTO is the lifeblood of the Japanese economy. Should WTO negotiations remain stalled, talks for concluding FTAs and economic partnership agreements are expected to gain momentum. But FTAs and EPAs are not sufficient to replace the WTO. The Japanese government should spare no effort in promoting the resumption of stalled WTO negotiations so as to maintain the multilateral trading system, a public property that belongs to the international community. To do so, the government should modify relevant foreign policies and call on all partners to reopen negotiations on the assumption of accepting proposals made by the director-general of the WTO just before the negotiations failed in July 2008. The government should also forthrightly explain to the general public the reasons for the difference of positions between Japan and other countries as well as the circumstances surrounding the negotiations.

The following recommendation was presented on what role Japan should play internationally in the globalized world.

**[Recommendation 12] Show leadership in guiding WTO agricultural negotiations to a successful conclusion.**

The WTO-led multilateral trading system is vital to keep the Japanese economy buoyant. The Japanese government should spare no effort in helping resume the stalled WTO negotiations in pursuit of their successful conclusion. To this end, the government must redefine relevant foreign policies and call on all partners to reopen the negotiations in a bid to bring the talks to an early conclusion.

## Conclusion

The recommendations mentioned above are neither preposterous nor unfeasible. At present, only bland, neutral compromises bearing the characteristics of a one-size-fits-all approach aimed at uniform policy application across the country are adopted mainly because those with vested interests directly participate in the decision-making process of agricultural policies at government advisory councils and elsewhere. This has often prevented management-conscious excellent farmers and managers from fully displaying their potential capabilities. With agriculture still in the hands of farmers, how best to develop agriculture has not been discussed from the viewpoint of the general public. This has limited the growth of Japanese agriculture despite its high growth potential. What agriculture should look like needs to be discussed openly and ways of utilizing it considered by all quarters of the population. Only through such an approach will the Japanese economy be reinvigorated as a whole and will agriculture buoy Japan out of the current slump.

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*Masayoshi Honma is professor of agricultural and resource economics at the University of Tokyo.*