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Repeal of the Rice Laws in Japan

The Role of International Pressure to Overcome Vested Interests

Christina Davis and Jennifer Oh

The repeal of the Corn Laws in nineteenth century Great Britain represents the classic example of a shift towards specialization for comparative advantage and support of free trade. Most countries, however, have been unable to undertake such policy reversals and have increased protection for their declining agriculture sectors in the process of industrialization. Japan stands out as a rich industrial state that can not abandon its agricultural roots even when its small-scale farms require massive government subsidies to survive. Nevertheless, a series of reforms have occurred in the past decade. The rice laws that formed the core of Japanese agricultural protection were repealed in part and replaced with a new support system that is more complementary to existing international frameworks.

What explains the ability to achieve reform in sticky areas such as Japanese agricultural policy? Pressures on Japan to reform its agricultural policies come from several sources: political change, economic constraints, public opinion, and international trade negotiations. While all of these sources generate pressure for policy reform, only international trade negotiations bring external monitoring of implementation. External monitoring is essential to reform policy areas with strong vested interests. Therefore, the most substantial change should be expected where reforms represent compliance with international agreements, and less change should be expected in areas where reforms are largely domestic in origin.

This question is important in evaluating the impact of trade agreements on domestic policy. Increasingly, trade negotiations focus on “behind the border” measures, but debates about the effectiveness of international trade rules still focus on trade flows and border policies.¹ The purpose of this article is to evaluate whether trade agreements that reach behind the border have achieved substantive reform. Thus, the focus is on the post-negotiation phase when states change domestic laws in order to comply with international agreements that reach deeply into existing policy regimes.

The argument is evaluated through an analysis of the pressures on Japanese agriculture and the reforms of the past decade. Connecting specific factors with different goals and reform policies can distinguish between domestically driven and internationally driven reform. Research on retrenchment in the agricultural protection policies of

the United States and Europe during the 1990s highlighted the role of a shift in political ideology, changes in farm group interests, and international pressure.² This article examines the role of similar pressures in the Japanese reform process on outcomes such as cost reduction, structural adjustment, food self-sufficiency, and liberalization. While reforms have achieved moderate structural adjustment where domestic and international pressures overlap, the domestic demand to increase self-sufficiency has produced few results. Likewise, budget pressures have failed to reduce the amount of compensation given to farmers. In the area of liberalization, however, Japan has complied fully with its commitments under the international agreement in terms of changing border protection measures, increasing market access, and reducing the trade distorting form of domestic subsidies. These findings fit with the expectation that reform policies subject to international monitoring would be more likely to produce substantive results than those based primarily on domestic pressures.

Explaining Reform in the Presence of Vested Interests

In the market orientation of agricultural policies, a simple breakdown categorizes four kinds of reform in terms of the direction and degree of policy change: increased state intervention in markets, maintenance of the status quo, modification of the level and form of protection, and end of state intervention in markets. Japan's past decade of agricultural policy reforms represents the third case, as policy instruments were changed and moderate liberalization occurred.³

The agricultural sector of advanced industrial democracies represents a hard case for market-oriented reforms, given the strong demand for protection. As an import-competing sector with low mobility, political economy theories predict that agricultural interests will be harmed by free trade and favor protection. Theories of collective action suggest that narrow interests with strong incentives will organize effectively to influence the political process.⁴ Once established, domestic institutions will have considerable stickiness that prevents reforms even after changes in the underlying interests.⁵ Cross-national evidence shows that, as the agricultural sector weakens, it is likely to receive more protection.⁶ Indeed, the rapid decline of comparative advantage for Japan's agricultural sector during Japan's postwar economic boom led Japan to increase its agricultural protection at a faster pace and to higher levels than other industrial countries. Honma calculates that over the period from 1955 to 1987 the nominal rate of protection across major agricultural commodities (a measure of the difference between domestic and border prices) rose from 18 to 151 in Japan, a sharp increase compared to France (rising from 33 to 81) and the United States (rising from 2 to 23).⁷

The policy context for Japanese agriculture represents a classic example of an iron triangle among interest group, politicians, and bureaucracy. Mulgan comprehensively documents the closed policy community dominated by the centralized producer group

Nōkyō (Japan's Association of Agricultural Cooperatives), special interest politicians (the *nōrinzoku*, or agriculture tribe), and interventionist bureaucrats in the Ministry of Agriculture, Forestry, and Fisheries (MAFF).⁸ Virtually all farmers belong to *Nōkyō*, which lobbies actively through petitions, demonstrations, and campaign mobilization in support of its demands for more subsidies and less liberalization. As a powerful vote gathering machine, *Nōkyō* has often succeeded in electing their members as politicians.⁹ The fact that politicians on the agriculture committees of the ruling Liberal Democratic Party (LDP) Policy Affairs Research Council outnumber any other policy area is one sign of politicians' concern to serve their farmer constituencies.¹⁰ MAFF works closely with *Nōkyō* and the *nōrinzoku*, both to preserve the farming sector that justifies the ministry's existence and to maximize its budget and authority. Mulgan describes how the legal foundation of agricultural policy includes an establishment law granting MAFF broad discretionary authority and specific laws and ordinances that provide tools for intervention (for example, requirements for permits).¹¹ Similar patterns of close ties among politicians, bureaucrats, and farm groups are observed in the United States and Europe.¹²

The agricultural policy community composed of *Nōkyō*, *nōrinzoku*, and MAFF has remained autonomous from the demands of outside actors. The formal policy process often includes representatives of other interests, but their recommendations have little influence. For example, Schwartz documents that the rice price council, which included scholars and representatives from consumer, producer, and other social groups, carried little weight in a decision-making process dominated by coordination among *Nōkyō*, *nōrinzoku*, and MAFF.¹³ Expert commissions on economic reform have recommended agricultural restructuring and liberalization to no avail. Likewise, the widely discussed tendency of each ministry to exercise exclusive control within its jurisdiction is readily apparent in agricultural policy. A senior MITI official commented that, since agriculture was a "MAFF area," the trade ministry could not directly pressure MAFF on agricultural liberalization.¹⁴

MAFF policy autonomy allows the ministry, with the active support and cooperation of its partners *Nōkyō* and *nōrinzoku* politicians, to reduce the impact of reforms through delayed targets, side payments, and other measures. Thus, reform from above risks being eroded through resistance from below. On the one hand, the senior political leadership holds monitoring mechanisms, such as the threat to pass new statutes with more specific instructions or to intervene in personnel appointments, that limit the degree to which policies deviate from the intention of legislation.¹⁵ Yet these threats lack credibility when confronting vested interests closely tied to the electoral fortunes of the party, such as farmers.

International institutions serve a monitoring function that substitutes for weak domestic monitoring. In this case, the WTO offers robust enforcement of commitments through provisions for transparency and litigation against violations. Member state governments are requested to file notifications of their policy measures (such as tariff

changes and spending for agricultural subsidies), and their policies are reviewed periodically by the trade policy review mechanism, in which the WTO secretariat writes a report that is discussed in a peer review process by all WTO members. Under the dispute settlement understanding, states submit complaints for formal third party adjudication against any suspected violation of treaty commitments. The normative pressure to comply with international law is backed up by the threat to withdraw concessions (de facto sanctions). The value of gains from cooperation and concern for international reputation make states reluctant to violate their commitments. In short, the WTO has brought teeth to enforce international trade commitments.¹⁶

Studies of two-level games have already documented how domestic constraints influence international negotiations in terms of the bargaining outcome.¹⁷ Governments can increase their leverage vis-à-vis foreign governments through delegation to a domestic veto actor, and international constraints shape domestic interests.¹⁸ Calder shows Japanese economic policy to be reactive to foreign pressure, and the notion that *gaiatsu* (foreign pressure) is necessary to change Japanese policy has become conventional wisdom among scholars and practitioners.¹⁹ Subsequent research addresses conditions under which *gaiatsu* is more effective and the way specific international mechanisms interact with domestic politics.²⁰ Most of these studies, however, focus on the negotiated agreements and their ratification.

International monitoring of compliance introduces a two-level game at the implementation stage.²¹ Further empirical evidence is offered here to support Staiger and Tabellini's insight that international trade rules operate, not only to resolve commitment problems between states, but also to resolve commitment problems between a government and domestic actors.²² International institutions provide a new policy tool for leaders who must restrain a policy community that has long received discretion over policy decisions. The external monitoring function prevents backsliding on international commitments even where domestic credibility problems would be expected to be high due to the strength of domestic opposition. This monitoring produces two observable implications. First, although vested interests will delay acceptance of international commitments, they will not cause compliance failures. Second, policy reforms subject to international monitoring will have greater impact than policy reforms with only domestic origin.

What Pressures for Reform?

Postwar land reform initiated the predominance of small farmers that continues in Japan today. Inefficient farms make agriculture a small source of revenue for farmers and a small share of production in the economy. Agriculture accounted for 2.7 percent of the GDP in 1987, dropping to a mere 1.3 percent in 2004.²³ Given the predominant trend of part-time farmers, on average Japanese farmers receive only eight percent of their total

income from farm production.²⁴ Yet tax benefits and strong attachment to their farmland lead farmers to demand continued support from the government in order to sustain their farming way of life.

The 1990s brought to bear a combination of domestic and international pressure on Japanese agriculture. At the domestic level, farmers confronted political changes that could upset their position as a favored support group of the leading party. As a declining industry, in a period of tight budgets, economic conditions were also unfavorable. Consumers and farmers raised new demands for food security. At the international level, trade negotiations urged liberalization of markets and reduction of trade-distorting subsidies.

Political Change The 1990s were a decade of major political changes in Japan, and many of the changes have had the potential to reduce the influence of agricultural interests. First, the onset of coalition governments in 1993 ended LDP monopoly rule. Farmers and rural districts were historically a core base of the LDP. The rise in influence for parties such as the *Kōmeitō* and *Minshutō* (Democratic Party of Japan) that rely on urban voters potentially introduced new pressures for agricultural reform. It is unclear, however, whether political instability made the LDP more or less dependent on its farmer base. Calder argues that during periods of political crisis the government was more likely to compensate farmers.²⁵ Davis finds that the LDP was less likely to accept agricultural trade liberalization agreements when it was politically weak.²⁶ Moreover, political parties in Japan share a strong consensus favoring the need to support Japanese farmers. Rather than differentiate themselves from the LDP as an urban party, opposition parties apparently continue to compete for farmer votes. Today, the *Minshutō* is vying for rural votes by calling for a more generous definition of farmers' qualification for government income subsidies than the LDP.²⁷

Second, ideological changes within the LDP to favor market reforms have weakened the influence of *nōrinzoku* politicians. As Prime Minister Koizumi advocated a broad-based economic reform agenda, he challenged vested interests. In the September 2005 election many rural politicians who had opposed Koizumi's reform proposal to deregulate Japan's postal system were defeated. Their replacements, so-called Koizumi children, attend agriculture meetings to call for reform policies oriented to improve efficiency in the agricultural sector.²⁸ These pressures within the party have forced LDP *nōrinzoku* politicians to be more cooperative towards the government's structural adjustment plans for agriculture.²⁹

Third, the electoral district reform legislation adopted in 1994 replaced multimember districts with a mixed system of single member districts and proportional representation. The new system was expected to limit the dependence of politicians on appeals to narrow constituency groups such as farmers. However, as noted by Curtis, reduction of district size could also increase the pressure on politicians to devote attention to local

issues, thus upholding both the good and bad aspects of “rice-roots” democracy.³⁰ Redistricting has reduced but not removed the rural bias in voter representation.

Fourth, the decline in the number of farmers has reduced their influence as a voting bloc. In 2003 farmers were only 7.7 percent of the total national electorate.³¹ Even in rural districts farmers are a shrinking share of the constituency. A representative of an agricultural group complained that politicians no longer show interest in agricultural issues and attributed the problem to the shrinking size of the farm vote.³² Yet with concentrated power in rural districts farmers remain a substantial vote bloc. The power of special interests depends more upon their organization and strong preferences than sheer numbers. In a cross-national comparison, Lindert showed that the farm sector receives the most protection when it employs 3 to 4 percent of the labor force.³³

The strength of the farm lobby as a voting bloc and through representation by *nōrinzoku* politicians contributes to continued pressure against liberalization of agricultural markets. To the extent there has been some weakening of farmer’s political influence, this development would be expected to undermine farmer demands for trade protection and food self-sufficiency while supporting reforms aimed to achieve cost reduction. The power shift within the LDP towards market reform advocates would be expected to correspond with proposals for structural adjustment of agriculture.

Economic Pressure: Budget Constraints, and Demographic Change of Sector

The expense of agricultural protection has long weighed on national budgets. Budget pressures became especially sharp in the late 1990s after years of fiscal stimulus packages and injections of public capital in the banking sector increased the burden of government debt. A recent report for the Council on Economic and Fiscal Policy concluded that the government would have to reduce total spending in 2015 by 32 percent from its 2006 level in order to achieve its goals for fiscal health without new taxation.³⁴ Within this context, there are strict ceilings on MAFF spending. In the discussion over the 2005 agricultural reform proposal, calls by *nōrinzoku* politicians for more generous subsidies have been rebuffed by strong ministry of finance pressure about a fixed budget.³⁵

The changing demographic characteristics of the agricultural work force also exert inexorable pressure for change. As the farm population declined from over one-third of Japan’s population in 1961 to less than ten percent in the 1990s, it became more difficult to justify agricultural spending as social integration policies.³⁶ In 2004, 47 percent of farmers were sixty-five and over, in contrast to only 6 percent of the nonagricultural work force.³⁷ Faced with these demographic trends, MAFF has long advocated the need for structural reforms to encourage part-time and elderly farmers to lease or sell land to young full-time farmers who will cultivate the land at a greater productivity rate.

Consumer Pressure: Opinion Polls and Food Safety Concerns

Organized consumer groups have not advocated agriculture liberalization but rather have tended to oppose liberalization along with farmers. They have stated their opposition to agricul-

ture liberalization on the basis of concerns about food safety, farmers' livelihood, environmental harm, and national security.³⁸ Vogel notes that organized consumer groups often represent both consumers and producers and thus share similar interests with farmers.³⁹

However, public opinion polls show that consumers are concerned about lower prices when they purchase food but have mixed views about liberalization. In surveys of housewives, more than 60 percent picked price as one of the top factors determining rice purchase.⁴⁰ In a prime minister's office public opinion survey in 2000, 21 percent and 17.2 percent of the respondents, respectively, said that food imports will increase selection and reduce price.⁴¹ Yet in this same survey 46.6 percent of the respondents expressed concerns about food safety due to food imports, and 64.1 percent of the respondents were concerned about future food supply. Heightened concerns about food safety and food supply increase demand for a higher food self-sufficiency rate and stricter inspection regulations for imported products. Consequently, policies that support agricultural protection are increasingly justified on the basis of consumer interests through the lens of food self-sufficiency and food safety.

International Pressure From an early stage, the Japanese government supported a dual structure in the agricultural sector with low tariff rates for most cereals (notably excluding rice) and strong border protection for other products. Strong pressure from abroad to open Japan's agricultural markets began in the 1970s as Japan's growing trade surplus increased trade friction with its major trade partners. Under a series of negotiations, Japan agreed to reduce some of the trade barriers protecting agriculture.⁴² The Uruguay Round Agriculture Agreement (URAA) that went into effect in 1995 provides a framework for increasing market access and reducing domestic support subsidies and export subsidies.

In the URAA, market access commitments follow the principle of tariffication, which requires the conversion of nontariff barriers such as import quotas to more transparent tariff measures. Even when high tariffs remained, which was true for the sensitive products of many countries, tariffication was seen as the most demanding policy adjustment that held significance as an enabling reform for future liberalization.⁴³ The URAA requires a 20 percent reduction in the total Aggregate Measurement of Support (AMS) for all developed members. The AMS includes subsidies that have a direct effect on production, while excluding those categorized as "green" because of their minimal distortionary effect on production. The logic behind this distinction is to restrain policies that encourage trade-distorting surplus domestic production such as price supports, but to allow governments to help their farmers through direct income payments and subsidies for research, infrastructure, and environment public goods. The pressure from multilateral negotiations has focused on reducing subsidies that fall within the AMS measurement, and other spending lies entirely outside of the bounds of negotiation.⁴⁴

Japanese agricultural policies also face pressure from liberalization demands in the current WTO trade round that began negotiations on agriculture in early 2000. The United States and agricultural exporter nations started talks with drastic proposals to reduce all agricultural tariffs to 25 percent, to which Agriculture, Forestry, and Fisheries minister Tadamori Oshima responded that under such a proposal Japan's agriculture would be "utterly destroyed."⁴⁵ While the opposition from countries that favor higher protection for agriculture, including the EU, quickly ended any realistic talk about such an outcome, a proposal for a 100 percent ceiling on all tariffs is enough to cause concern for Japan. Current reform proposals are preparation for the expected liberalization. A former MAFF official said: "Clearly, MAFF and the LDP politicians are thinking about the Doha Round. . . . Japan will not wait until the very end like the Uruguay Round."⁴⁶

Furthermore, the Japanese government began a push to adopt free trade agreements that advance liberalization on a bilateral basis. Opening agricultural markets has predictably proven to be the major obstacle for Japan in concluding these agreements, even though they are strongly advocated by Japan's export industries. Prime Minister Koizumi declared in a statement after a 2003 APEC meeting: "In light of the need to conclude FTAs [free trade agreements] with as many countries as possible in the near future, we can't avoid squarely addressing farm trade problems. The nation can no longer maintain an isolationist policy in terms of agricultural matters."⁴⁷ The increasing number of free trade agreement negotiations places further pressure on Japan to accept more imports in agriculture in exchange for improved access for its manufacturing industry exports.

In sum, international pressure directly encourages reform of border measures and particular kinds of domestic subsidies. Such trade policy reforms are largely complementary to structural reforms. To the extent that Japan introduces liberalizing reforms, competitive pressures on domestic producers will make structural adjustment necessary in order to build a core of efficient farmers that can survive with lower levels of protection. International pressure does not directly create pressures to reduce budget expenditures because the limits are on particular kinds of subsidies rather than overall spending. In contrast, international pressure clearly conflicts with the goal to increase Japan's food self-sufficiency.

Evaluating Reform Outcomes

Thus, four different types of pressure on Japan's agricultural sector—political, economic, consumer, and international—can potentially influence agricultural reform. Political, economic, and consumer pressure, which are mostly domestic in origin, have pushed towards structural adjustment and cost reduction and also increased demand for higher food self-sufficiency. International pressure has provided a clear push for liberalization and countered the domestic pressure for higher food self-sufficiency. What policy

reforms have been enacted, and what are the economic outcomes in the areas of cost reduction, structural adjustment, food self-sufficiency, and liberalization?

Overview of Key Policy Reforms

Land use restrictions are central to the inefficiencies of Japan's small-scale farming.⁴⁸ The 1952 Agricultural Land Act regulated land transfers by setting limits on the amount of landholdings. Ownership of agricultural land was restricted to those who cultivated the land themselves. This restriction represented a core principle to end tenancy practices and support the ideal of the family farmer. A series of reforms in the late 1970s and 1980 ended the need for permission to lease or sell land and ended the limits on landholdings. The 1993 Agricultural Management Framework and Reinforcement Law and 1999 Law for the Promotion of Improved Farm Management further relaxed regulations on leasing of farmland to non-farmers and for expanded uses such as food processing and restaurants.

Government intervention in the sale of production has undergone the most dramatic shift towards market policies. Under the Food Control Law of 1942 and Agricultural Basic Law of 1961, the government directly purchased all staple foods (that is, rice, wheat, and barley) through the Food Agency and determined the price. The 1995 Law for Stabilization of Supply, Demand and Prices of Staple Food introduced market mechanism by freeing prices (although prices remain above world prices due to border measures that limit imports) and allowing the direct marketing of production by farmers or other businesses. This policy direction was enshrined in the 1999 Basic Law of Food, Agriculture, and Rural Areas (New Basic Law) that replaced the 1961 Basic Law. The new law set overarching principles to establish market-based prices, develop efficient farming, and increase national self-sufficiency of food production. The government role is now restricted to purchase for stockpiles, and the Food Agency has been abolished.

Japanese agricultural policies have long served the objective to support farmer incomes. This goal remains unchanged, but there has been a shift in the means of providing income support. As discussed above, the 1961 Agricultural Basic Law used price support policies as the central mechanism to improve farmer incomes. The MAFF and LDP coordinated the setting of prices at a level that would provide farmers adequate income. Prices for the main commodities steadily increased, with a few controversial and relatively unsuccessful efforts to restrict the increase during the late 1980s. After the 1995 law introduced market mechanisms in price setting, the government continued to provide income stabilization through compensation for sharp price reductions. These commodity-specific income stabilization programs are funded by farmer and government contributions in a kind of public insurance program that issues payments when prices fall below the previous three-years' average.

Another major policy change is the Core Farmers' Business Stabilization Bill, which was approved by the Diet in June 2006 and will come into force in April 2007. The legislation replaces the separate commodity income stabilization programs with a single direct income transfer scheme.⁴⁹ The new policy still compensates farmers for

price declines, but it will limit payments to farmers engaged in large-scale production. Producers of major crops must have farm size of four hectares or larger (ten hectares for producers in Hokkaido) or join a *shuraku einō* (community farm) of twenty hectares or larger to be eligible for this new payment scheme. Given that the average farm size is only 1.67 hectares, most farms will be ineligible for payments. Farmers who do not meet the size requirement will not receive any compensation from the government.⁵⁰ Since payment amounts are determined by past production and price declines, they do not provide incentives to increase production.⁵¹

In the area of agricultural trade policy, Japan accepted tariffication for twenty-eight commodities that had been under import quota protection. While Japan insisted upon special treatment for rice, the exception from tariffication was balanced by a minimum access quota that was scheduled to increase from 5 to 8 percent of domestic consumption. As imports under this arrangement rose even while a domestic surplus grew, the government belatedly recognized that tariffication would bring a slower rate of increase in imports than the special treatment provisions, and in 1998 Japan accepted tariffication for rice as well. Across all agricultural tariffs, Japan's new tariff schedule averages 12 percent, which compares favorably with the EU average of 20 although higher than the U.S. average of 6 percent.⁵² The tariff structure for the twenty-eight sensitive commodities including rice that were newly converted from quotas to tariffs, however, consists of such high secondary tariffs that imports beyond the guaranteed minimum access category face prohibitive barriers.⁵³ Finally, with regards to domestic subsidy reduction, for the first year of implementation in 1995 Japan's AMS commitment level was 4.8 trillion yen, and Japan spent 3.5 trillion yen for AMS support policies.⁵⁴ Thus, the Uruguay Round agreement acted more as a ceiling to shape the trajectory of future domestic support policies than as a severe constraint on Japan's immediate spending allocation.

In short, in the past decade the major laws guiding Japanese agricultural policy have been overhauled. The government has gone from controlling land sales, prices, and retail distribution to acting as a guarantor against sharp income decline. Border protection has shifted from import bans and quotas to tariff policies.

The Cost of Protection Policies

Due to budget pressures, the percentage of the agriculture-related budget in the total general account budget has steadily declined from 4.6 percent in 1986 to 2.8 percent in 2005. The agriculture-related budget also declined in absolute terms, starting in 1996. Budget pressures cut into MAFF expenditure on public work projects, which has been declining since the late 1990s.⁵⁵ Reform policies shifted spending away from price support expenditure to more income compensation expenditure. However, the total producer compensation—which includes MAFF price support expenditures as well as other compensation payments from both the general and special accounts—held steady from 1995 to 2000 and then increased from 4.54 billion yen in 2000 to 5.24 billion yen in 2005.⁵⁶ In the Japanese budget process, the special accounts have always been larger (up to six times) than the general account and have

been a major source of revenue for MAFF. While general account expenditure is strictly managed by the minister of finance with ceilings for each ministry, many items that garner strong political interest are in the special accounts where there are more opportunities for pork barrel politics.⁵⁷ The total expenditure from both sources suggest that budget payments to farmers have not decreased.

Trade liberalization has tended to work against cost reduction. Since the government has remained committed to support farmers' incomes, adjustment assistance is used to compensate for the income loss from competition with imports. For example, a 6 trillion yen (U.S. \$50 billion) spending package for income support and rural construction projects was allocated for compensation to help farmers adjust to the URAA. When the finance ministry urged that it should be part of the general account allocation for agriculture, leading LDP *nōrinzoku* politicians refused to back down until granted the larger package as extra spending from the special account budget.⁵⁸ The international agreement presented the need for Diet ratification and took budget decisions outside of the ordinary context where the ministry of finance holds the upper hand.

Consumers have gained some savings from the reduction of government market intervention and price support. As noted in Table 1, retail prices for many of the major commodities have declined in the past decade. Rice, as the most protected sector, has maintained high price levels with relatively moderate price fluctuation over the years. Increased retail prices for milk and beef reflect increased world prices for these products and market volatility caused by mad cow disease.

Table 1 Tokyo-ku Retail Prices in 2000 Yen and Import Dependency of Japan for Selected Commodities

Product	Retail Price (yen)		Import Dependency (%)	
	1991	2003	1990	2003
Rice, glutinous (milled equivalent)	677	655	0.2	8.4
Mikan (Fruits excluding wine)	643	526	27.3	54.4
Tomato (Vegetables)	769	622	8.9	19.5
Sugar (raw equivalent)	248	197	62.5	63.7
Beef Loin (Meat)	719	861	27.0	49.3
Wheat Flour (Wheat)	211	195	86.8	85.9
Fresh Milk carton (milk excl. butter)	214	211	19.6	19.1

Product descriptions in parentheses refer to the categories used for import dependency. Source for retail prices is Ministry of Public Management, Home Affairs, Posts and Telecommunications retail price statistics, data available at www.stat.go.jp. The figures for import dependency show the percentage of imports in domestic supply calculated on a volume basis. Source for import dependency is Food Balance Sheets reported to the Food and Agriculture Organization, available at <http://faostat.fao.org> (accessed 14 March 2006).

OECD percentage producer support estimates (PSE) are another measure for the cost of protection that focuses on the difference between domestic and world price levels. Japan's agricultural policy reforms have modestly reduced the percent of producer support in the value of production, from 61 percent in 1986–88 to 56 percent in 2004.⁵⁹ The percentage producer support estimates remained fairly consistent for major products such as rice, wheat, and sugar, and decreased slightly for soybeans, beef, and milk. Japanese consumers pay less than in the past for some major products, but the price differential with world prices remains high.

As the previous analysis indicates, economic pressures, in particular Japan's growing debt crisis and the ensuing budget pressure, have led to some cost reduction. MAFF's budget declined in absolute as well as relative levels. Consequently, any additional funding for new projects will have to come at the expense of existing programs. Moreover, retail prices have also declined as the government started to shift away from price support policies to income compensation. However, economic pressures have not led to a decline in spending for farmers, and there has been only a small decline in the cost of protection as measured by the percentage PSE levels. Cutting these costs would directly harm farmer incomes, which makes this area of reform the most politically difficult. Even in the face of tight budget conditions and the shrinking number of farmers, the *nōrinzoku* politicians and MAFF have been able to preserve generous resource allocations for farmers.

Structural Adjustment Policies

In recent years, structural adjustment has become a primary objective of MAFF due to the rapid aging of farm workers, trade negotiations, and the economic decline of the agricultural sector. While the push towards structural adjustment has been steady, the results are slow and modest in scope. Successful structural reforms entail enlarged farm size, increases in land transfers, shift to *senjyō nōka* (full-time farm households) and *nōgyō seisan hōjin* (agriculture production corporations), and crop diversification. The results, however, show modest improvements in all these areas.

Farm size has increased modestly since 1998. The average arable land size of commercial farms was 1.67 hectares in 2003, a 4.4 percent increase from 1998 (1.60 hectares).⁶⁰ Due to relaxed land regulations, land transfers for the purpose of cultivation are increasing relative to the past, but still very few corporations and farmers have partaken in this venture. From 1960 to 1980 land transfer area averaged slightly below 80,000 hectares annually, eventually increasing to 133,000 hectares in 2000. Although this 66 percent increase in land transfer area seems substantial, land transfer area accounted for only 3 percent of the total cultivated agricultural land in 2000.⁶¹

Similarly, although the number of *nōgyō seisan hōjin* (agriculture production corporations) increased from 3,816 in 1990 to 7,383 in 2004, a 93.5 percent increase, the number of *nōgyō seisan hōjin* is still very low when compared to the 2.1 million farm households in 2004.⁶² The establishment of special districts that lease abandoned agri-

cultural land to general corporations was a radical attempt to allow general corporations to lease agricultural land for agriculture-related use (such as restaurants and food processing industries). Yet by 2005 there were only 107 corporations participating.⁶³ Requirements that corporations restore any leased farmland to its original condition when they end their contract make the agreements less attractive, and the first firms to invest in these districts have not yet been able to show strong profits.⁶⁴ The shift to *sen-gyō nōka* (full-time farm households) is occurring at a slow pace. The proportion of *sen-gyō nōka* in the total number of farm households increased from 15.7 percent in 1991 to 20.4 percent in 2004, while the overall number of farmers has steadily declined.⁶⁵ Overall, structural reforms in farm size, land transfer, corporation participation in agriculture, and the shift to full-time farming have been least successful.

Crop diversification has achieved more progress than other areas. Rice has long been the largest commodity in terms of total agricultural production value, at an average of over 30 percent. Yet, starting in the mid 1990s, vegetable production began to increase and eventually overtook rice in 2004 as the agricultural commodity with the largest share of total agricultural production value at 24.6 percent (rice, 22.8 percent). Although the share of other agricultural commodities, such as fruits, dairy, and meat, have increased only slightly, the increase in vegetable production indicates a shift from rice to vegetable farming.⁶⁶

Structural reform is an area that was most affected by political pressures such as the weakening of the *nōrinzoku* politicians and the Koizumi cabinet's reform agenda. The *nōrinzoku* politicians have an interest in hindering structural adjustment since their constituents are primarily small, part-time rice farmers. Structural reforms that enlarge farm size, reduce part-time farmers, and reduce rice production weaken the political base of *nōrinzoku* politicians. Overall, political pressures resulted in modest levels of structural adjustment and left much room for more progress.

Food Self-Sufficiency

The New Basic Law established a new policy to set targets for raising Japan's self-sufficiency rate, which had fallen from 73 percent in 1965 to 43 percent in 1995. The self-sufficiency rate is calculated in terms of the percentage of Japanese people's daily caloric intake that is derived from domestically produced food. The decreasing self-sufficiency rate reflects both dietary changes and liberalization. On the one hand, people eat less of the foods such as rice where Japan has high domestic production. On the other hand, imports have replaced domestic production for many foods such as wheat products. Thus, the call to reverse the decline in Japan's self-sufficiency rates requires efforts to increase domestic consumption of the former and increase domestic production of the latter, for an overall effect to reduce reliance on imported food. The inclusion of self-sufficiency targets was the result of a compromise by MAFF to win acceptance by *Nōkyō* of land ownership reforms.⁶⁷ During Diet hearings, *Nōkyō*'s representative called for Japan to pursue 50 percent self-sufficiency, while others countered that Japan could not raise its self-sufficiency while bringing Japan's

agricultural policy into conformity with international trade laws regulating agriculture.⁶⁸ Despite such objections, the New Basic Law establishes an increase in self-sufficiency as a major goal of Japanese agricultural policy, and the subsequent plans have set both a general national target and item-by-item targets for all major products. These nonbinding targets are supported by production goals and spending allocation.⁶⁹

The self-sufficiency target goals have not been met. The target set in the 2000 Basic Plan to achieve 45 percent calorie-based self-sufficiency by the year 2010 was moved back to the year 2015. This delay represents a *de facto* retreat from the self-sufficiency targeting policy in recognition that Japan struggled to maintain even a 40 percent self-sufficiency rate in 2003.⁷⁰ In part, it reflects the difficulty of changing consumption habits and increasing the cost competitiveness of Japanese producers. Moreover, the efforts to comply with international commitments to trade liberalization limit the use of import barriers to support self-sufficiency. Recent reforms that decouple payments from production along with whatever liberalization measures come from trade negotiations will exert further downward pressure on Japan's self-sufficiency. Thus, it would appear that the strength of the *nōrinzoku* politicians and *Nōkyō* to gain a commitment at the policy stage has fallen short in the implementation stage.

Liberalization As part of the URAA, Japan accepted tariffication of import quotas and a schedule for reduction of tariffs, as well as restraint on domestic support policies. Japan has fully implemented all of its tariff and subsidy commitments under the URAA.⁷¹ It has done so against a backdrop of strong domestic resistance. Mulgan notes that there was an "avalanche of requests for turning the clock back on trade liberalization," including demands to reduce the quantity of minimum access imports.⁷² MAFF refused these demands as unacceptable reversal of an existing international agreement.

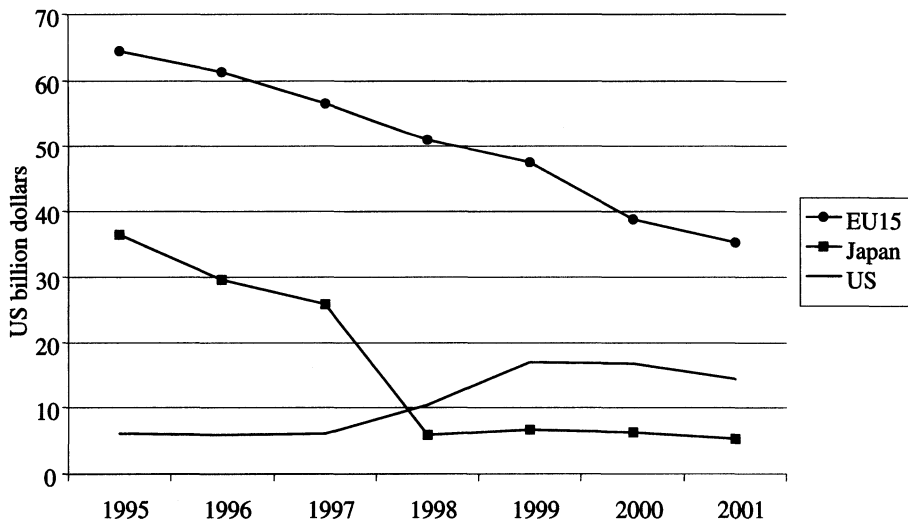
The outcome of reform policies in this area will be measured according to the terms in the URAA: market access (imports as a share of domestic consumption measured by weight) and AMS spending levels. Table 1 shows a range of product categories for comparison of the trends in Japan's import dependency. Import dependency increased substantially for fruits, meats, and vegetables, each nearly doubling the level of import dependency from 1990 to 2003. The rate of increase in import dependency for rice is quite high as a result of the Uruguay Round agreement that replaced the import ban with minimum access imports, but import dependence for rice remains low.⁷³ There has been some reduction of import dependency for those products whose import levels have historically been quite high, such as wheat and sugar. There has been little change in milk products.

The variation across commodity groups reflects both domestic and international factors. The predominance of rice in Japan's agricultural political economy has made it the most difficult to liberalize and kept absolute import levels low. International pressure on Japan, however, has been greatest from the United States, which has focused on

meats, fruits, and rice, where it has substantial export interests.⁷⁴ Within the aggregate categories, it is interesting to look at beef and citrus, the two commodities that were a central target of U.S. pressure since the 1970s and that culminated in a major liberalization agreement in 1988. Import dependency for beef rose from 27.3 percent in 1985 to 68.2 percent in 2003, while import dependency for oranges rose from 5.8 percent to 28.7 percent over the same period. Since dairy and sugar are commodities for which the United States and EU both retain strong import protection regimes, they have applied less pressure for market access commitments for them.

Japan has reduced the level of support categorized by the WTO as having a distortionary effect. Indeed, as shown in Figure 1, there has been a 79 percent reduction in Japan's total AMS spending from 1995 to 2002. The sharp drop in 1998 represents the change in Japan's rice policy with the Rice Farming Income Stabilization Program that began in 1998. This program ended direct government intervention to support market prices, which shifted the cost of Japan's expenditures for rice farmers outside of the AMS category. Farmers are compensated when prices fall below a standard price, but participation in this compensation scheme is conditional upon joining the production adjustment program for diverting rice paddies to other crops. This arrangement is considered nondistortionary because it does not create direct incentives to increase rice pro-

Figure 1 Trade-Distorting Domestic Subsidies



Data shows spending subject to the AMS restriction on spending (the so-called amber box of distortionary domestic subsidies). Figures are the reported spending of the EU (15 members), Japan, and US after conversion from national currency in original notifications to US dollar figures. *Source:* Schnepf 2005, p. 29.

duction. By changing the nature of rice support, MAFF was able to ensure that continued subsidies would be classified as “green policies” that are not restricted by the URAA.⁷⁵ The change in Japan’s rice policy clearly dominates its AMS notification, and there was a smaller 14 percent reduction of AMS spending when excluding rice.⁷⁶ Figure 1 shows that Japan has performed at a comparable level with the EU and exceeded the United States in its reduction of AMS spending.⁷⁷

In sum, the reforms undertaken by Japan have allowed the steady increase in the nation’s import dependency for key commodities. Not even rice has been excluded from this trend. The change in Japan’s rice policy in 1998 also conformed with the direction of subsidy constraints in the URAA because it ended government price setting and helped to restrain excess production. While one can reasonably point to this change as simply moving payments from one category to another, such reorientation is exactly the purpose set forth in the URAA. The pattern of outcomes in terms of imports and subsidies has responded to the direction of international pressure, while there has been less change in the areas that are not subject to such pressure.

Conclusion

The variation in success across different reform areas can be explained by the nature of underlying pressure for reform. Table 2 summarizes the findings. Overall, Japan has not made a dramatic policy reversal in any of the four areas of reform. In terms of the four category scale of reforms, Japan’s reforms have not increased protection (the past trajectory), while maintaining the status quo or changing the form and level of instruments depending upon the area of policy reform. The two areas with moderate changes are structural adjustment and trade liberalization. For structural adjustment the increase in crop diversification and reduction in the number of part-time farmers represent a shift towards more efficient farming, although the lagging results in land reform slow progress. For trade liberalization there have been major changes in the form of protection, as import bans and quotas were replaced with tariffs and access guarantees and overall import levels continue to increase. High tariffs, however, limit the gains for sensitive products. The shift away from price support intervention to income support inter-

Table 2 Summary Chart

Source of pressure	Cost reduction	Structural adjustment	Self-sufficiency	Trade liberalization
farm interest lobbying	–		+	–
economic constraints	+	+		
consumer demands	+		+	
international negotiations		+	–	+
Observed change	Small	Medium	None	Medium

vention represents a significant change in direction aimed to encourage structural adjustment and comply with the WTO limits on domestic subsidies. International pressure appears as a necessary variable to achieve substantive reform.

International pressure provides external monitoring that enforces compliance so that legal changes produce observable economic outcomes. The goals to reduce Japan's dependency on food imports and liberalize its trade policy were contradictory, but both self-sufficiency targets and market access commitments were included in Japan's agricultural policy reforms. The demand for greater self-sufficiency was supported by agricultural interest groups, politicians, and consumers. Yet, unless Japan reneged on its URAA commitments, there was little possibility to reduce dependence on food imports. Without any enforcement measures or binding constraints, the self-sufficiency targets were easily set aside. In contrast, the import access guarantees and AMS commitments from the Uruguay Round agreement were scrupulously followed. Even strict budget constraints have had little effect on producer compensation. Reforms have changed the way expenditures are allocated in order to reduce their distortionary production effects but not to reduce the total amount paid to farmers. Budget cuts have come from other areas of MAFF spending.

Although Japan has taken steps towards market reforms relative to the past, it still lags behind from an international perspective. Future reforms will come as a result of international trade negotiations, rather than from domestic pressures such as demand for cheaper imported goods or from declining political influence of farmers. Although Japan's agricultural reforms are unlikely to move beyond what will be achieved in the context of trade negotiations, at the same time Japan can be expected to implement faithfully the international agreements it signs. Japan's record of agricultural reform points to the potential for international agreements to overcome resistance from strong vested interests to bring substantive reform outcomes.

NOTES

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19. Kent Calder, “Japanese Foreign Economic Policy Formation: Explaining the Reactive State,” *World Politics*, 40 (July 1988), 517–41.

20. Leonard Schoppa, *Bargaining with Japan: What American Pressure Can and Cannot Do* (New York: Columbia University Press, 1997); Davis.

21. See James Fearon, “Bargaining, Enforcement, and International Cooperation,” *International Organization*, 52 (Spring, 1998), 269–305, on how negotiations consist of a bargaining stage and enforcement stage. Monitoring mechanisms are central to modeling the latter.

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72. Mulgan, *Japan's Agricultural Policy Regime*, p. 136.
73. The small amount of imports shown in Table 1 prior to 2000 reflects rice imports to Okinawa to produce a special kind of alcohol.
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75. Shinji Hattori, *WTO nōgyō kōshō: Shuyokoku nihon no nōseikaikaku to WTO teian* [WTO Agriculture Negotiations: The Agriculture Reforms and WTO Proposals of Japan and Main Countries] (Tokyo: Nōrin tōkei kyōkai, 2000), p. 132.
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