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RICE POLICY REFORMS IN JAPAN: SEEK FOOD SECURITY THROUGH FREE TRADE

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Japanese agriculture is in a freefall decline. In the years between 1960 and 2005, the share of agricultural output in GDP dropped from 9% to 1%, the food self-sufficiency ratio from 79% to 41%, and agricultural land, indispensable for food security, from 6.09 million hectares to 4.63 million hectares. Meanwhile, the ratio of part-time farm households, which derive more than half their income from non-farm employment, increased from 32.1% to 61.7%. The percentage of farmers over 65 years old also jumped from 10% to 60%. Gross agricultural output in 2006 was 8.5 trillion yen, less

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than the sales volume of Panasonic, which stood at 9.1 trillion yen in the same year. Total agricultural GDP in 2006 was 4.7 trillion yen, but this was largely thanks to tariff and price support protection. According to the Organization for Economic Co-operation and Development (OECD), the amount of money Japan spent for agricultural protection was nearly 5 trillion yen. This means that, without agricultural protection, Japan's agricultural GDP could have been nil.

The Impacts of Globalization and Shrinking Japanese Population

In the World Trade Organization (WTO) negotiations, the Japanese government is demanding broad exceptions to the rate of tariff reduction, that is 70 %, while being pressed in return to increase the volume of imports subject to a relatively low tariff rate (the “minimum access” quota). If agreed, this could increase the minimum access quota of rice – a source of fungal and pesticide residue contamination that rendered inedible some rice stocks in Japan about a year ago – from the current 0.77 million tons to 1.2 million tons (Japan's domestic rice production currently stands at 8.5 million tons), thereby reducing the food self-sufficiency ratio further. What the Japanese government is trying to defend with all these efforts are the high tariff rates, as represented by the 778% rate imposed on rice, as well as the resulting high prices of agricultural products.

Rice consumption per person has dropped as much as 50% since 40 years ago, even while the population has been growing. From now on, the level of rice consumption will be influenced by the double impacts of an aging society, which will push down per-capita consumption, and a shrinking population.

If aggregate rice consumption falls from the current 8.5 million tons to 3.5 million tons by around 2050, Japan will need only some 0.5 million hectares of land for rice production. This means that some 2 million hectares of rice fields must be diverted to other purposes. For comparison, the population of Japan in the wake of World War II was only 70 million people, far less than the current 130 million, but they owned a total of more than 5 million hectares of farm land, more than the current total of 4.6 million hectares of farm land in Japan, although some Japanese were starving to death at the time. The shrinking of Japanese agriculture will diminish agricultural land resources indispensable for its food

security.

Problems of the Income-Support System

Since the 1960s, the Japanese government has kept the producer price of rice at a comparably high level by purchasing rice from producers at a support price. However, this policy has encouraged small-size part-time farmers, who often shoulder high production costs, to continue rice production because it is cheaper for them to grow rice than to buy it in town. Rice production costs will decline if farm sizes become bigger. The retention of farmland by small-size part-time farmers has prevented full-time farmers from expanding their farmland in Japan, thereby keeping production costs at a relatively high level and leaving full-time farmers unable to improve their profits. Thus the government is currently maintaining the rice price by encouraging farmers to divert their land for the cultivation of other crops. In order to encourage farmers to participate in the production adjustment program designed to curtail rice production, the government annually spends 200 billion yen in subsidies. The cumulative amount of these subsidies has now topped 7 trillion yen.


The ruling Democratic Party of Japan, which came to power in September 2009, plans to bolster the production adjustment by introducing a new income-support system. The system will provide farmers who take part in the production adjustment program of rice with subsidies that will cover the difference between the production cost of rice, including labor expense, and the rice price at farm gate. This support will be provided regardless of the type of farmer – full-timers and part-timers, including those who earn more than the average worker, alike – in addition to the subsidies that have been provided hitherto for land diverted from rice production. Unlike the European Union's income-support system, which was introduced after a reduction in agricultural prices, the DPJ plan will add these new subsidies while maintaining the current rice price level through the existing production adjustment program. I wonder how the Japanese government will cope in the WTO and FTA (free trade agreement) negotiations, because high rice prices, left unaddressed by this plan, will unavoidably require high tariffs.

If the government guarantees more than what the current rice price offers small-size part-time farmers, it will encourage them to continue farming, and might even make it more profitable for retired small-size farmers to take back land lent to full-time farmers and start farming again. Forced to farm smaller plots, full-time farmers will have to bear higher production costs, which will eventually result in a higher financial burden on the government to cover income-support subsidies.

What Then is Needed?

If the Japanese government were to abandon the production adjustment program and bring the producer price of rice down from the current 15,000 yen to 9,500 yen per 60kg, part-time farmers would stop farming and start lending out their farm land. The government should then focus its support on full-time farmers so that they could pay their land rent (the government may pay the rent directly). Such plans would help concentrate limited agricultural land resources on full-time farmers, thereby expanding farm sizes and reducing production costs. Given the narrower target, the financial burden of such support would not exceed the current expenditures spent for the production adjustment program of rice.

The Japanese rice price has come down from 20,000 yen to 15,000 yen in the past decade, while the price of Chinese rice, which Japan imports, has risen from 3,000 yen to 10,000 yen. There is a growing demand for Japonica rice rather than Thai/Indica rice. If Japan stops production adjustment and brings down the domestic rice price to less than the Chinese price, Japan will no longer have to worry about the minimum access quota and the quality of imported rice, because there will be no need for Japan to import rice. What's more, Japan may even be able to export its rice! Despite the prospects of a shrinking population and declining food consumption at home, exports (free trade) will provide Japan with excellent opportunities to manage agricultural land resources and ensure food security. Japan will be able to export rice and import wheat or beef in normal times, while in times of crisis with no importation of food, Japan can stop exporting rice and eat it. So far Japan has used the notion of food security as a

pretext for defending high tariffs on farm products. In an era of decreasing population, however, free trade will ensure food security for Japan. 

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