

The Best Policy to Protect Japanese Agriculture

By Naoyuki HARAOKA

Agriculture is a very important sector in any country in the sense that food security is dependent on it and it also plays a key role in preserving beautiful nature and landscapes and eventually a highly qualified environment in terms of global climate change.

Agriculture thus deserves special and differential treatment in a trade regime which in principle obliges nations to observe the rules of free trade. Protectionist policies in this sector are in part justified in accordance with the above-mentioned logic.

However, these protectionist measures must be assessed in terms of efficiency and equity, which are the crucial elements of economics.

Options of Agriculture Policy

In the case of Japanese agriculture, high tariffs protect agricultural products, and not subsidies. High tariffs are, needless to say, raising the prices of imports and at the same time allowing domestic producers to sell their products at higher prices than those without tariffs. Thus, consumers eventually pay the cost of the policy by buying expensive goods. Another way to protect agriculture is subsidies.

The Organization of Economic Cooperation and Development (OECD), a Paris-based economics-oriented international policy assessment organization, has recently created an indicator called the Producer Subsidy Equivalent (PSE) to measure the percentage of government transfers to agricultural producers (in the form of either tariff or subsidy) in the total revenue of agricultural producers. According to the OECD, this is to be measured as the difference between the domestic price and the international price (*Chart 1*). Tariffs are eventually to be paid by consumers, as I mentioned above, whereas subsidies are to be paid by taxpayers.

When you look at the data of the US, the EU and Japan, you find an interesting reality. Consumers' share of the PSE burden of the US, the EU and Japan were, respectively, 37%, 86%, and 90% in 1986-88, allegedly benchmarking years in the Uruguay Round

negotiations. The figures changed significantly in 2009, to 15% in the US, 24% in the EU, and 84% in Japan. You can learn from these data that, whereas the US and the EU have changed from a price-supporting policy sacrificing consumers' interests to a subsidization policy imposing a major burden on taxpayers during the last two decades, Japan still adheres to a price-supporting policy and thus continues to ask consumers to pay the cost of a protectionist policy.

Which Policy is Preferable to an Economist?

I think subsidization is more consistent with the reasoning of economics, since, as I mentioned in the beginning, the agriculture sector is by nature closely in accordance with a public interest such as food security or the environment. Accordingly, the protection of this sector has a significant degree of public nature and so its cost is to be paid by taxpayers rather than consumers. Any public policy is to be financed by tax. In particular, consumption of food is definitely consumption for a basic need, so if consumers have to pay the cost of the policy, that would increase income and welfare inequality between the poor and the rich, since the percentage of the expenditure for basic needs, in particular food, is higher among the poor than the rich. This is not the logic to be recommended by an economist. Therefore, a change in a protection policy from a price-supporting one to subsidization would greatly benefit the low-income class as well as the farmers given subsidy.

Meanwhile, the aging phenomenon has started to seriously affect Japanese agriculture today. There are two main consequences brought about in Japan by aging.

Firstly, the market for agricultural products is shrinking due to the decline in the number of young people as a result of aging and the decrease in children and eventually a possible decline in population.

Secondly, the significant progress of aging among people engaged in agriculture is clearly reflected in the high percentage of farmers aged 70 or above under the ongoing decline in the number of workers in agriculture (*Charts 2 & 3*).

In responding to these two ongoing issues, we need firstly to try to find a market for Japanese agricultural products overseas, that is, increase our exports, and secondly we have to think about how to attract young people to be engaged in agriculture. I think the promotion of the export of agricultural products would be a good answer in responding to the second problem as well, since the exporting business could be attractive to young people.

CHART 1
Definition of PSE

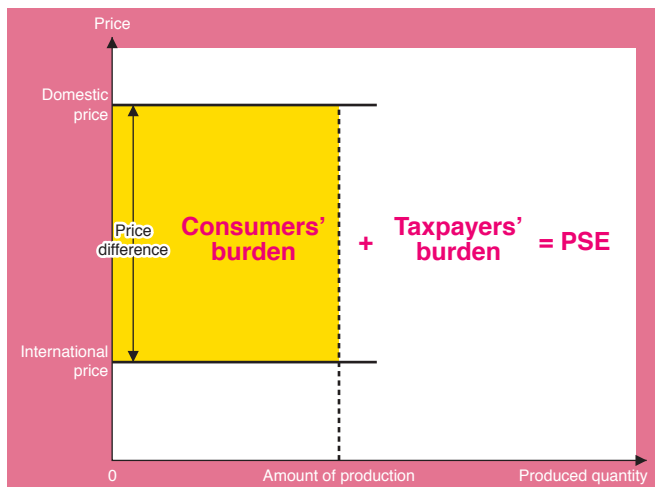
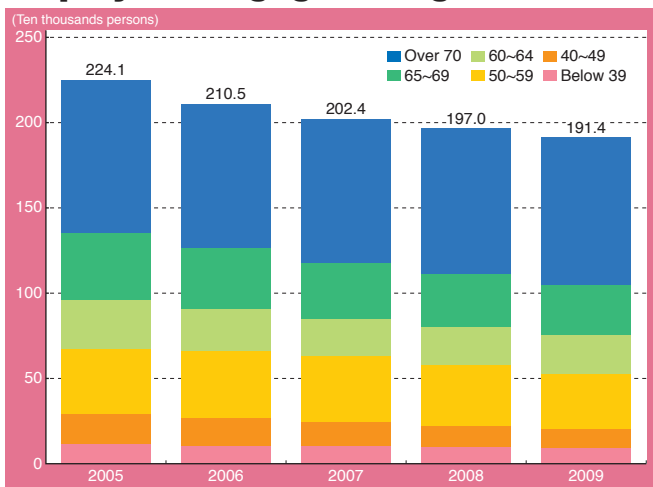


CHART 2

Declining number of employees engaged in agriculture



Source: Ministry of Agriculture, Forestry & Fishes

Do Japanese Agricultural Products Have Good Export Potential?

My answer is yes.

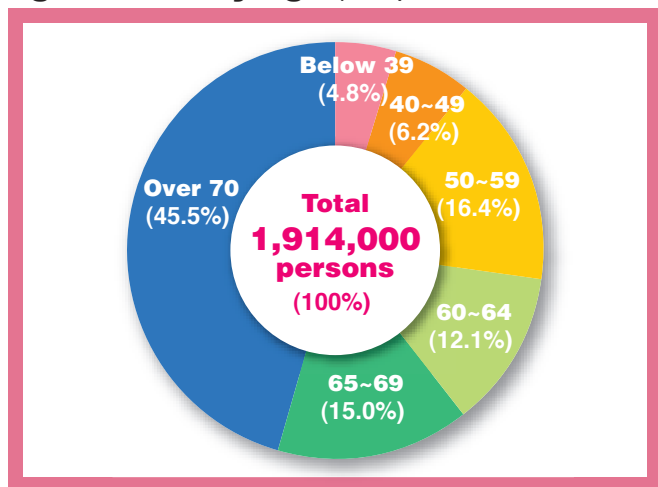
A famed food coordinator, Ms. Setsuko Yuki, who has successfully coordinated many popular TV cooking programs such as “The Iron Chef,” told *Japan SPOTLIGHT* in an interview last year that Japanese cuisine could have a new impact on the world’s food. She talked about how surprised she was by the remarkable reaction of chefs from around the world at the event in Tokyo in February 2009 called “TOKYO TASTE – The World Summit of Gastronomy 2009.” At this event, much impressed by the authentic Japanese cuisine, which is completely different from what they see in Europe, European chefs invited Yuki to the “San Sebastian Gastronomika” of the world’s foremost gastronomic society in Spain, in November 2009, as the chairperson of the executive committee of the Japanese team. There, according to her, cooked Japanese rice was very popular. Japanese cuisine was considered a “culture of water,” whereas the cuisine of everywhere else is to be interpreted as a “culture of oil.” It takes Japanese water to make cooked rice really tasty. Thus, Japanese cuisine, represented by cooked rice, embraces nature. This culture of water, which is very unique and creative art, could change world food culture.

Mr. Yoshimori Tomei, the owner of “Sushi Ran,” a famous Japanese restaurant in San Francisco, and president of the Northern California Japanese Cuisine Restaurant Association, has been working very actively to promote authentic Japanese cuisine in California for many years. He considers the education of chefs the most important part of his promotional activities. Without chefs’ correct understanding of authentic Japanese cuisine and food, you cannot promote it properly. His team organizes food events at California Culinary School to teach the future chefs how to cook rice properly, etc. According to him, if properly cooked, Japanese rice is far tastier than Californian rice, which is usually considered of the same quality as Japanese rice.

Tomei’s theory was proved correct at one of the food exhibition events in 2005 at Hakone Garden in Silicon Valley, the oldest Japanese garden in the western countries, where the movie *Memoirs of a Geisha* was partly shot. Almost a hundred participants in this event were asked to answer several questions concerning the quality of a few kinds of rice including Californian and Japanese. One question was how much reduction in the price of Japanese rice would be needed to make it competitive with Californian rice, assuming that Japanese rice was then

CHART 3

Percentage of employees engaged in agriculture by age (2009)



Source: Ministry of Agriculture, Forestry & Fishes

around five times as expensive as the Californian. The majority’s answer was that, if the price of Japanese rice went down to a figure equivalent to twice as expensive as Californian rice, they would prefer the Japanese one, because of its high quality. Today, the price difference between imported and domestically produced rice is about 50%. Thus, the potential for exports of Japanese rice is increasing dramatically.

These two stories tell us that Japanese agricultural products, in particular rice, have great potential as exports. Unfortunately, however, due to the ongoing nuclear power station crisis, Japanese agricultural products are now the subject of harmful rumors and suspected of being contaminated with radioactive materials, and some countries have imposed restrictions on imports of Japanese food.

According to WTO agreements, a member country is prohibited from using any protectionist measure for the protection of the national health and environment without scientific proof to show us that the imported goods are truly harmful to the human body.

In responding to negative rumors without any scientific proof, we recommend using the WTO to ask for elimination of such protectionist measures. It is certainly a way to take advantage of the WTO, which is suffering from a serious decline in confidence among the member countries due to the stuck negotiation of the Doha Round.

The Trans Pacific Partnership (TPP) is a truly ambitious attempt to achieve a regional FTA and, since it aims at an extremely high percentage of liberalization for all traded items including agricultural products and also a broader coverage of trade-related domestic policy issues such as competition policy, it can almost be interpreted as an attempt to replace the unsuccessful Doha Round. Therefore, it would be truly meaningful if as many countries as possible joined the negotiation table in order to promote the free trade principle all over the world.

There are many pros and cons on the question of Japanese participation in TPP negotiations. On the side of agriculture, there seem to be many objections to against it.

However, it might be necessary to have a look at TPP as a means to promote Japanese exports of agricultural products. Being a part of TPP would enable Japan to enjoy exporting its products to a further liberalized market, and agricultural products are no exception.

Aging is, as was noted, a crisis for agriculture as well. Thinking about a solution is our responsibility to future generations. **J.S**

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