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THE FUTURE OF U.S.-JAPAN AGRICULTURAL RELATIONS:
A GLOBAL PERSPECTIVE

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THE FUTURE OF U.S.-JAPAN AGRICULTURAL RELATIONS: A GLOBAL PERSPECTIVE

I. INTRODUCTION: WHAT ARE THE REAL ISSUES?

The main purpose of this paper is first to identify the issues and causes of the recent U.S.-Japan agricultural trade frictions, and then to identify possible solutions directed toward maintaining a stable agricultural trade relationship between the two countries. Since the problems facing both countries cannot be solved simply by changing or improving the pattern of U.S.-Japan agricultural trade, this paper also examines international agricultural market problems and possible solutions in the wider, global framework.

In the past years, particularly since September 1986, Japanese agriculture and agricultural policy have been very severely criticized by both domestic and international forces. In 1986, the R.M.A. (U.S. Rice Millers Association) brought an action for the opening of Japanese rice markets on the grounds of U.S. Trade Act (Article 301). The action occurred after a time when the general public opinion became critical of Japanese agriculture and policy, because of the continuation of unreasonably high rice-price supports for 1986.

Since then, major Japanese consumer groups have started to deliberate broader trade-related problems and solutions for Japanese agriculture. Producer and consumer differences have narrowed. Producers have begun to consider the real needs for consumers and to try to understand what kinds of products are desired and in what ways they should produce and market them. Consumer groups, on the other hand, have come to question their initial easy-going idea that rice trade should automatically be liberalized if rice imports are much cheaper than Japanese production. Why did this happen?

Reviewing issues raised at the Chicago conference, this paper tries to answer this question, focusing on the case of rice as a typical example.^{2/} Also examined are issues of world agricultural trade problems, such as over-production and budgetary problems, and possible solutions to these problems.

II. JAPANESE AGRICULTURAL MARKET: PRESENT AND THE FUTURE POTENTIAL

One of the most controversial points in the conference was to what degree U.S. farm sales to Japan could be increased if Japan would open its markets to 22 import restricted commodities, including beef and citrus.

This question becomes even more relevant in terms of the trade agreement just signed in Tokyo, June 20, 1988 between the U.S. and Japan. By the terms of this settlement, Japan agrees to end all quotas on the import of beef and fresh oranges in three years, and on fresh orange juice in four years. However, the real impact of the agreement is questionable. A careful examination of both short-run and long-run profit perspectives, which take into account not only Japanese food habits but other international competitors of the U.S. in the Japanese imported food marketplace, indicates that U.S. sales revenues may increase by about \$1 billion. But such a potential sales increase, even if realized, cannot be expected to balance off or in any real fashion compensate for a Japanese trade surplus with the U.S. which ran at \$52 billion in 1987 (U.S. Department of Commerce Statistics).

^{2/} This paper represents an expanded outgrowth of both ongoing research and conference participation in the US-Japan Economic Agenda project series, sponsored by the Carnegie Council for Ethics and International Affairs, N.Y., and George Washington University's School of Public and International Affairs, Washington, D.C.

Initial conferences have been held in both N.Y. City and Chicago. The Chicago Conference (Dec. 5-6, 1986 at the Univ. of Chicago) theme was "Agricultural Reform Efforts in the United States and Japan."

The more recent pressure in the direction of rice import liberalization, may be viewed from the same perspective.

Hence, it should be recognized that further trade liberalization has more or less a "symbolic" meaning in the overall trade argument, rather than a substantive one, but this does not deny the need for the Japanese government to make further efforts toward the reduction of import barriers.

Long term U.S.-Japan agricultural trade has been and certainly will continue to be, very sizeable, stable and complementary. As Dr. Sanderson (Resources for the Future) stated in the last Chicago meeting, "Despite the frictions in day-to-day trade relations and Japanese policies that seem overly restricted, U.S. exports of feed grains, soybeans, and beef have been growing and are likely to continue to grow." He added that, "Both countries would do well to keep these basic facts in mind when addressing the nuts and bolts of the trade negotiations".

As shown in Figures 1 and 2, agricultural trade between U.S. and Japan almost doubled during the 1970s' (due mainly to increased prices) but stabilized in the 1980's. Japanese total agricultural imports from the U.S. seem to be slightly declining, but this is mainly due to a sharply devaluated U.S. dollar relative to the Japanese yen. The volume of imports has not decreased much.

Presently, Japan draws about one-third to one-half of the total domestic demand for grains and pulses from a U.S. soil base. The Japanese people sometimes overlook this fact. On the other hand, it seems U.S. people often presume that, due to exceptionally high protection of Japanese agriculture, only very small amounts of agricultural products are exported to Japan. The fact is, however, Japan is the largest importer as well as the best customer

Figure 1 : Share of U.S.A. to the Total Agricultural Imports of Japan

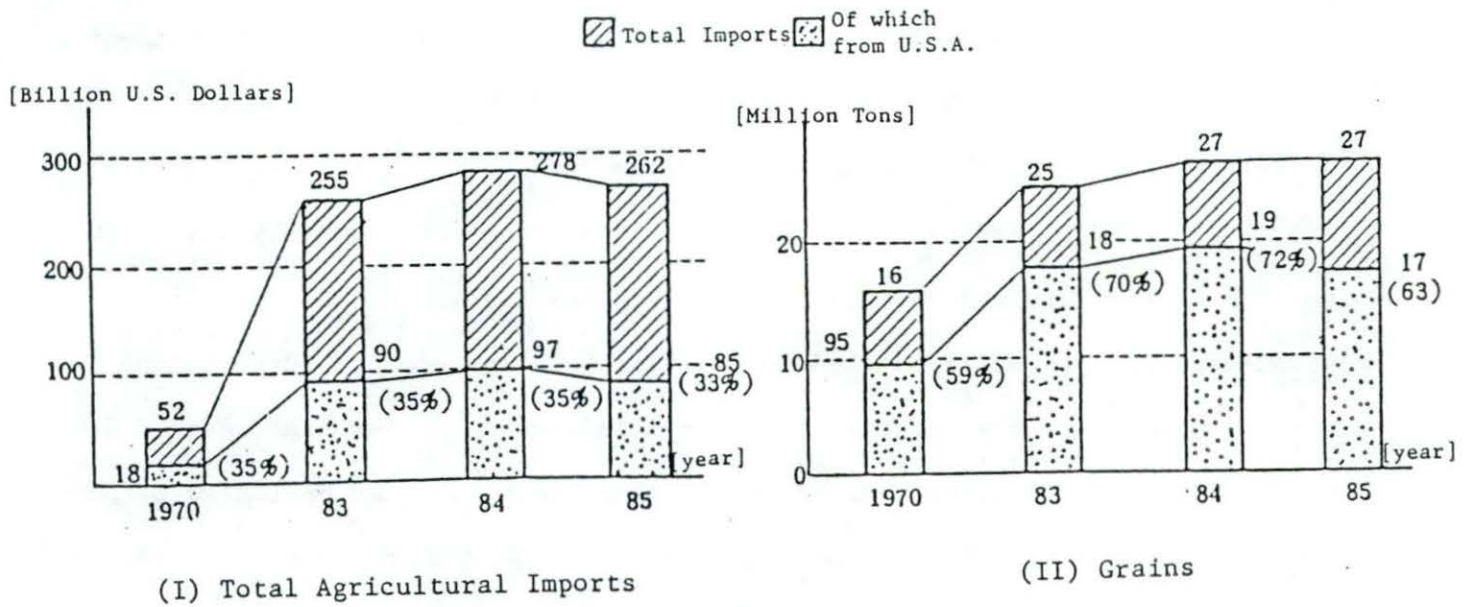
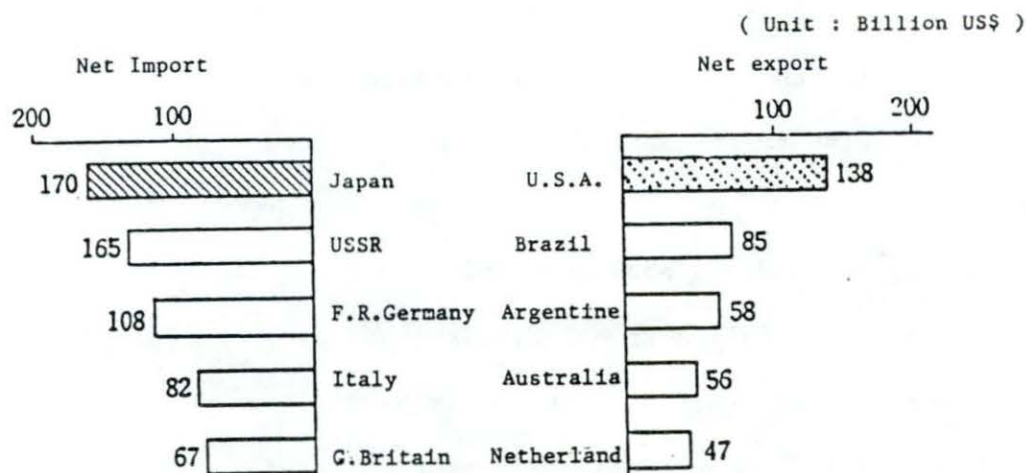


Figure 2: Net Agricultural Trade Balance among Major Countries : 1984/85 Average



(Source) FAO "Trade Yearbook"

(Note) Net Export (Import) = Export (Import) - Import (Export)

for the U.S. agricultural exports. Efforts to minimize the perception gap between the two countries appear to be essential to improve trade relationships.

Professor C. Pearson estimated the expected impacts of U.S. rice exports to Japan under an assumption that the Japanese eliminated rice trade restrictions (i.e. complete liberalization of the Japanese rice market).^{3/} His estimates show that (1) U.S. rice exports would increase by 2.45 million tons, and the export value would increase by \$665 million. (2) Japanese rice production would fall by 3.87 million tons, and imports from the U.S. would rise to 4.60 million tons.

Japanese agricultural economists raised various questions about these estimates. In particular, Pearson's model has been criticized for neglecting the U.S. set aside programs and Japanese rice supply control programs. Secondly, marketing costs and margins at various marketing stages were also neglected.

The third criticism, which might be most crucial, concerns the reliability of the price elasticities of demand for rice. The price elasticity values used in the model appear to be questionable in light of structural changes in food consumption patterns since the 1973 world oil crisis. Estimates for potential U.S. exports as well as potential demand expansion in Japan to be very optimistic. As Dr. Sanderson said, "If Japan were to liberalize its rice market, virtually all of the Japanese market would go to developing countries in Asia." Even with an assumed increase in world prices following liberalization in Japan of about 30%, Sanderson con-

^{3/} C. Pearson, "Exporting Rice to Japan," unpublished paper, Johns Hopkins University, Sept. 1986.

cluded that because potential U.S. gains are small, it is "questionable" whether the U.S. should push the rice issue.

It should be recognized that the U.S. is a relatively high cost producer of rice, compared to Thailand, China, and other potential rice exporters in Asia. In recent years, the U.S. government has guaranteed its producers a support price that is almost two to three times the world market price of rice. This means that, without large amounts of government support, the U.S. could not win the game of international rice market competition.

The U.S. position is stronger in the case of beef. This is partly because Japanese beef demand is expected to increase more than the demand for other meats. It is also because the U.S. can supply relatively "high quality" beef to Japan.^{4/}

Oranges could be even easily liberalized than beef. This is because the Japanese tangerine (Mikan) is more or less a differentiated product from U.S. Naval and Valencia oranges, and the present level of imports is believed to be close to what would be expected under free trade.

The United States is pushing hard for the complete, immediate liberalization of twenty-two (22) items currently subject to residual import quotas in Japan. However, compared with beef and oranges, most of these are relatively minor items (except for starch and dairy product) in terms of their relationship to food security. Therefore, if liberalization could be adopted simultaneously with domestic farm policy reform, the elimination of current trade restrictions for these commodities would not be strongly resisted.

^{4/} However, it should be noted that even U.S. grain-fed, "high quality" beef is generally considered inferior to Japanese black beef (Wagyu) and even those beef from Holstein steers fed in Japan, due mainly to different preferences, among Japanese consumers.

The second issue of the demand-side aspect is to what degree U.S. exports could be expanded if Japan did decide to liberalize those import-restricted farm commodities. For this task we need to look at the past and present food consumption patterns in Japan. Probably due to a smaller-sized stomach than the average Westerner, the average Japanese food consumption has been at a stable level of about 2,500 to 2,600 kilocalories (kcal) per person per day in the last decade or so. Of this, imports are supplying approximately 1,200 kcal: the domestic production only provided the remaining 1,400 kcal, which is the minimum requirement for any human being at rest. Therefore, Japan has a good reason to consider food security in its everyday food consumption, whether or not there is actually a food crisis.

Figure 3, which shows per capita annual consumption of major agricultural commodities in Japan in the last 25 years, indicates clearly that milk, dairy products and meats are increasingly substituting for rice. Wheat consumption has been almost constant during this period. The point is that the rate of change for every food item has slowed considerably in recent years. Many econometric studies indicate that demand elasticities (with respect to both price and income) have become smaller and smaller in absolute terms. Probably the only exception to this is beef, although demand elasticity for total meats may not be very high.

What does this mean to the future potential for U.S. exports to Japan? The following conclusions seem reasonable. Even if Japan would open its markets for all import-restricted commodities except rice, U.S. export sales would go up by less than \$1 billion in the short-run. This is very small compared to the present annual U.S.-Japan trade deficit of over \$50 billion.

Figure 3 : Japan; Per Capita Annual Consumption of Major Agricultural Commodities, 1960-85

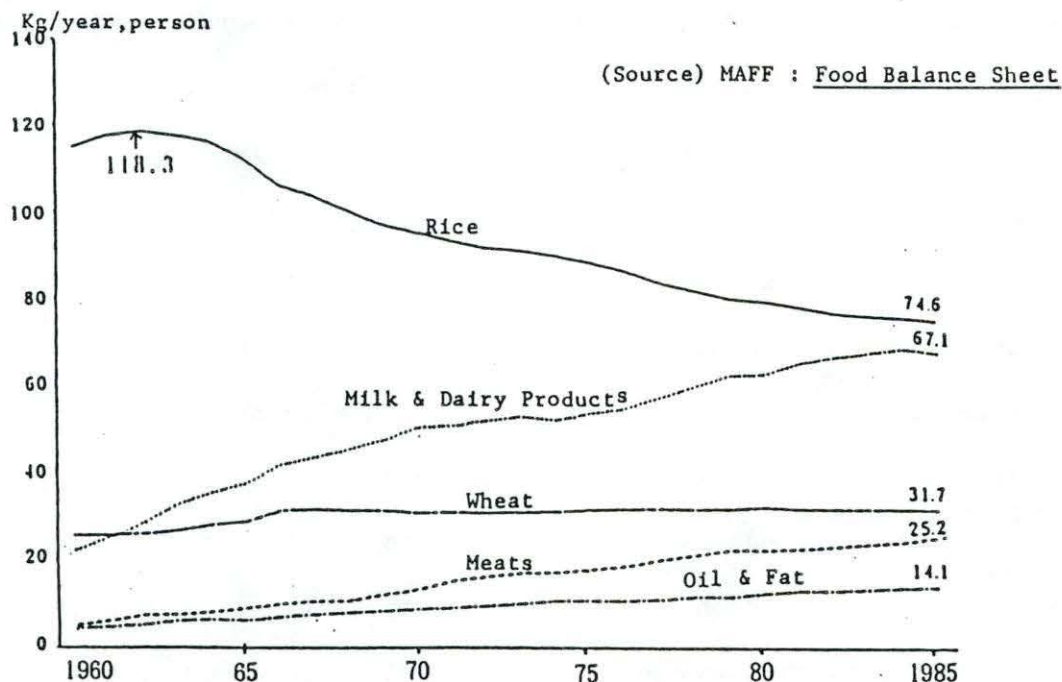
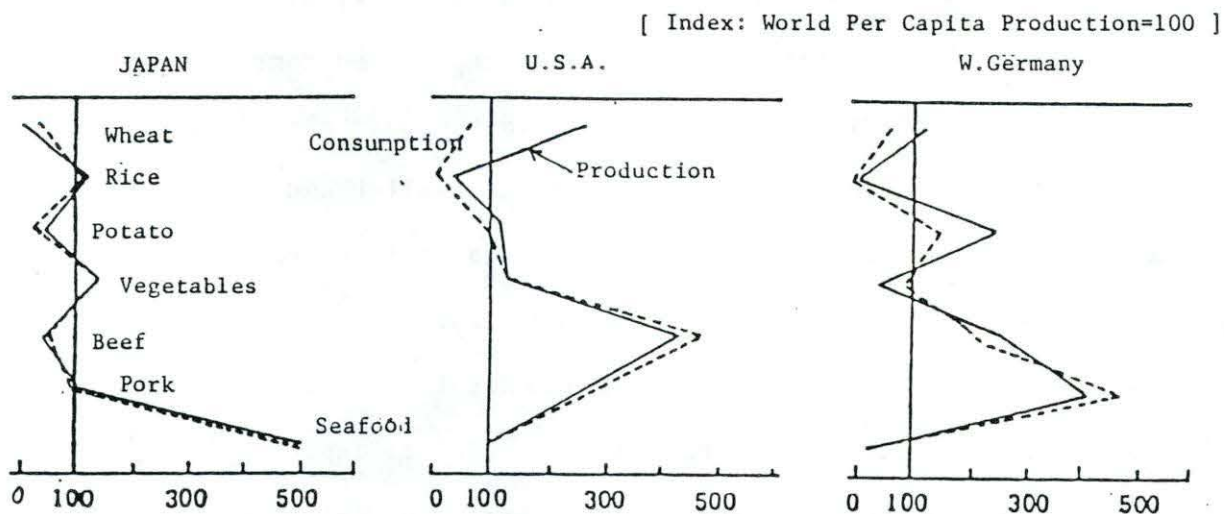


Figure 4 : Comparison of Annual Per Capita Production and Consumption of Major Foods (1979-81 Average)



(Sources) FAO : Food Balance Sheets, and Production Yearbook

- (Notes)
- 1) The above index numbers are calculated as the relative percentage of annual per capita production (and consumption) in the respective country compared to the world's overall average production for each category of foods during 1979-81 period (three years' average).
 - 2) The difference between production and consumption indicates the sum of (a) change in carry-over stocks, (b) export (or import), and (c) for non-food use.

This conclusion would not be much different even under the assumption that Japan opened the market for rice to the U.S.

Furthermore, in the long-run, the market-opening by Japan would not necessarily ensure that the U.S. would increase Japanese market shares due to the existence of other competitors for these products.

Hence, it should be recognized that further market-opening itself has a more or less a "symbolic" meaning in the overall trade friction argument. However, this should not deny the necessity for the Japanese government to make further efforts toward reducing import barriers.

The real cause for the escalating trade deficit of the U.S. relative to Japan is not reduced agricultural exports to Japan. As can be expected, the trade deficit is totally a result of expanded Japanese non-agricultural exports. These facts are often overlooked by both Americans and Japanese, when it comes to the trade friction issue.

III. RICE IN JAPAN: ITS PECULIARITY AND MULTIPLE FUNCTIONS TO THE SOCIETY

As illustrated in Figure 4, Japan has a relatively self-sufficient food product-consumption ratio compared with other developed countries. And its consumption pattern is clearly rice-based. The government's agricultural policy was also heavily emphasized on the achievement of complete self-sufficiency of rice production as a staple food for Japan.

Major arguments have recently occurred in Japan for and against rice trade liberalization. Some have strongly argued that Japan should open the rice market to imports, at least for processing and industrial uses. Many others, including agricultural cooperatives (producers) and major consumer

groups, have taken a position strongly against market opening. The following aspects are among the most important points offered in this debate:

(1) Price and Quality of Rice

The first and foremost argument of those who favor rice trade liberalization is based on the economic theory of "comparative advantage", which posits that cheaper rice is beneficial to Japanese consumers and that free trade yields better resource allocation for the country. Those who oppose rice trade liberalization have emphasized that imported rice is not necessarily much cheaper when eating quality of rice is taken into account. Opponents also suggest that international rice markets might not be able to guarantee an adequate and stable supply of quality rice which Japanese people prefer, since the international rice market is very "thin". Specifically, the amount of tradeable world rice is very small compared to total world production.

(2) Safety of Imported Agricultural Products

A point raised by many consumer groups in Japan is whether or not imported foods are truly safe. How could we check if chemical components which might be hazardous to human-beings are contained in imported agricultural products? These questions are raised by those consumer groups who are very sensitive to the safety and quality of food. It should be noted, however, that they have also criticized domestic products which might also be contaminated by residual chemicals.

(3) Trade Friction Problems

The huge annual trade deficit of the U.S. to Japan which amounted to over 50 billion dollars in recent years has been an immediate and direct cause for the increased U.S. pressure for more market opening and the RMA's action in 1986. However, it seems that rice possesses more a "symbolic" than a substantive meaning in Japan. That is to say, even if Japan would open the market of all import-restricted farm commodities including beef, citrus and rice, the problem of a huge trade deficit would not disappear, nor would trade frictions between the U.S. and Japan be solved.

(4) Impacts upon Rice-based Agriculture in Japan

Naturally, Japanese farmers and agriculture-related bodies opposed the idea of trade liberalization for rice from the beginning. They know that Japan could never compete with the U.S. or any other exporting countries in terms of efficiency and cost of rice production, due to its disadvantaged farm land conditions and high input costs. If rice trade were totally liberalized, they believe, significant portions of paddy fields in Japan would be idled, and this would most seriously affect medium- and larger-rice farmers, the most important policy target group in Japan. Those who would survive in this competition, would be the so-called hobby farmers and/or part-time rice farmers who obtain stable off-farm incomes.

(5) Impacts upon Regional Economy

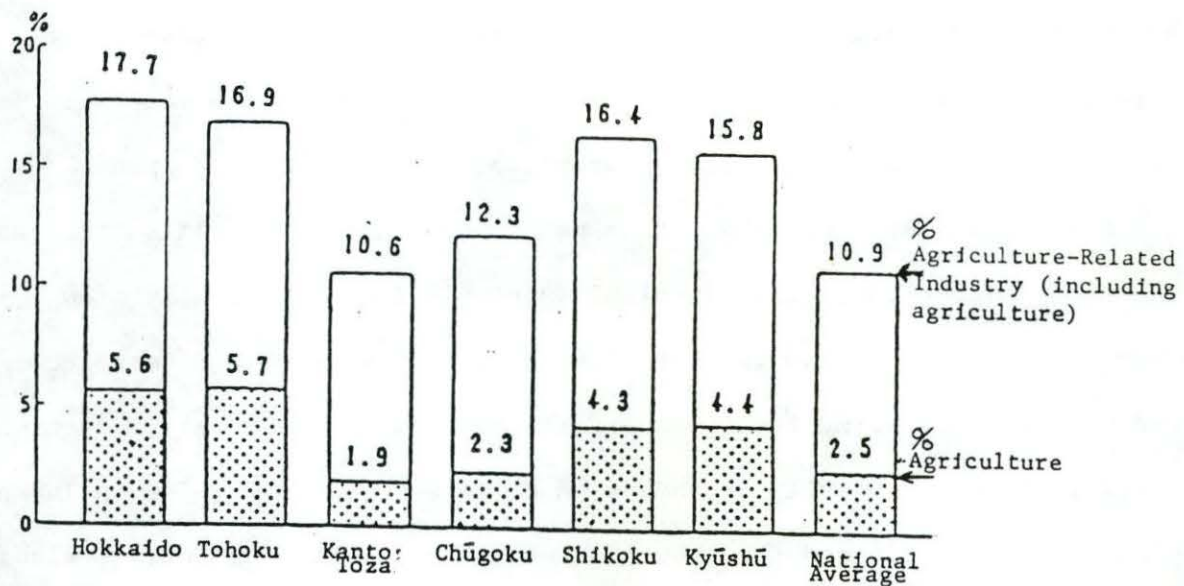
Agriculture and the agricultural economy play an important role in the regional economy. In relatively remote rural areas such as those in Hokkaido and Kyushu, where nonfarm employment opportunities are relatively limited,

the role of agriculture in overall economic activity is very significant as is shown in Figure 5. Since almost every region of Japan includes rice farming, the impact of rice trade liberalization would be substantial. At the international price level of rice, even if rice quality is taken into account, very few Japanese rice farmers would be willing to continue rice production on a commercial basis. Furthermore, as shown in Figure 4, the impact of the expected rice price reduction would have serious implications not only for agriculture per se, but also for agriculture-related service industries. Given the increasing unemployment rate in the industrial and service sectors, the Japanese economy seems to have limited capacity to absorb those persons from the farm labor force, mostly elderly and female, who might be squeezed out from the agricultural sector. Probably for this reason, industrialists and business circles in rural regions in Japan tend to oppose rice import liberalization.

(6) Evaluation of External Functions Played by Paddy and Rice
Cultivation

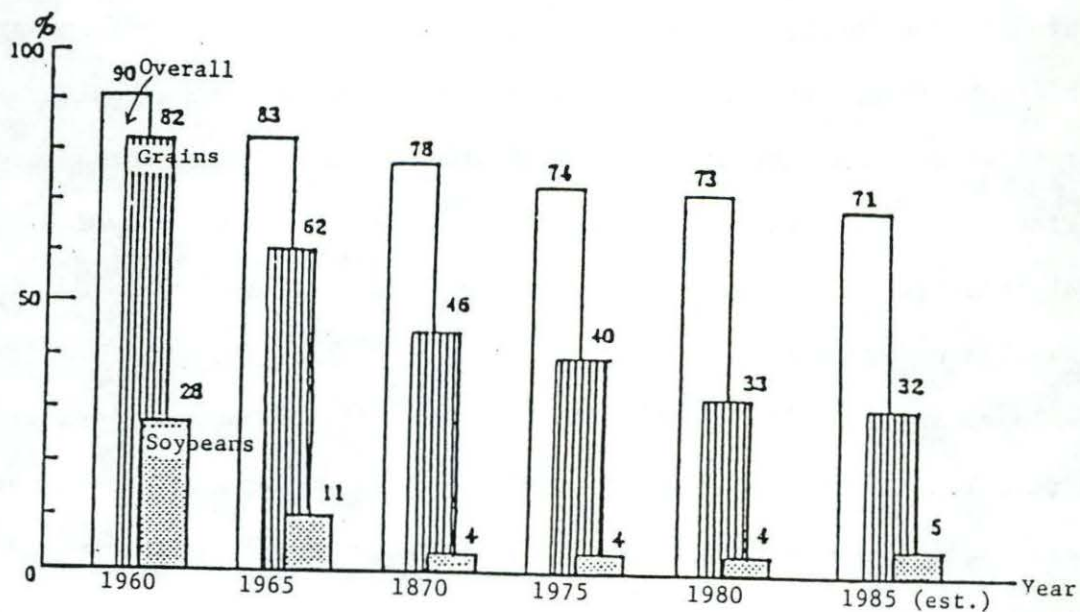
Paddy fields under the monsoon climate in Japan play a significant role such as protection from floods and the conservation of soils by holding water. Such conservation of natural resources has economic value beyond the monetary gains from production. If most of the paddy fields were to be abandoned due to a sharp decline of rice prices, the total social cost would be enormous. It is interesting to note that those who favor rice import liberalization never mention this issue.

Figure 5 : Percentage Share of Agriculture and Agriculture-Related Industry to the Total Value of Production, by Major Regions of Japan in 1980



(Source) MAFF : Agricultural White Paper, 1986

Figure 6 : Change in Japan's Food Self Sufficiency Rate: 1960-1985



(Source) MAFF : Food Balance Sheet, respective years.

(7) Food Security Issues

As shown in Figure 6, the self sufficiency ratio of grains in Japan is only 32%, the lowest level among major developed countries. Most Japanese believe in self-sufficiency for rice, especially under the present situation where most other grains and pulses are imported. This "humble" desire is seen as a right that every nation can possess for their own people.

Some argue, however, that it is nonsense to speak of self-sufficiency of rice production because the petroleum supply in Japan is totally from overseas. But my opinion is that rice (as a staple food) and petroleum are fundamentally different items even if the present agricultural production system in Japan is heavily dependent on petroleum. Paddy fields in Japan, which have been utilized for thousands of years, possess essential values to society as one of the most precious natural resources in Japan.

(8) Aspects of Rice Culture and Traditions in Japan

Though obscure, a very strong uneasiness against rice market opening is related to the deeply-rooted rice-based culture and traditions in Japan. Most of the thanks-giving festivals all over Japan and other cultural activities are even now connected with the peoples' desire for a good harvest of rice. The value of cultural heritage, based on rice, paddy field, and rural communities, is still alive and vital to contemporary Japan, in spite of visible modernization.

In summary, a discussion over the issue of rice import liberalization has revealed the following points clear: those who oppose rice import liberalization emphasize the significant values played, directly and indirectly, by rice and paddy fields, such as the importance to the regional

economy, external benefits, food security, and other environmental and cultural reasons. Those who favor opening the rice market tend to emphasize the narrowly defined economic benefits, for reasons of solving trade friction problems and increasing consumer benefits. As time has passed, more and more people have been inclined to support the former position. Today, the discussion appears to relate more to socioeconomic and political elements than narrowly defined economic benefits.

IV. FOOD SECURITY AND AGRICULTURAL PROTECTION: IMPORTING COUNTRY VERSUS EXPORTING COUNTRY

Food security has been a major, long-time concern to Japanese people. The Japanese food self-sufficiency ratio has rapidly decreased in the last three decades; in particular, the self-sufficiency ratio of grains, which supply the majority of necessary calories, has declined to as low as 32 percent (see Figure 6). These low self-sufficiency ratios are caused by both demand-side and supply-side factors.

The Japanese people consider this 32 percent level to be the minimum requirement for Japan to be an independent country with a sizable population and economic capacity. That underlies the Japanese reaction to the RMA incident in 1986. Some question how Japan could survive in a food crisis situation, though the probability of such an occurrence seems to be quite low at the present moment. Another concern among producers and agricultural farm organizations has been how to maintain the present level of farm production, say 5.0 million hectares of farm land.

Judging from public opinion polls, nearly 75 percent of Japanese people believe that, "Food should be supplied by domestic production as much as

possible on the Japanese soil." (See Figure 7). Only 14% stated that, "Food should better be imported if import prices are cheaper than those in Japan."

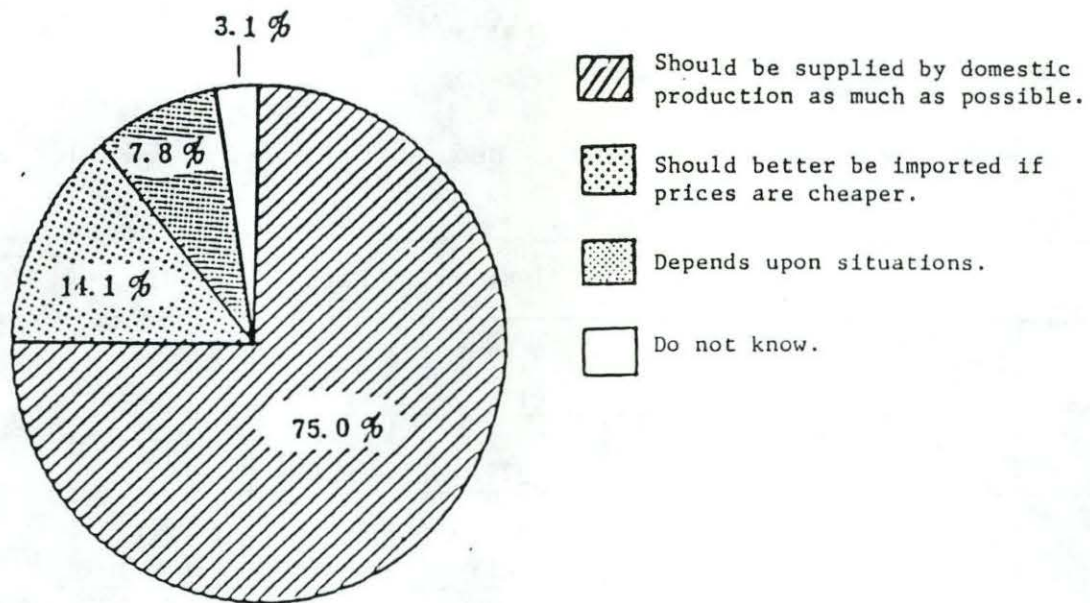
The same public opinion poll indicated that about two-thirds of the Japanese people feel "insecure" about the future Japanese food situation (see Figure 8). These results suggest that a country which is heavily dependent upon food imports tends to be concerned about food security.

I would like to stress, therefore, that the rationale for protecting domestic agriculture in food importing countries might be quite different from that in food exporting countries. In the former case, the supporting of domestic agriculture would not directly distort the already existing international market trade. Exporting countries, on the other hand, have faced recently with a relatively shrinking international agricultural market due mainly to increased food production among developing and planned-economy nations.

It is true the level of price support in Japan is much higher than many other OECD countries, as measured by the OECD's PSE (producer subsidy equivalent) and CSE (consumer subsidy equivalent) estimates. But when other aspects of agricultural support by individual countries are compared, a different picture may emerge. Considering that the present agricultural trade friction is more or less centered around the fight over keeping market shares with various types of export subsidies, one could argue that the level of protection for the purpose of export expansion should be as criticized as the protectionism in food importing countries.

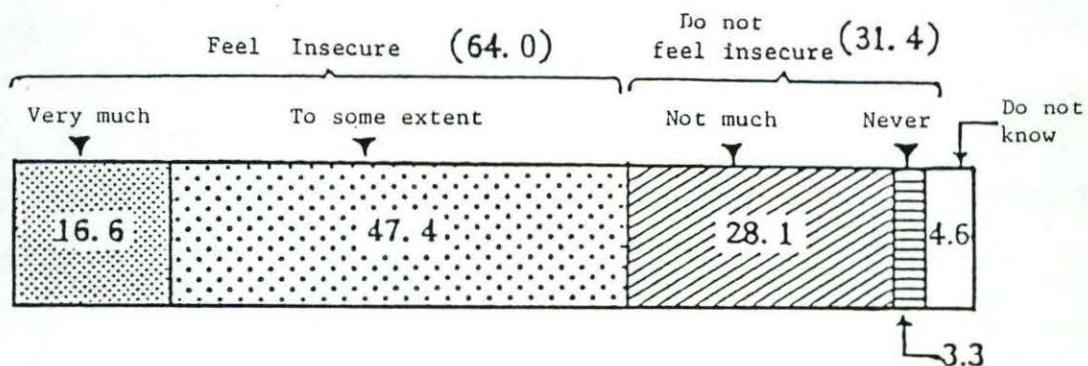
As shown in Table 1, the absolute amounts of government agricultural budgets skyrocketed in both United States and EC, with most going for price

Figure 7 : Opinion about Desirable Food Supply Sources for Japan



(Source) Prime Minister's Office: Public Opinion Poll on Food, Agriculture and Rural Societies (Surveyed in September, 1984)

Figure 8 : Opinion about Japan's Food Situations in the Future



(Source) Prime Minister's Office: Public Opinion Poll on Food, Agriculture and Rural Societies (Surveyed in September, 1984)

Table 1

Comparison of the Agricultural Budget of U.S.A., EC and Japan ;
1980-86

		1980	1984	1985	1986	1986(US \$ terms)
U.S.A.	USDA Budget	\$ B.34.8 (100)	\$ B.42.0 (121)	\$ B.55.5 (159)	\$ B.58.7 (169)	—
	Price-Income Supports	\$ B. 2.7 (100)	\$ B. 7.4 (274)	\$ B.17.7 (656)	\$ B.25.8 (956)	—
E C	CAP Agr.Budget	B.11.9ECU (100)	B.19.1ECU (161)	B.20.8ECU (175)	B.23.1ECU (194)	\$ B. 22.8
	Price-Income Supports	B.11.3ECU (100)	B.18.3ECU (162)	B.20.0ECU (195)	B.22.1ECU (196)	\$ B. 21.8
JAPAN	MAFF Budget	¥ B.3,108 (100)	¥ B.2,810 (90)	¥ B.2,717 (87)	¥ B.2,590 (83)	\$ B. 15.2
	Price-Income Supports	¥ B. 773.2 (100)	¥ B. 659.5 (85)	¥ B. 582.4 (75)	¥ B. 488.7 (63)	\$ B. 2.9

(Note) 1. EC agricultural budgets for 1985 and 1986 are preliminary;
others are all realized government spending.
2. Exchange rates used for 1986 are : \$1=¥170 ; and 1ECU=¥168.
3. USDA budget includes those for forestry.

and income supports. In contrast, Japan has reduced government expenditures for agriculture to a great extent.

Thus, in comparing the size of agricultural budgeting among OECD countries, the Japanese case cannot be characterized as "too much protection"; the agricultural budget as a percent of the total national budget was only 5.1%, compared to 5.6% in the U.S. and 10.2% in France for the fiscal year of 1985. On the basis of agricultural budget per farm household basis, Japan had only one-tenth of the U.S. level in 1985. It is not my intention here to state that for these reasons Japan is not very protective in comparison with other countries. Rather, it is to emphasize that there should be various criteria adopted for measuring of the levels or degrees of agricultural protection.

V. CURRENT MARKET PROBLEMS AND SEEKING GLOBAL SOLUTIONS

The world economic situation in the 1980's has turned out to be quite different from that of the 1970's. It was also quite different from expectations in many developed nations, including the U.S., where policies were formulated and investments in agriculture were made on the expectation of continual growth in world trade. World economic growth slowed down and so did world trade growth. But world agricultural production continued to grow in response to high prices and protective policies.

Starting in 1982, world trade in most agricultural products began to fall after nearly two decades of steady increases. But by this time an increasing number of countries had enacted policies designed to encourage output expansion.

As exports fell, price support mechanisms in many countries created massive stock accumulation in major tradeable agricultural commodities. In many cases, the problem of stock accumulation was dealt with by exporting the excess supply, usually with the help of large export subsidies.

The increased use of export subsidies and falling commodity prices fostered both financial problems and rising international tension. The leaders of Argentina, Australia, Canada, Thailand, and several other countries have publicly protested the expansion of government subsidies in world agricultural trade and have organized a group to push their concerns in the GATT negotiations. Attempts to settle some of the more difficult disputes over sugar, wheat flour, wheat, and pasta in the General Agreement on Tariffs and Trade (GATT) have not satisfied many of the parties concerned. Thus, there are widespread calls for reform of the GATT rules for agriculture.

It should be understood that the trade crisis exists in both political and economic terms. It has caused a huge reduction in agricultural export earnings for exporting countries. In those countries where government subsidies do not protect farm incomes, the income of farm producers has fallen sharply. In those countries with support programs, the financial costs have skyrocketed and their sustainability is being seriously questioned (see Table 1).

The history of agricultural production in the last several decades seems to be characterized by one of over-reaction, over-production and over-expectations. National domestic agricultural policies, on the other hand, have usually attempted to avoid adjustments to changing world market conditions. They are still geared to encouraging output expansion, even though additional

output is not needed. As world trade growth has slowed, overcapacity has therefore erupted into trade disputes as each country has attempted to avoid adjusting its own agricultural system to meet the changing international market situation.

Hence, in order to tackle current world-wide overproduction and financial problems in agriculture, solutions should focus on how to reduce the structural imbalance of supply and demand existing in the world market. A reduction of the disequilibrium and instability prevailing on the current world agricultural market is imperative.

Concerted and harmonious joint efforts are needed among both exporting and importing countries. Efforts must be made to decrease the current stocks of major agricultural commodities in the short run, and then to prevent the resurgence of these imbalances in the long run.

To this end, new international trade rules should hopefully include: (a) a better system to prevent overproduction; (b) a change in income support measures (for disadvantaged areas and/or countries); and (c) improved domestic production systems, more sensitive to world market forces.

In particular, the following three general principles should provide a basis of achieving such viable new trade regulations:

First, the new rules should not attempt to impose a uniform agricultural system, since many countries will insist on individual systems for legitimate reasons. Secondly, farm output should not be further increased in response to artificially supported prices, particularly those elevated by export subsidy programs. And thirdly, programs which seriously distort domestic consumption and production patterns should be altered.

Since current overproduction and world disequilibria are mainly caused by high subsidies in exporting countries, the coming GATT negotiation should discuss means of reducing export subsidies. First of all, member countries should have an agreement on the freezing of subsidies at current levels. The next step should be the gradual reduction of remaining subsidies, say in five to ten years. Multilateral action on production quotas may be necessary to achieve a healthy world grain market.

As for Japan in particular, there are many things to be done as well. In addition to the existing policy reforms of 1986 to revitalize and restructure Japanese agriculture, Japan should also bear part of the cost to reduce huge surpluses. One means of accomplishing this would be a temporary measure under which Japan purchases some amount of surplus rice from the U.S. to use as food aid to needy LDCs or to augment government reserves of rice (which would eventually be used as feed rice). In any event, Japan cannot assume a position of "this is none of my business".

As Hathaway (1987) correctly states: "It is neither important nor reasonable to expect that all countries will adopt the same policy system, e.g., free market system for agriculture. What is important is that all systems operate in a way to achieve the same international objective".

Considering the importance of U.S.-Japan agricultural trade relationships, both the Japanese and U.S. governments should take initiatives to help establish such "viable" international trade rules in the coming years of GATT negotiations.

VI. SUMMARY AND CONCLUDING REMARKS

The last Economic Agenda meeting held in Chicago University on December 5-6, 1986 revealed that contemporary agricultural problems faced by both U.S. and Japan could not be solved by changing the pattern of U.S.-Japan agricultural trade alone. Rather, possible solutions might better be found in the broader framework of international agricultural markets and macro-economic policies of the two nations.

One of the most controversial points in the conference was to what degree U.S. farm sales to Japan could be increased if Japan would open its markets to 22 import-restricted commodities, including beef and citrus. A careful examination, taking into account Japanese food habits, shows that in the short-run, U.S. sales would go up by less than \$1 billion, a small fraction of the present annual U.S.-Japan trade deficit of over \$50 billion. This conclusion would not be much different even under the assumption that Japan opened its rice market to the U.S. Furthermore, in the long-run, the market-opening by Japan would not necessarily ensure that the U.S. would enjoy expanded Japanese market share because of the action of other international competitors.

Hence, it should be recognized that further trade liberalization has more or less a "symbolic" meaning in the overall trade friction argument, though this does not deny the need for the Japanese government to make further efforts toward the reduction of import barriers.

The unexpected action brought by the R.M.A. (U.S. Rice Millers' Association) in September 1986 for opening the Japanese rice market to U.S. import has brought on a serious debate throughout Japan. It has been truly a "cultural shock" to Japan since many have believed rice to be an exception to

trade liberalization pressure. Perhaps surprising to the U.S. is the fact that not only producers, but also major consumer groups in Japan unanimously opposed the liberalization of rice imports. In an analysis of Japanese consumers' mentality their ranking of food issue was shown to be "safety" first of all, "stable supply of food" (food security) in second place; and, finally, the "inexpensiveness" of foods. The recent tendency toward more and more inelastic demand (with respect to both price and income) for rice is implied in this ranking.

Rice is peculiar good in Japan. It possesses multi-faced, socio-economic values in Japanese agriculture and to the society as a whole. It is not only a staple food but also the most important "security good", in light of the fact that Japan has the lowest self-sufficiency rate of grains (32% in 1986) in the world. Furthermore, rice has a profound significance to overall regional economies, both in income and employment terms. Culturally and historically, too, rice has unique values to the Japanese mentality and psychology. Given these factors, it should be recognized that issues of rice trade liberalization would not be solved simply as a matter of economics, nor as a matter of the agricultural trade policy of Japan.

Solutions to the current world-wide overproduction and financial problems should be sought in the framework of international agricultural markets. The key is how to reduce the structural imbalances of supply and demand existing in the world market. To this end, new trade rules should include: (a) a better control system against overproduction; (b) a change in income support measures (for disadvantaged areas and/or countries); and (c) an improved domestic production system, more sensitive to world market forces.

Considering the importance of U.S.-Japan agricultural trade relationships, both the Japanese and U.S. governments should take initiatives to help establish such international trade rules in the coming years of GATT negotiations.

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