

Japan and TPP

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What is the TPP?

- **Tariffs on almost all of the products will be eliminated.** ⇔ The FTAs which Japan has concluded make a lot of sensitive farm products exempt from tariff elimination. This is why the Japanese agricultural group is opposed to the TPP.
- A comprehensive agreement including trade in services, governmental procurement, competition policy and investment.
- It is supposed to evolve into the agreement which encompasses the entire area of APEC.

Chinese reaction to Japan's intention to participate in TPP

- Canada and Mexico followed Japan's announcement to participate in the TPP.
- After Japan's announcement, statements on the TPP made by the Chinese government appeared to show **a change in tone** from one of disregard to one of attention. China is now very eager to conclude free trade agreements with Japan and Korea.

How important it is for Japan(1)

- It is predicted that by 2020, Korea and Taiwan will surpass Japan in Gross Domestic Product (GDP) per capita. It is essential to **incorporate foreign technologies and dynamism into Japan** through trade and investment, and drive technological innovation necessary for achieving high economic growth once again.

How important it is for Japan(2)

- The shutdown of the auto parts factories in the Tohoku area by the Great East Japan Earthquake made the U.S. auto plants difficult to operate. Japanese small- and medium-sized enterprises (SMEs) are integrated into the supply chain within the larger Asia-Pacific region.
- If Japan does not participate in the TPP, the plants within the TPP member countries will try to import parts and materials tariff-free from the other member countries, resulting in Japanese **SMEs excluded from the vast free trade area in the Asia-Pacific region**. This would **make the recovery from the earthquake difficult**.

How important it is for Japan(3)

- **China** has introduced an export ban on rare earth, various constraints on foreign investment, and not succeeded in controlling piracy of intellectual rights. Its national enterprises distort prices and competition.
- We can no longer force China to rectify such actions by power. But we can **restrain and control them by rules in TPP** which will prevail in APEC region.

How important it is for Japan(3)

- **China** is a promising market for Japanese industries and agriculture. With an FTA concluded between Japan and China, eliminating Chinese tariffs on rice, rice could not be freely exported to China, as Japan expected. Japanese rice at 500 yen per kg in Tokyo is sold for 1,300 yen per kg in Shanghai or Beijing as state-owned enterprises monopolize the distribution channels.
- **Discipline on the state-owned enterprises through the TPP is necessary for both Japan and the United States.**

How important it is for Japan(4)

- In the case of wheat, of which 90% consumed is imported, Japanese consumers have been forced to buy not only domestic produce but also imported farm products at prices higher than international levels, due to the imposition of tariffs on the latter.
- This places the burden of agricultural protection on **low-income consumers**. A lot of people suffered from a reduction in their incomes following the economic slowdown or the Great East Japan Earthquake. High prices also result in lower consumption, which **hurts agriculture**.

the Ways of Agricultural Support

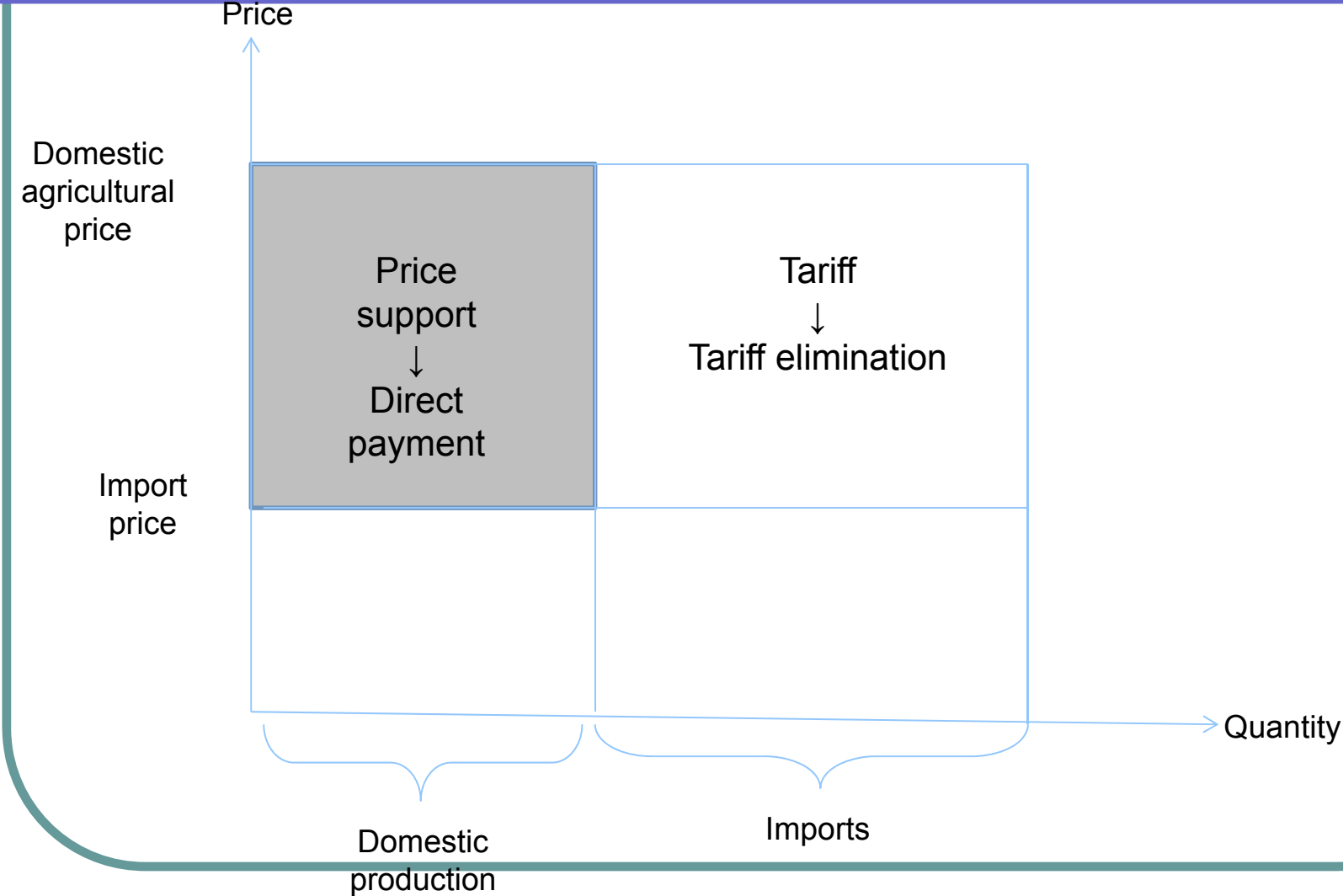
The price support policy has maintained inefficient small-scale rice farmers. The US and EU have turned the price support to direct payments from the governments.

country	Japan	US	EU
Decoupled direct payments	No	Yes	Yes
Environmental direct payments	Partial	Yes	Yes
Direct payments for less favourable regions	Yes	No	Yes
Production restriction programme for price maintenance	Yes	No	No
Tariffs* over 1000%	1 (tubers of konnyaku)	None	None
Tariffs of 500-1000%	2 (rice, peanuts)	None	None
Tariffs 300-500%	2 (butter, pork)	None	None
Tariffs of 200-300%	6 (wheat, barley, skim milk powder, starch, beans and raw milk)	None	None

* Specific tariffs are applied to tariffied products in Japan and the EU. Here these specific tariffs are estimated as their equivalents of ad valorem tariff rates, taking into account of international prices.

How important it is for Japan(4)

- The U.S. and the EU have shifted away from **price support** and moved in the direction of giving **direct payments to farmers** as a means of protecting agriculture.
- If the consumer burden concerning domestic farm produce is replaced with direct payments, **the consumer burden concerning imported farm produce would also disappear**. In other words, the consumer burden can be reduced at a lower cost to the taxpayer.



How important it is for Japan(5)

- In a **shrinking domestic market** due to an aging and decreasing population, agriculture is destined to decline unless the Japanese government abolishes tariffs imposed on Japanese agricultural products by its trade partners and promotes **exports**. Thus, **negotiations seeking to liberalize trade will be inevitable and indispensable, even for the Japanese agricultural sector.**

There are opposing views(1)

- Some argue that TPP would further deteriorate wage decrease, increasing income gaps, increase of part-time workers and unemployment caused by globalization.

There are opposing views(2)

- **American conspiracy theory**

The US invites Japan to join the TPP in order to promote its exports because the US could not increase its exports substantially to the current TPP-negotiating countries with low GDP.

- An FTA, however, is about trade and has nothing to do with GDP size. Both Japan and the US depend lightly on foreign trade. U.S. exports to the eight other countries participating in the TPP, which comprises 8% of total U.S. exports, is greater than that to Japan, which comprises 5%.

There are opposing views(3)

- **American threat theory**

Japan will experience unilateral defeat to the US, because Japan was pushed around and forced to accept unreasonable demands by the US in the past bilateral talks.

- For example, Japan would be pressured to open up procurement of the local governments even more, while the U.S. refuses to open it. (On the contrary, participating countries in the TPP, would jointly and equally assume their obligations. It is thus unlikely.) Or Japan will be forced to adopt the US rules or regulations in areas such as food safety.

There are opposing views(4)

- The Ministry of Agriculture, Forestry and Fisheries (MAFF) has published estimates of the impact of the abolition of tariffs (including levies on imports) following participation in the TPP. **Agricultural output**, which is currently worth 8.5 trillion yen, **will decline** by 4.1 trillion yen (including a drop in rice production of 2 trillion yen), and Japan's **food self-sufficiency rate will fall** from 40% to 14%. Agriculture also performs various other functions, referred to as **multifunctionality** (such as preventing flooding and replenishing water resources), and such functions worth 3.7 trillion yen **will be lost**.

Has Japanese Farm policy helped food security or multifunctionality?

- A policy of reducing the acreage under cultivation (**the set-aside programme**) has restricted supply and enabled high prices to be charged for rice. Just as they are with other farm products, **tariffs are essential to keep rice prices higher than international levels.**
- In reality, though, this policy of maintaining prices to protect farmers has, despite claims to the contrary from MAFF, failed to raise the **food self-sufficiency rate** or enable agriculture to properly perform its **multifunctionality.**

There can be a food crisis

- Japan, a net food importing country, can buy food even when world food price soars. There is, however, a case when Japan cannot get access to food with a lot of money. This situation can be caused by the physical disruption of imports such as strikes at ports of exporting countries or destruction of searoute by military attacks.
- A country will survive the situation by the food storage if any at the moment. But what should we do when the food storage has been depleted? We would have no other way to expand our food production in such a crisis. This needs **agricultural resources for production.**

Free Trade damages Food Security?

- Increasing imports under free trade may reduce those resources. This is why Japan has used “food security” as a pretext for border protection and resisted tariff cuts.
- On the other hand, Japanese set-aside programme of rice production in order to peg price resulted in the loss of 30 % of paddy fields in the last 40 years.
- Farmland will continue to decrease due to the shrinking domestic demand for food caused by the aging and decreasing population in Japan. Tariffs for protection of domestic market will not be instrumental any longer.

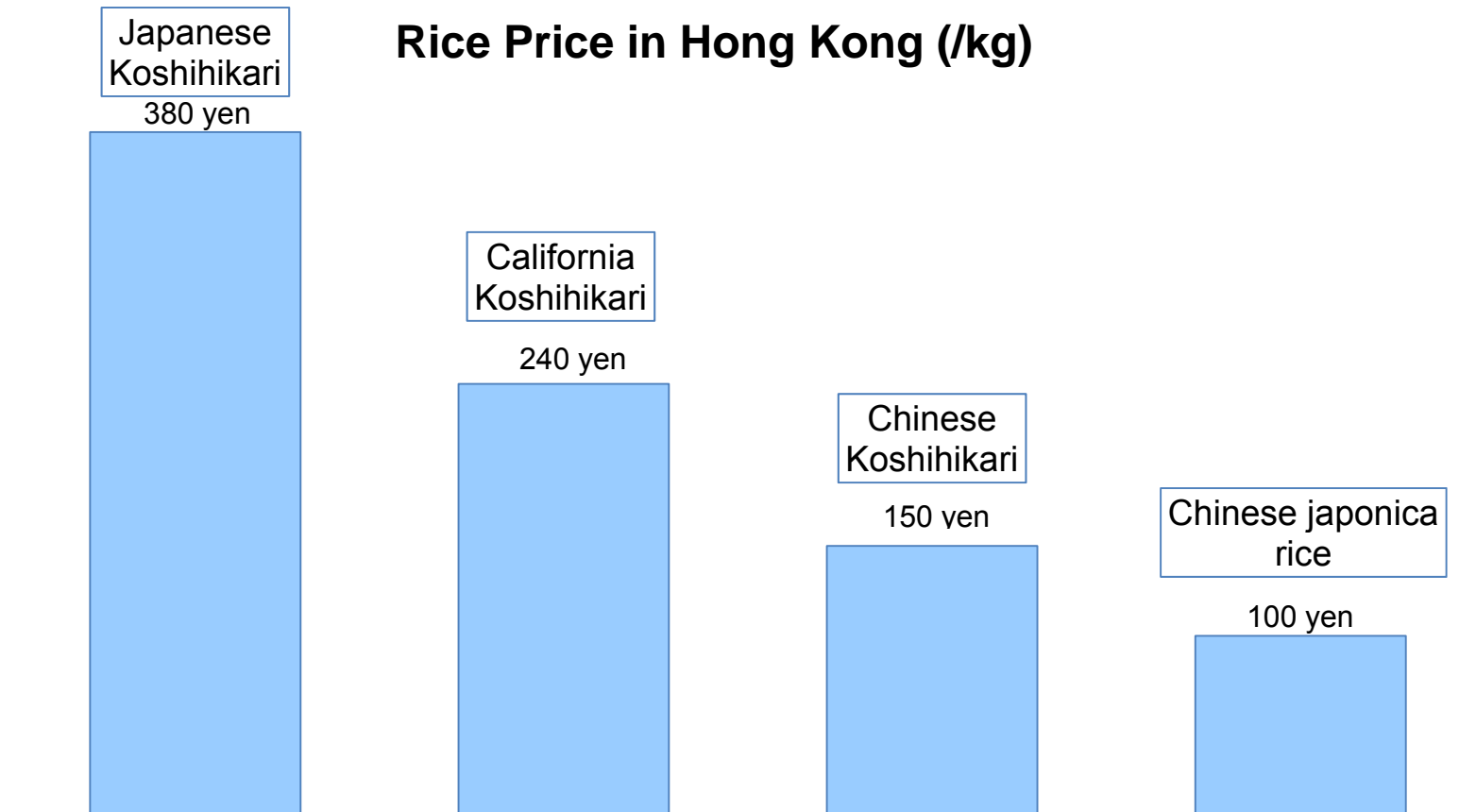
Japanese agriculture is not competitive?(1)

- The Japanese agricultural sector claims that it is too small to compete with those of other countries. Scale is certainly advantageous when other conditions are equal.
- But there are large differences among countries in terms of the crops they grow, the fertility of their soil, crop yields, and quality. **Scale cannot be the only criterion for comparison.** Even the average farm size in U.S., the world's largest exporter of farm products, is only 1/20th that of Australia.

Japanese agriculture is not competitive?(2)

- Just as there are sizable price differences among various types of cars, so too are there price differences among various types of rice, reflecting the **quality** of rice. In Japan, Koshihikari rice grown in the Uonuma district of Niigata Prefecture sells for a price 1.7 times higher than that produced in other areas. It is a mistake to argue that high-grade rice cannot compete with rice of inferior quality because it is so much more expensive.

Japanese rice is highly evaluated



The Japanese Government has Failed to stop the decline of Japanese Agriculture

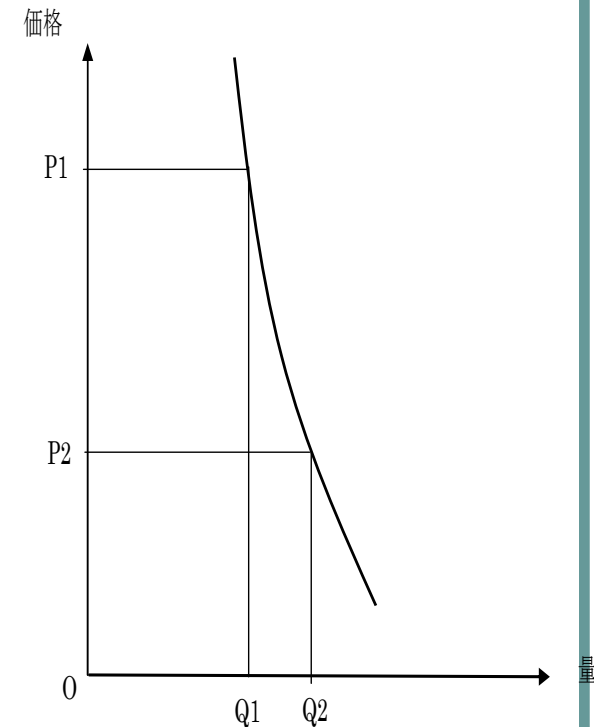
- The percentage of GDP accruing to agricultural production dropped 9% to 1% from 1960 to 2005.
- The land area used for agriculture, which is indispensable for food security, also severely declined from 6.1 million hectares to 4.5 million hectares.

In the meantime,

- The percentage of part-time farm household mainly engaged in other jobs than agriculture increased from 30% to 60%.
- People aged 65 or over accounts for as much as 60% of all farmers, increasing from 10% in 1960.

Why has not the reform realized?

- $OP1 \times OQ1 > OP2 \times OQ2$
- By pegging the rice price high, the most powerful interest group in Japan, **JA (agricultural cooperatives)** could not only **get high commission** but **maintain the number of part-time farmers** who have been the sources of **JA's political power** and **contributed financially** to JA.



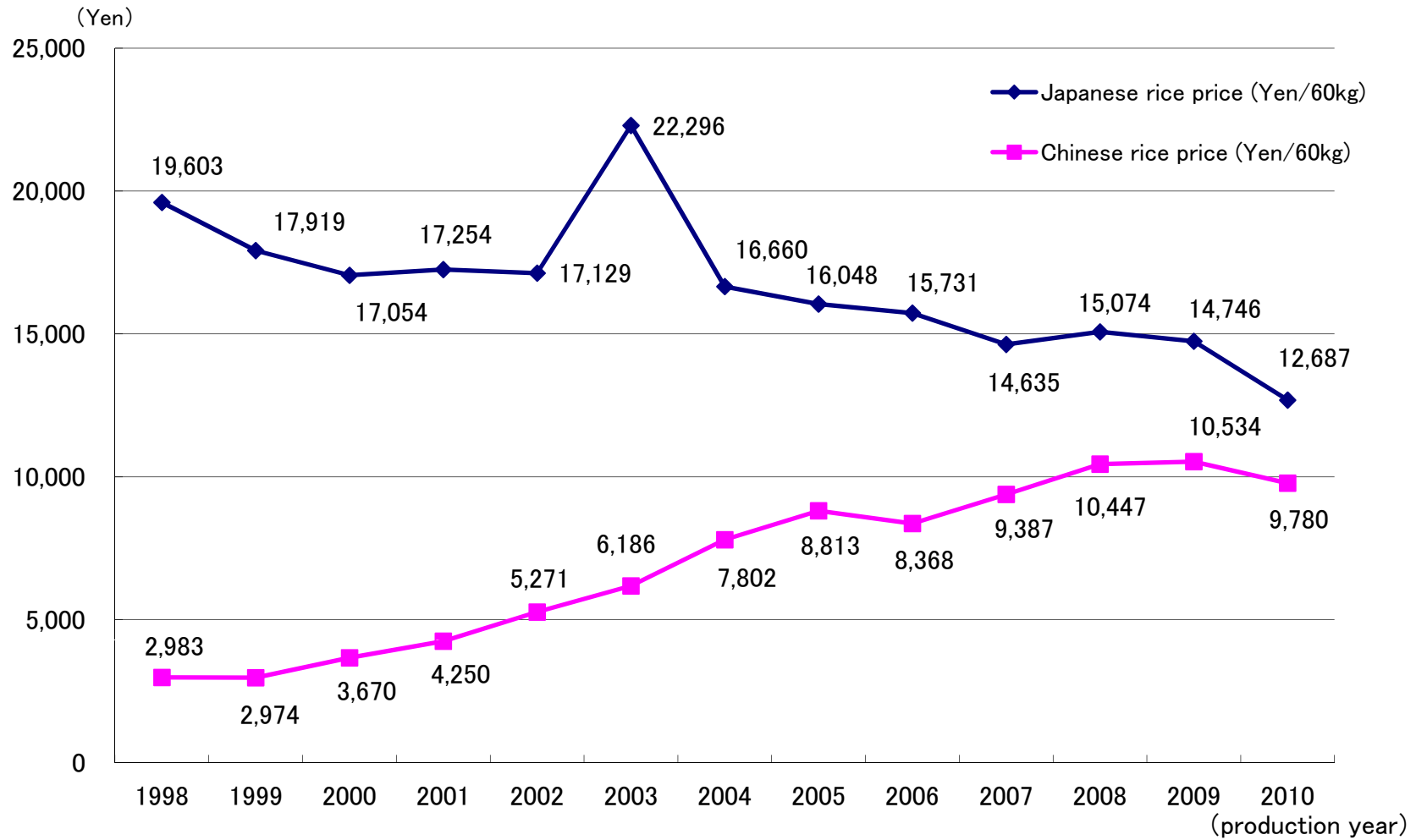
Introducing direct payment scheme

The Democratic Party introduced direct payment scheme. But it will maintain the set-aside programme which has pegged the high rice price. The farmers eligible for the direct payment have to join the set-aside programme.

This scheme lets inefficient small-scale rice farmers survive. It will not change the structure of Japanese agriculture.

The desirable policy change

I propose to **get rid of the set-aside programme and introduce direct payment scheme only for the full-time farmers**. The decrease of rice price will drive inefficient small-scale rice farmers out of the business. This will enable full-time farmers to expand their farm size and cut down on their production costs. They can compete in the international market. Japan will no longer resist the request of the tariff cut.



Free Trade helps Food Security

- The elimination of the set-aside coupled with the introduction of direct payments will lead to lower price.
- Japan will not need tariffs but export rice or drinking milk while importing wheat or beef under free trade. This will keep our farm land from deteriorating or vanishing.
- In case of food crisis when we no longer import wheat and beef due to the disrupted transportation, we will stop exporting rice and consume it in order to survive. This is the best way to achieve food security for Japan. Free trade does not help an importing country during a crisis, but exportation of some products in normal time under free trade maintains the agricultural resources in case of need. **Free trade can be a basis of food security.**