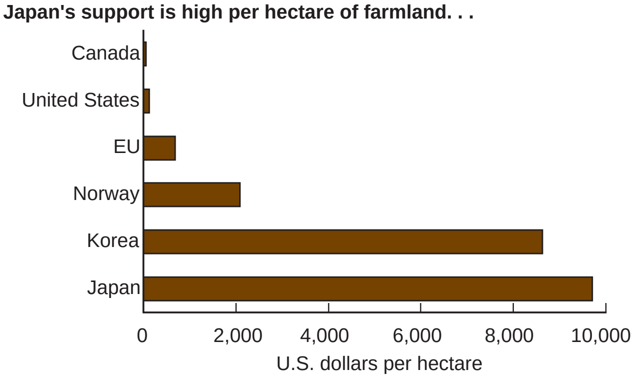
Is Japan Ready for Competition in Its Ag Markets?


Photo courtesy of Ministry of Agriculture of Japan, by Shigeki Nishikubo

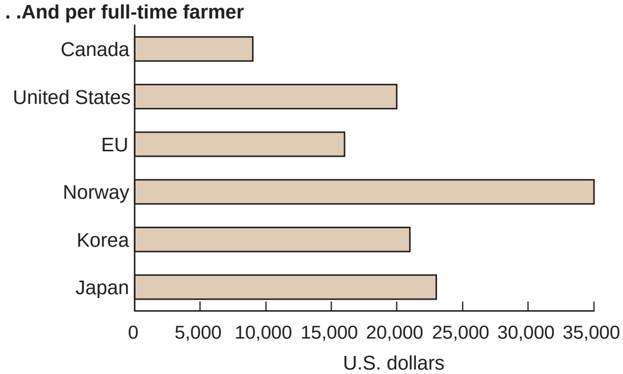
About 40 percent of Japan's food supply is domestically produced by an agricultural sector that receives substantial support from the government. Japan's support—at about $23,000 per full-time farmer and almost $10,000 per hectare of farmland—is among the highest of any country. The Japanese government argues that this support is necessary for the economic, environmental, and cultural well-being of rural areas and for the nation's food security. Critics argue that such support deters other countries from entering Japan's agricultural markets, weakening domestic and international competition and raising prices for Japanese consumers.

Imposing tariffs (taxes) on foreign agricultural products is Japan's major form of support. Removal of these "border barriers" would significantly reduce consumer food prices in Japan. Measured by the difference between domestic and import prices, border barriers provide as much as $42 billion a year of support to agriculture. Not surprisingly, products that are subject to negligible tariffs comprise a large share of imports. More surprising is that a significant portion of imports arrives despite high tariffs. Production of some commodities is so expensive that imports are profitable even with high tariffs.

Japan's support is high per hectare of farmland. . .



. . .And per full-time farmer



Source: Producer support estimates for 2001 in *Agricultural Policies in OECD Countries: Monitoring and Evaluation, 2002*, Organization for Economic Cooperation and Development.

Internal policies, such as agricultural subsidies, are the other major form of support. In 1999, Japan's government spent almost $26 billion in taxpayer funds on agriculture. Japan has been abandoning old policies that propped up market prices in favor of policies that compensate farmers when market prices decline and policies that improve marketing channels and farmland. Consumer prices for rice and other foods have been drifting down as government interventions in retail and wholesale marketing have ended. The government also wants to target payments to larger scale, specialized farms to lower costs. Progress in lowering farm costs and consumer prices, however, has been slow.

Reforms in internal farm policies have marginal impact as long as border barriers are high. Current World Trade Organization negotiations on agricultural trade may impose lower limits on border measures and similar policies. Lower limits mean that Japan's agriculture would face more import competition, which would press its farm sector to lower costs by quickly restructuring itself. In theory, the government could compensate farmers for lost farm income by providing income support not linked to farming; however, Japan's high government deficits would make increasing domestic spending difficult. Japan's consumers, and its economy as a whole, stand to benefit from lower food prices—perhaps more so than consumers in any other country. Nevertheless, Japan's resistance to strong trade liberalization in agriculture is based on the realization that its current agricultural structure is not compatible with sharply reduced barriers against imports. W

John Dyck, *202-694-5221, jdyck@ers.usda.gov*

For more information, see *Commodity Policies of the U.S., EU, and Japan—How Similar?* by Anne Effland, Mary Anne Normile, Edwin Young, and John Dyck, *Agricultural Outlook*, AO-297, December 2002, available at: www.ers.usda.gov/publications/AgOutlook/Dec2002

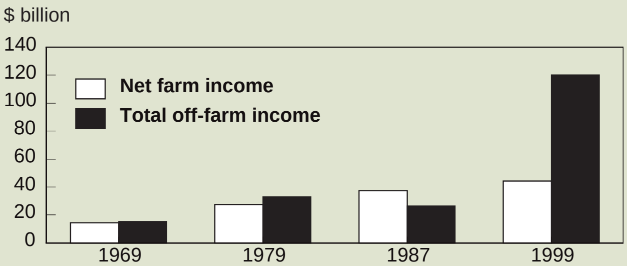
The Economic Well-Being of Farm Households


Photo by Joel Sartore, Grant Heilman Photography

Even as farming has changed markedly over the past century, so, too, have farm households changed—both in the way they farm and in the extent to which they participate in and identify with nonfarm activities, such as off-farm work and investment opportunities. Conventional wisdom has been slow to recognize this evolution.

Traditional assessments of the economic well-being of the farming population focused on farm income. Earnings from farming, however, are low for most farming households, and farm households have increasingly turned to nonfarm-related sources of income. A more accurate assessment of the well-being of those farming today would incorporate farm households' income from farm and off-farm sources. Wealth—as reflected by farm and nonfarm assets—and its role in shaping farm household consumption also need to be considered in any assessment of household well-being.

Farm household dependence on off-farm earnings is increasing



Source: USDA, Economic Research Service, *1999 Agricultural Resource Management Survey* (ARMS) and *Economic Indicators of the Farm Sector*, various issues. Off-farm income from 1969, 1979, 1987, 1997 Censuses of Agriculture, U.S. Department of Commerce.

Most farm households participate in nonfarm activities and earn a major portion of their income from off-farm employment. (Actual income levels vary with household characteristics, including age, education, and family size.) Off-farm employment raises and stabilizes farm household income. In fact, when both farm and off-farm activities are considered, the average farm household has higher income, wealth, and consumption levels than the average U.S. household. Nonetheless, about 6 percent of farm households remain disadvantaged, having lower average income and wealth than the average U.S. household. AW

Ashok Mishra, *202-694-5580, amishra@ers.usda.gov*

For more information, see *Income, Wealth, and the Economic Well-Being of Farm Households,* by Ashok Mishra, Hisham El-Osta, Mitchell Morehart, James Johnson, and Jeffrey Hopkins, AER-812, July 2002, available at: www.ers.usda.gov/publications/AER812/ See also the ERS Briefing Room on Farm Income and Costs: www.ers.usda.gov/Briefing/FarmIncome/

Global Hunger at Its Roots

At the World Food Summit in 1996, leaders from 186 countries set an ambitious goal: to halve the number of hungry people (from about 800 million) by 2015. But progress to date has been slow, and the recent drought in eastern and southern Africa has cut food production and rural incomes sharply in these regions, underscoring the urgency of meeting the Summit's goal.


FAO Photo

The World Food Summit aimed to reduce hunger by focusing on its roots: poverty, low agricultural productivity, environmental degradation, poorly designed government policies, and, increasingly, AIDS. These underlying causes are interrelated in many ways. Ironically, most hungry people live in rural areas, where food is produced. But a variety of factors combine to limit their productivity, incomes, and wealth—and thus their ability to produce or acquire food.

The productivity of farming systems is eroded in some areas by inappropriate land management practices. In Sub-Saharan Africa, for example, fertilizer use is well below levels applied in other regions, and soil fertility is declining. As a result, crop yields are stagnant in many Sub-Saharan African countries despite investment in yield-increasing technology. This situation could worsen because of the spread of AIDS, which threatens the health, productivity, and lives of working-age people, the most economically important segment of the population.

Government policies in low-income countries sometimes exacerbate these problems. Investment in these countries is often low and doesn't always reach rural areas. Farmers are often poorly connected to urban markets because of the lack of roads. This isolation raises the price of inputs (such as fertilizer), limits market participation, prevents the rural poor from taking advantage of economic growth, and increases income disparities between urban and rural areas. Additionally, lack of investment in rural social services, including education, health care, and social safety nets, creates a cycle of poverty and hunger that contributes to low productivity in the future.

Short-term production shocks and political instability further intensify hunger. Poor countries faced with such shocks must focus their policies and resources on dealing with short-term emergencies, thereby constraining progress toward a long-term, sustainable reduction in hunger. The current drought-induced famines that threaten millions in eastern and southern Africa illustrate the gravity of this problem.

Because of these problems, ERS estimates that the number of hungry people in low-income developing countries has actually increased in recent years, to 1.1 billion in 2002. Reversing this trend and restoring progress toward the World Food Summit's goal will require increased efforts to encourage appropriate policies, political stability, and investment in both infrastructure and people. AW

Stacey Rosen, *202-694-5164, slrosen@ers.usda.gov*
Shahla Shapouri, *202-694-5166, shapouri@ers.usda.gov*

For more information, see *Food Security Assessment*, by Shahla Shapouri, Stacey Rosen, Birgit Meade, Michael Trueblood, Margaret Andrews, Mark Nord, and Suresh Persaud, GFA-14, February 2003, available at: www.ers.usda.gov/publications/GFA14. See also the ERS Briefing Room on Global Food Security: www.ers.usda.gov/Briefing/GlobalFoodSecurity/