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Free Trade and the Future of Japan's Agricultural Policy

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Kunio Nishikawa, associate professor in the College of Agriculture at Ibaraki University, explains that “Japan’s agriculture cannot be isolated from the tide of free trade. Japanese farmers will have to continue engaging in further structural adjustments.”

Agricultural trade liberalization has been one of the most controversial issues in the US-Japan relationship. Conflicts arose between the two countries over beef and oranges in the 1980s, rice in the 1990s, and the Trans-Pacific Partnership (TPP) more recently. Japanese farmers have strongly opposed trade liberalization, regarding it as being compelled by external pressure (*gaiatsu*), and they have criticized the attitude of Japan’s government as being weak-kneed. Especially in regard to the TPP negotiations, Japan’s agricultural sector strongly opposed the deal and tried to influence the negotiation process through the Japan Agricultural Cooperative (the JA group), which serves as a representative of the farmers. They held major rallies and demonstrations on the roads of Tokyo while wearing matching traditional headbands (*hachimaki*), expressed their opinions in newspapers, and presented petitions to politicians and bureaucrats.

Why are Japanese farmers so resistant to the proposed trade liberalization? In general, it has been explained that Japanese agriculture has a comparative disadvantage to overseas agriculture, including that of the United States. Indeed, there are clear inefficiencies in Japan’s agriculture. In the 2015 census the average scale of farms in Japan was 2.1 hectares (5.2 acres) while in 2012 the average US farm was 175.5 hectares (435.6 acres). In terms of rice farming, the production cost per 1 hectare (2.47 acres) in 2013 was ¥1,520,000 (\$15,770 at the yen-dollar exchange rate for that year) in Japan while in the US it was only ¥210,000 (\$2,150). That represents a huge efficiency gap between the two countries that cannot be easily filled. For that reason, farmers are organized through the JA, which works to prevent trade liberalization in alliance with the Ministry of Agriculture, Forestry and Fisheries of Japan (MAFF) and the Liberal Democratic Party (LDP), which has been the ruling party for the majority of the postwar era. Currently, the difference between domestic and foreign prices is offset by high tariffs.

It is important, however, to pay attention to the efforts undertaken by Japan’s farmers to improve their international competitiveness. Japanese farms have undergone substantial structural adjustments over the past 30 years to prepare for the expected abolition of tariffs. The result has been a reduction by half in the number of farms, from 4.4 million in 1985 to 2.2 million in 2015, and an incremental rise in the average size of the farm unit from 1.2 hectares to 2.1 hectares. However, the resultant reduction in production costs has not been as substantial as one might expect. It is commonly understood that with scale economies the production costs, especially

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labor costs, will decline in relation to the expansion of the farm unit, but in the case of Japan’s rice farming, the cost begins to increase after farms reach a size of about 20–30 hectares (49–74 acres, still just a fraction of the average US farm size). Because the plots of farmland are small and scattered as a result of geographical and historical factors, Japanese farmers cannot utilize large agricultural machines efficiently, as is common in the US, and have to hire additional laborers to expand their farm unit. Furthermore, the reduction in production costs has been offset by the drop in the price of rice that resulted from the deregulation of the rice market and the increase in low-end consumers. The Japanese government has not implemented effective measures to compensate for the loss of farmers’ income. Although the average production cost declined by 22.7 percent from 1985 to 2014, the revenue including *ex post* compensation payments also dropped by 33.2 percent. As a result, Japanese farmers cannot feel that they have been fully rewarded for their efforts. This emotion forms the background of the farmers’ anti-free trade attitude.

The rapid decline in the number of farms has also weakened the political power of the JA. It is said that the number of its members and staff is in the vicinity of 10 million, but in fact, the number of original members who have interests in agricultural policy and mainly support the LDP is only about 1.6 million. The associate members who are not farmers account for another 4.9 million and the original members who engage in farming as a hobby are another 3.1 million. The JA’s control over the farmers has weakened, and accordingly so has its ability to gather votes and facilitate policy implementation. The JA has come to be regarded as the main cause of the decline in Japan’s agricultural sector rather than as an attractive partner for the LDP and the MAFF. In 2015, the Shinzo Abe administration passed measures to deprive the JA of some legal rights. The JA *Zenchu* (Central Union of the JA), which is the top organization of the JA group, will be abolished and the control of national federations over regional cooperatives will be weakened. The LDP and the MAFF could not rescue JA *Zenchu* from Abe’s attack. It is important to note that the defeat of the JA coincided with the achievement of the TPP agreement, under which Japan will abolish tariffs on 81 percent of agricultural, forestry, and marine products—an unprecedented scale.

The TPP negotiations will not be the end of trade liberalization. Japan’s agriculture cannot be isolated from the tide of free trade. Japanese farmers will have to continue engaging in further structural adjustments. However, if competition means that farmers’ efforts to improve efficiency are not rewarded, the end result will be a weakening of farmers’ motivation. Again, it must be acknowledged that Japanese agriculture can never compete with overseas agriculture without some kind of government support. The Japanese government must establish a firm, adequate, and *ex post* compensation system—an option that is highly preferable to tariffs, which *ex ante* prevent the free movement of goods and distort market mechanisms. The instability of farm policy caused by the repeated changes in government from the late 2000s has been a source of frustration for Japanese farmers. At the same time, the weakening of the JA group has undermined the farmers’ political position, and it is now difficult for them to reflect their intentions in the policymaking process. They will have to form a new coalition with parties that understand the value of agriculture rather than continue to depend on specific conservative parties as before.

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