



# Background

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## FOOD EXPORTS AND THE U.S.-JAPAN TRADE DEFICIT

### INTRODUCTION

It is widely believed that Japan is one of the most protectionist industrialized nations, and unfairly protects its markets from American products, particularly agricultural goods. As the U.S. merchandise trade deficit with Japan is expected to top \$20 billion this year, the charge that Japan erects barriers to U.S. agricultural exports sounds even more plausible. As a result, a rising chorus seems to be chanting that it is about time for the U.S. to "get tough" with Japan to end its import protection on agricultural products. This would enable the U.S. to expand its agricultural exports to Japan, it is said, and would narrow significantly the American trade deficit with Japan.

Determining whether Japan is more protectionist than the U.S. or Europe is quite difficult. In the case of agricultural products, Japan maintains some quantitative restrictions on certain agricultural items, including beef and citrus. So do most industrial nations. It thus is true that Japan does not have a completely open, free-trade policy in these markets.

However, the important and more realistic issue is the degree to which Japan's agricultural markets are open. Today, Japan is the largest net importer of farm products in the world. Over the past 20 years, Japan's agricultural imports have increased more than 30 times. Japan is the largest customer for U.S. farmers, and American farm exports to Japan have risen from \$1 billion in 1970 to nearly \$7 billion in 1983. In the case of individual commodities, Japan is the number-one market in the world for American exports of lemons, limes, grain sorghum, beef, grapefruit, pork, corn, and chickens, and the number-two market for exports of soybeans and wheat.

Indeed, from the viewpoint of Japanese farmers, their markets have been "invaded" by Americans, and, in fact, domestic production of many traditional farm commodities in Japan has ended almost entirely. As a result, Japanese farmworkers, as a percentage of Japan's total workforce, have declined from about 50 percent in 1950 to less than 9 percent in 1983.

Japan is a mountainous archipelago. Its agricultural sector, with a paucity of arable land, is one of its most inefficient industries. Therefore, it would be beneficial for the Japanese people, particularly consumers, to import farm products without government restrictions.

At the same time, as in most industrial countries, Japanese farmers have substantial political power and play a key role in maintaining the country's political stability. They also consistently have supported a pro-American foreign policy in Japan. More important than the political factor, however, has been Japan's growing concern about "food security." The Japanese and their leaders have been asking with some urgency:

- Would it be politically wise to further reduce Japan's farm population?
- Would it be safe for Japan to increase its dependence on foreign food supplies?

The answer is naturally "yes" for Japanese consumers and taxpayers, who must pay higher food prices and bear with ever growing government subsidies for farmers. However, the credibility of the national security argument has been greatly enhanced in recent years, since there is no reasonable assurance the supply of basic foodstuffs can be acquired without interruption, even from friends such as the U.S.

Unfortunately, the past record of the U.S. as a food supplier has eroded the confidence of Japanese people. The sudden U.S. export embargo on soybeans in 1973 created the worst food crisis in Japan since World War II. This incident severely shook Japanese confidence in any policy that would markedly increase dependence on foreign supplies of food.

Because of Japanese worries about food security, the recent U.S. "get tough" strategy on the farm import issue will not be the most effective approach. Rather than intimidations, the U.S. government should extend more positive and attractive proposals, such as stronger assurance of food security, to the Japanese people. Armed with such an assurance, the Japanese government will be able to gain the political support needed to reduce further the remaining import barriers to agricultural products. Without this political support, overbearing U.S. pressure will not only make it more difficult for Japan to open up its market but also undermine the current conservative, pro-American government. This could permanently endanger the strong relationship between two of the most trusted allies in Asia.

## JAPAN'S IMPORTED FARM PRODUCTS

### Imports from World Markets

Before World War II, Japan and its colonies (such as Korea and Manchuria) produced virtually all of its food needs. Today, Japan is the world's largest net importer of farm products. Over the past 20 years, agricultural imports have increased more than 30 times in dollar value, from \$550 million in 1960 to \$16 billion in 1982. And Japanese agricultural imports have been increasing at a much greater pace than domestic food production,<sup>1</sup> and they are now second only to crude oil in Japan's total imports. The main food imports are wheat, maize, soybeans, sugar, cotton, tobacco, coffee, beef, and fruit, coming from the United States, Australia, Canada, China, Thailand, and other countries.

### Imports from U.S. Farmers

American farmers, the world's most productive and efficient, have captured the largest share of the Japanese market, now accounting for nearly 40 percent of Japan's total agricultural imports. This share is steadily growing.<sup>2</sup> Moreover, Japan is the American farmers' best customer, purchasing about \$7 billion worth of farm products this year. In fact, the Japanese market is twice as big as America's second largest customer,<sup>3</sup> the Netherlands, and nearly four times larger than that of West Germany. In absolute terms, American farmers increased their exports to Japan from \$1 billion in 1970 to \$6 to \$7 billion in 1983. Moreover, while the European Community's share of the U.S. farm exports has been declining in recent years, that of Japan is slowly expanding (see Table 1).

In the case of individual commodities, Japan is a most attractive market for U.S. farmers. It is the number-one market for American lemons, limes, grapefruit, pork, beef, chickens, grain sorghum, corn, and number-two for soybeans and wheat.

In contrast to the tidal wave of U.S. agricultural goods pouring into Japan, the flow of farm goods from Japan to the U.S. is a trickle, amounting to only \$168 million in 1983. Last year it was only 0.01 percent of the \$16.6 billion in agricultural products imported by the U.S. Thus the U.S.-Japan trade in farm products is completely one-sided, with a large surplus for the U.S. versus a large deficit to Japan. The surplus, moreover, has expanded in value every year.

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<sup>1</sup> The Ministry of Agriculture, Forestry and Fisheries (MAFF), "Production Farm Income Statistics"; The Ministry of Finance (MOF), "Japan Exports and Imports."

<sup>2</sup> MOF, op. cit.

<sup>3</sup> U.S. Department of Agriculture (USDA), Foreign Agricultural Trade of the United States.

Table 1  
Comparison of Shares Between Japan and European Community (EC)  
in U.S. Farm Exports

(Unit: million dollars, %)

Year	Value of Total U.S. farm exports			Share of U.S. farm exports	
		Japan	EC	Japan	EC
1975	\$21,859	\$3,082	\$5,563	14.1	25.4
1976	22,978	3,563	6,421	15.5	27.9
1977	23,636	3,857	6,620	16.3	28.0
1978	29,382	4,435	7,148	15.1	26.3
1979	34,749	5,255	7,642	15.1	22.0
1980	41,256	6,111	8,929	14.8	21.6
1981	43,337	6,561	9,059	15.1	20.9
1982	36,622	5,547	8,273	15.1	22.6

Source: U.S. Department of Agriculture, Foreign Agricultural Trade of the United States.

It thus cannot be argued that the Japanese market is closed to U.S. farmers. Indeed, Fred H. Sanderson, an economist at the Brookings Institution notes that more U.S. farmland is devoted to growing crops for Japan than the total of all farmland under cultivation in Japan. For example, American farmers supply more than 90 percent of Japan's soybean consumption, nearly 60 percent of Japan's wheat, and more than 95 percent of all feed grains. Because of imports from the U.S., in fact, cultivation of many traditional farm commodities in Japan has ceased almost entirely.

## JAPANESE FARM POLICY

### Competitiveness of Japanese Farm Products

Very small-scale farming operations and high priced farmland make it impossible for Japanese farmers to be internationally competitive. The average per farm household size is 3.0 acres in Japan, compared to 37.8 acres in West Germany, 66.0 acres in France, 164.8 acres in Great Britain, and 454.3 acres in the United States (see Table 2). As a result, prices of most of Japanese farm products are considerably higher than those on the international market (see Table 3).

The dramatic increase in food imports, along with the greatly increased demand for labor in nonagricultural sectors, caused a dramatic decline in the number of workers employed in Japanese agriculture over the past 30 years. As a percentage of Japan's total workforce, farmworkers have declined from nearly 50 percent in the 1950s to about 9 percent in the 1980s.



products by providing large subsidies and import protections. As a result, most Japanese farmers today are engaged in the production of rice, vegetables, mandarin oranges, or livestock.

The government's price and income support to farmers, particularly rice growing farmers, naturally has had far-reaching effects on the nation's budgetary expenditures, causing a large deficit. The government's annual expenditures for direct subsidies to Japanese farmers is believed to be more than \$10 billion or about 55 percent of Japan's total farm income. But unlike the European Community and other nations, Japan does not subsidize its farmers to expand its export markets. The Japanese agricultural program, therefore, is in no way threatening America's overseas farm market.

#### Japan's Import Restrictions Compared with Those of Other Nations

In addition to the large direct subsidies to certain farmers, the Japanese government protects farmers through import quotas on 22 agricultural products, including beef, oranges, rice, and processed cheese. By contrast, the European Community imposes import restrictions on 60 commodities, including grain, dairy products, meat, sugar, oil seeds, potatoes, tomatoes, grapes, and other crops. Even the U.S., the world's largest agricultural exporter, restricts imports on 16 items, including sugar, beef, dairy products, peanuts, cotton, tomatoes, grapefruit, oranges, avocados, limes, eggplant, Irish potatoes, cucumbers, onions, walnuts, and others.

Japan's tariff rates on farm products are not substantially higher, compared to those of the European Community and the United States. The average tariff rate of agricultural products in Japan since the last Multilateral Trade Negotiation in Tokyo ended in 1979 is 8.6 percent, while the European Community maintains 12.3 percent, and the U.S. rate averages 2.9 percent.

#### U.S.-JAPAN CONFLICT ON BEEF AND CITRUS FRUITS

In light of the huge U.S. trade deficits with Japan, Tokyo's quotas on beef and citrus fruits have come to symbolize Japanese agricultural protectionism. In the United States, it is believed that a further expansion of the Japanese import quotas on beef and citrus will help eliminate the trade deficit with Japan, despite the fact that these quotas have been gradually expanded each year.

After several years of negotiations and after substantial pressure from Washington, Tokyo recently agreed to expand its import quota for high-grade American beef by 6,900 tons annually from the 30,800 tons in fiscal 1983. This means Japan will be importing 58,400 tons by the year 1987. Its import quota for fresh oranges will be increased by 11,000 tons annually from

Table 2  
International Comparison of Farmland Acreages and Prices (1979)

	Japan	U.S.A.	Fed. Rep. Germany	U.K.	France	
Farmland acreage (10,000 acres)	1,368	107,582 (79 times Japan)	3,077 (2 times Japan)	4,612 (3 times Japan)	7,962 (6 times Japan)	
Farmland acreage per farmhousehold (acres)	3.0	454.3 (151 times Japan)	37.8 (13 times Japan)	164.8 (55 times Japan)	66.0 (22 times Japan)	
Farmland price per 10 acres (\$1 = ¥230)						
	(Paddy- field)	\$5,226	\$148	\$1,591	\$630	\$474
	(Upland- field)	\$3,652	(3%)	(35%)	(14%)	(10%)

- Notes: 1. Indicated in ( ) are the ratios of each country's figure to Japan's. As to the farmland prices, the figures in ( ) are the ratios of the average price of Japan's paddy and upland fields weighted with areas.
2. The farmland prices of U.K. are those of England; the farmland prices of France are those of cultivated fields.

Source: FAO, "Production Yearbook"; EC, "Agricultural Situation in the Community"; and USDA, "Agricultural Statistics."

Table 3  
Estimated International Comparison of Farm Product Prices (1980)  
(International price = 100)

	Japan		W. Germany	France	U.K.	U.S.A.
	1977	1980				
Wheat	401	375	109	102	115	85
Rice	321	310	-	-	-	121
Beef	254	198	141	145	121	86
Dairy Products (butter)	263	203	175	160	187	126
Pork	132	107	87	117	108	60
Chicken	99	82	92	99	112	64
Eggs	99	97	98	96	80	68

- Notes: 1. The prices, in principle, are the import prices on the world average; each of them has been obtained by dividing the total import value by the total import quantity.
2. The prices are, in principle, the wholesale prices; and as regards Japan's rice and wheat, they are the government's purchasing prices.

Sources: FAO, "Trade Yearbook" and "Production Yearbook"; USDA, "Outlook & Situation" and "Agra Europe"; the Ministry of Agriculture, Forestry & Fisheries, "Statistical Survey on Distribution of Meat," "Statistical Survey on Distribution of Eggs," "Statistical Survey on Distribution of Broilers"; the Animal Industry Bureau of the Ministry of Agriculture, Forestry & Fisheries, and the Food Agency.

### Government Support Policies

As in most industrial nations, there has been a long political struggle between the supporters of agriculture and the advocates of free trade.

To make the economic and social adjustment of Japanese farmers as smooth as possible and to enable the Japanese farmers to be as competitive as possible, the Japanese government has encouraged farmers to convert their operations from the production of uncompetitive crops such as wheat, soybeans, and corn to a few selected products, such as rice, mandarin oranges (Mikan), live-stock, and vegetables, which appeared to have some potential to be productive and competitive in the international market. Instead of protecting farmers who cultivate wheat, soybeans, corn, and other crops through an import relief measure, the Japanese government has encouraged farmers to concentrate on selected farm

Even looking at U.S.-Japan bilateral merchandise trade balance, it is not clear whether Japan will be able to sustain a large surplus over the long term. The recent liberalization plans of the Japanese financial market and the gradual internationalization of the Japanese currency will eventually strengthen the value of the yen, making Japanese goods more expensive and U.S. exports more competitive in the world market.

If policy makers insist on being concerned about the U.S.-Japan merchandise balance, then they should not look at agriculture--where sizeable gains are unlikely. Instead, they should seek ways to sell Japan U.S. surplus Alaskan oil and natural gas, and seek ways to expand the Japanese market for U.S. cigarettes and tobacco products, communication equipment and other high-tech goods, and weapons. This would narrow the merchandise trade deficit much more than marginally greater agricultural sales. In addition, the competitive strength of the U.S. service sector, such as insurance, communications, computer software, and financial services, will substantially increase in Japan during the coming information age--if Japan's market is open.

In comparison to the substantial potential of these developments, the impact of a "symbolic victory" in enlarging the Japanese farm products market is extremely minor in terms of the future U.S. trade balance. On the other hand, the political damage done by the U.S. pressure on the farm group could be enormous. This could also permanently endanger the foundations of a strong relationship between the most important allies in the Pacific.

This is not to say that the U.S. export of agricultural products to Japan should not increase. On the contrary, Japan still has the potential to expand its import market in the near future, despite the fact that it is already the largest in the world. The trouble is that recent U.S. diplomatic pressures on Tokyo to open up the market is not the most effective approach to the issue. Rather than intimidation, the U.S. government should extend more positive and attractive proposals to the Japanese people. For example, the U.S. could offer stronger assurance of food security to the Japanese; this might be done through a joint resolution of Congress guaranteeing American food supply to Japan, a U.S. government promise of no sudden embargoes of soybeans or other important foods, or U.S.-Japan joint efforts for stockpiling main foodstuffs. Any of these U.S. government actions would greatly reduce Japanese popular and political resistance to importing more food.

The assurance of food security is a matter of great importance to Japan as well as to American farmers. If the United States can establish a long-term arrangement with a country such as the Soviet Union, this should not be a difficult commitment between the United States and its closest ally in Asia.

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