

Rice Wars?

Agriculture is emerging as one of the major arenas of trade friction in the 1980s. It is, for example, already the subject of acrimonious dispute among the United States, the EC, Japan and other major trading powers.

Along with services, agriculture is a major new agenda item for the Uruguay Round of multilateral trade negotiations recently begun under the GATT

umbrella. How open should import markets be? How can importers be assured of stable supplies? What should be done about subsidies? Is no price too great to pay for self-sufficiency in foodstuffs?

Perhaps the most sensitive crop for Japan is rice, and it had long been assumed that rice could be a "special case" exempted from the demands of

free trade. Recently, however, the United States has begun pressing for deregulation of the Japanese rice market. This demand has prompted a wide range of reactions in Japan—from anger to disbelief to agreement. A consensus has yet to gel.

In this issue, the *Journal* presents the views of two of the many spokesmen who have emerged on this issue.

Toward an Independent and Healthy Agricultural Industry

By Yoshikazu Kano

Rather than opposing the deregulation of Japanese rice imports, I think Japan's national interests would be better served by creating a strong rice-growing industry capable of competing in international markets. And I believe this can be done.

Modern agriculture is most dependent not upon labor and equipment but upon the human capital of sophisticated research and technology. As such, it plays to the industrial countries' strengths. Yet Japanese rice cultivation has long been outside the technological mainstream—a

cottage industry of small family farms—and little attention has been paid to increasing productivity. As a result, costs have gotten out of control and are now several times higher than competitive international levels. This is, however, an untenable situation, and Japanese rice farming is on the verge of a revolution that will make it a truly modern industry more than capable of competing in the international marketplace.

High-tech agriculture

Agriculture flourishes in the industrially advanced countries. The world's leading agricultural exporters are the

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Maintaining Japan's Self-sufficiency in Rice

By Iwao Yamaguchi

On September 10, 1986, the United States Rice Millers Association petitioned the office of the United States Trade Representative seeking the opening of Japan's rice market to exports. Although the USTR turned this request down on October 23, it has agreed to include the issue among those to be discussed at the Uruguay Round of multilateral trade negotiations of this year.

The RMA's petition has both amazed and infuriated Japanese farmers and agricultural organizations, for it flies in the face of friendly U.S.-Japan agricultural relations and is a selfish bid for profit completely ignoring the social, economic, cultural and political importance of rice in Japan.

The United States is far and away the world's largest exporter of agricultural products to Japan, accounting for 37.2% of all Japanese agricultural imports. Even second-place Australia accounts for only 9.3% and third-place China 8.6%. Japan is clearly one of America's best customers for agricultural products already, a situation that has helped to maintain our strong ties in this sector.

Yet the RMA's demand threatens to undermine this close relationship. Even the representatives of the National Farmers Union and three other leading American farm organizations who visited Japan at the end of September denounced the RMA's action and expressed sympathy for the Japanese position.

Lifeblood crop

One of the principal reasons we are against the opening of Japan's rice markets to exports is that rice is, and has been for some 2,000 years, the staple food of the Japanese people. Even today, rice accounts for nearly a third of the average Japanese person's caloric intake. Probably no other industrialized country has such strong identification with its staple food.

There are 3.4 million Japanese households involved in rice cultivation, roughly 80% of all farm households. Total rice production is valued at ¥3.9 trillion, 34% of all agricultural production. As Japan's core crop, rice can hardly be treated as the simple market commodity that the RMA would have us believe it is. Such a view is both myopic and dangerous.

The value of Japan's rice paddies far exceeds their commercial worth. In Japan's extremely mountainous terrain, rice paddies help to prevent flooding and soil erosion, renew the water tables and do much to keep Japan green. Were

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United States, Canada, the EC countries, Australia and New Zealand. In contrast, many of the developing countries are unable to feed even their own people, and they teeter on the brink of starvation.

Labor is obviously not the crucial factor. If it were, the situation would be reversed as the developing countries, lacking the industrial countries' capital and technological bases, concentrate on low-wage, labor-intensive industries and leave the capital- and technology-intensive industries to the industrialized countries. Were labor the deciding factor, the labor-rich developing countries would not be the major importers and the industrial countries the major exporters of agricultural products.

It is technology that makes the differ-

ence. With advanced technology and high productivity, it is possible for a country to be competitive in agriculture even though its labor costs are high. Producing far more than they can possibly consume, the industrial nations export their excess agricultural products. Agriculture is clearly a high-tech industry.

Given its strong track record in other high-tech fields, Japan clearly has the research and development capabilities needed to master the advanced technology required for modern agriculture. While this does not mean Japan will become a world-class leader in every aspect of agriculture, since technology is simply the most important and not the only factor, it certainly does mean that major advances can be made in rice cultivation.



Harvesting grain in the U.S. (top) and the traditional Japanese method (bottom). The debate over rice imports is heating up in Japan.

The IMAGE BANK: Photo by Ken Cooper

Four revolutions

Japanese rice farming is on the verge of major upheaval and restructuring. The first revolution is the market or price revolution. Rice farmers can no longer expect to see automatic price hikes over the next decade. There are three million hectares of rice paddies in Japan today, but 770,000 hectares lie fallow in a move to cut down on surplus production. As long as Japanese farmers keep producing more rice than can be consumed domestically, it is hardly feasible for the government to continue maintaining current price levels. Under the Foodstuff Control Law setting producer and consumer prices for the main staples, the government could always be depended upon to set the producer price high enough to cover higher costs. But no longer. Even if farming costs continue to rise, Japanese consumers will not tolerate any further increases in consumer prices. Over the long term, basic market principles are bound to prevail over legal or political considerations.

The second revolution will be the significant change in rice production as economies of scale are achieved. The average rice farmer today farms only one hectare, a clearly uneconomical size. This will soon change, however, as more and more young people are abandoning farm-

with no basis in fact. World rice production (unhulled rice) totals some 470 million metric tons annually, yet international trade in rice amounts to only 16 million metric tons, something on the order of 3-4% of the total production. Furthermore, most of this rice is the long-grained Indian variety grown in Thailand and elsewhere. Outside of Japan, the short-grained Japanese variety preferred by the Japanese consumer is grown only in California—a mere 1.2 million metric tons primarily for consumption in the United States. Given Japanese consumption levels (11 million metric tons per year), any shift to meet domestic demand with California short-grained rice would only price this particular variety out of the world market.

Subsidized production

The United States claims that its growers are more efficient, but American rice production is supported by massive cash subsidies under government export-promotion programs. In 1985, these subsidies amounted to \$700 million—fully 77% of the gross value of total American rice

massive imports of cheap rice from the United States to discourage domestic production, this could in turn lead to the abandonment and ruin of our precious rice paddies and to a loss of all of the en-

vironmental benefits that they bestow.

Underlying the demand to open up Japan's rice markets to exports is the assumption that an international market in rice trade actually exists—an assumption

ing. Unable to till the land themselves yet left without heirs to take their place, today's farmers will choose increasingly to rent their land out. This trend will be especially pronounced among farm families already earning the bulk of their incomes from nonagricultural sources—the vast majority of Japanese farmers—since these people do not depend upon farming for their livelihoods anyway. Today, these people are weekend farmers, and it is not unreasonable to expect them to rent their land to other (full-time) farmers and free their weekends for leisure recreation. It has thus been estimated that the typical rice farm should grow to at least 10 hectares.

The third revolution is the management revolution. As long as the government set producer and consumer prices, the farmer was able to concentrate on growing his crops. Knowing they had an assured cost-plus customer, Japanese farmers did not even need to be particularly efficient. Yet every year of surplus production and Foodstuff Control Special Account deficits has pushed the government further and further away from direct market intervention. If the government hand becomes less visible, the farmer will have to market his crops himself. Farmers will abandon rice for other, more marketable, crops and will have to decide how to manage their land to best advantage. As Japanese agriculture

moves from an age of scarcity to an age of surfeit, it will require new management and marketing skills that most farmers do not now have.

The fourth and final revolution is the technological revolution. The rapid developments in the manufacturing and service industries—advances epitomized by computerization and increasingly sophisticated software—are making completely new technologies available to the farmer. Unable to raise their prices indefinitely, farmers will have to innovate if they want to profit and survive.

As these four revolutions take place, Japanese agricultural productivity will be radically improved. Indeed, it is not too much to expect producer prices of rice to fall to approximately ¥7,000 per standard 60-kilogram bag—a price that will make Japanese rice fully competitive with foreign imports.

Weaning the rice farmer from government subsidies

In the plains areas, rice paddies will become larger and technology will bring cultivation costs down very quickly to make the rice grown in these regions internationally competitive. Rice farmers in the more mountainous regions can survive deregulation by growing higher-

value rice, including new strains that are more nutritional or better tasting or strains that are disease resistant and can be grown “naturally” without a lot of agricultural chemicals, and by higher-value processing to carve out their own market niches. Anything that may make their crops competitive in an open market should be explored.

If Japanese agriculture will move in these directions, it will flourish despite the competition from imports. There is no reason why Japanese agriculture cannot thrive in a climate of free trade.

The only thing standing in the way at this point is that the costly and cumbersome food control policy discourages innovation and experimentation. In fact, as noted earlier, the government has forced farmers to leave their land idle in order to maintain the artificially high producer rice prices, and this has in turn made it nearly impossible for efficient farmers to expand their operations and achieve the necessary economies of scale.

Japanese agriculture is suffocatingly dependent on the government. Easing the regulations and giving market forces freer rein would revitalize Japanese agriculture and be in the farmers' best long-term interests. Rather than coddling the farmer, we—farmers and consumers alike—need new policies designed to ensure a vigorous agricultural sector able to compete in a free and open market. ●

production (\$910 million). This policy is already under considerable fire from domestic interests in the United States, and there is no guarantee that the United States will be able to continue “dumping” its production on world markets. Even if the situation were sustainable, it is indefensible that the United States should, on the one hand, argue the cause of free and fair trade to press for the deregulation of Japanese rice imports, while on the other hand engage in blatant export subsidies and dumping.

Trade balance considerations nil

Nevertheless, there are those who insist that the deregulation of Japanese rice imports will help to narrow the gaping trade imbalance between Japan and the United States. This argument does not hold water either.

Japan's trade surplus is expected to reach \$80 billion by the end of fiscal 1986. Even if Japan imported all of its rice from the United States, this 11 million metric tons would still amount to only about \$2 billion. This would be insignificant in

terms of the trade balance, especially considering that there would be a simultaneous import-reduction impact in fertilizers and other agricultural chemical products. The only way to reduce the bilateral trade imbalance is to limit the flood of Japanese manufactured products being exported to the United States and to institute economic measures stimulating domestic consumption. Even so, the current rice controversy has drawn renewed attention to Japanese agriculture and highlighted the need to improve agricultural productivity, particularly in rice cultivation.

Taking 1978 producer prices as our base of 100, the producer rice price index today is 107. In other words, rice prices have gone up only 7% over the past eight years—a clear reflection of the prodigious efforts that have been made to keep them down. In the United States, on the other hand, rice prices have gone up 40% over the same period. Despite this, Japanese producer rice prices are still 440%, and consumer rice prices 90%, greater than those in the United States. This difference is a direct reflection of the difference in scales of production as the U.S. pro-

duction scale is approximately 100 times larger than Japan's.

Accordingly, we are striving to organize rice production and to move from family-run farms to group-managed farms in an effort to improve productivity and keep Japanese rice prices as low as possible given Japan's paucity of arable land. There are already around 24,000 joint farm-management groups, and some of the best have succeeded in halving production costs. As this new system spreads nationwide, it should become possible to lower consumer rice prices in the very near future.

According to a recent public opinion survey conducted by the Prime Minister's Office, 75% of the people believe Japan should be self-sufficient in foodstuffs, and few are willing to condone a dependence on exports simply because they may be cheaper. Similar sentiments were reflected in the December 1986 joint declaration by 23 of Japan's leading consumer groups opposing the deregulation of Japanese rice imports. Fortified by the support of the people, we will continue to steadfastly reject demands that Japan open its rice markets to imports. ●