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**WTO Negotiations and Other Agricultural Trade Issues  
in Japan**

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## WTO Negotiations and Other Agricultural Trade Issues in Japan

*Masayoshi Honma<sup>1</sup>*

### 1. INTRODUCTION

The WTO Ministerial meetings held at Cancun, Mexico, in September 2003 failed to agree on a Ministerial Declaration that would have given much needed momentum to the Doha Development Agenda negotiations. The direct reason why the Cancun Ministerial collapsed was the failure to launch negotiations on Singapore issues that are controversial between developed and developing countries. Nevertheless, it is commonly recognized that the dominant and the most critical issue at Cancun was agriculture.

Prior to the Cancun Ministerial, Carlos Pérez del Castillo, chairman of the WTO General Council, included an agricultural modality (framework) in the draft for the Ministerial Declaration that was to be adopted at the WTO Ministerial Conference. This modality was based on the compromise draft agreed to between the United States and the European Union (EU) in August. However, the dissatisfaction of several countries, beginning with the developing nations, led to an effective abandonment of the idea of reaching an agreement on this Ministerial Declaration, resulting in the general postponement of the matter.

The failure of the Cancun meetings may have accelerated the trend of creating FTAs in many countries, particularly in developed countries including Japan. Agriculture, however, is considered a stumbling block for Japan's FTAs with food exporting countries. Japan agreed with Mexico on an FTA in March 2004, following difficult negotiations on agriculture. It is expected that Japan will reach agreements on FTAs with Korea, Thailand, Malaysia, the Philippines, and other countries in the coming year or so. How to treat the agricultural sector is the key for the success of FTA negotiations in each

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<sup>1</sup> MASAYOSHI HONMA is from the University of Tokyo. Helpful comments have been provided by Yujiro Hayami and participants in the March 2004 pre-conference meeting of authors in Ann Arbor and the May 2004 conference in Tokyo.

case.

This paper will first examine the current stage of WTO negotiations on agriculture and discuss the issues of interest to Japan. Then agricultural issues in FTA negotiations relating to Japan will be discussed. The prospective FTA between Japan and Korea will be examined as a model for further negotiations with other countries. A desirable treatment of agriculture will be suggested in considering a possible common agricultural policy in the region.

## 2. REVIEW OF THE CURRENT WTO NEGOTIATIONS ON AGRICULTURE

Agricultural negotiations began in 2000, before the start of the Doha Round, as a built-in agenda item (i.e., one approved in the Uruguay Round as a matter for negotiation), together with service sector issues. The negotiations were to establish a modality by the end of March 2003.

A modality is a basis for a pact that must be agreed upon. Establishment of a modality indicates the conclusion of actual negotiations for determining methods for tariff reductions and data that will form the basis for such reductions. Although Chairman Harbinson of the Special Session of the WTO Committee on Agriculture presented the first draft for this modality in February 2000 and a revised version in March, these could not be finalized because they were opposed both by export nations, which seek major reductions in trade protection, and by import nations, which are trying to keep such reductions to a minimum.

The pillars of the agricultural negotiations include: market access, export competition, and domestic support. Let us review the debate concerning market access, a matter in which food importing countries like Japan have a significant stake.

First, the United States and the Cairns Group nations, such as Australia, made an appeal for a major opening of markets, insisting on the Swiss formula of tariff reductions, in which the higher the tariff, the larger the reduction. Specifically, they proposed that tariffs be reduced over five years to the point where all tariffs would be less than 25%. Thereafter, all tariffs would be reduced to zero by a certain deadline. On the other hand, the EU and Japan insisted on maintaining a balance between trade and non-trade concerns, proposing reductions of no less than 15% and averaging 36%, similar to the

previous Uruguay Round approach.

The tariff reduction methods presented by Chairman Harbinson included these compromise proposals. Tariffs currently exceeding 90% would be reduced by a minimum of 45% and by 60% on average; tariffs in the 15% - 90% range would be reduced by a minimum of 35% and an average of 50%; and tariffs of 15% or less would be reduced by a minimum of 25% and an average of 40%. However, these figures were given as examples only.

Although this is not the Swiss formula, which would keep all tariffs below a certain level, it is an attempt to achieve equality by applying higher rates of reduction to goods with high tariffs, instead of bundling all goods together as in the Uruguay Round approach. It has incorporated an insistence on the reduction of tariff peaks (unusually high tariffs), one of the points of contention in these negotiations.

This Harbinson draft was opposed by exporting nations such as the United States and the Cairns Group nations, who deemed it inadequate. It was also opposed by Japan and the EU, who deemed it too extreme and feared that it would lead to destruction of their domestic agricultural industries. Then, in August, the United States and the EU, which had formerly been in opposition, sought a new compromise draft and agreed upon a joint draft. Based on this draft, General Council Chairman Castillo incorporated thinking on an agricultural modality into the draft for the Cancun Ministerial Declaration. The Declaration draft calls for adopting one of the following tariff reduction methods: the Uruguay Round approach, the Swiss formula, or removal of tariffs. In other words, tariffs would be classified into the following three groups and reduced accordingly: (1) tariffs to be reduced by setting minimal and average reduction rates; (2) tariffs to be reduced to below a fixed uniform level; and (3) tariffs to be removed.

In addition, maximum tariff levels would be set, and tariffs exceeding these levels would be reduced to the maximum levels. If tariffs were not reduced, measures for expansion of imports (such as expansion of the tariff quota limit) would be adopted. This is a proposed framework only and does not suggest how goods will be distributed across each group. Nor does it propose specific rates of tariff reduction.

Many nations expressed dissatisfaction with Chairman Castillo's draft.. Developing countries such as India and Brazil were particularly outspoken. This reaction occurred because special measures

for developing nations were not as clear as in the Harbinson draft, and reductions in protection of developed nations, which would be likely to lead to expansion of exports from developing nations, were viewed as likely to be insufficient. At the same time, these countries were markedly suspicious of the negotiations, which advanced under the guidance of Europe and the United States.

### 3. SOME IMPORTANT ISSUES FOR JAPAN AND OTHER ASIAN COUNTRIES

At the stage of submitting proposals for negotiations, Japan introduced the importance of non-trade concerns such as multi-functionality and food security and insisted on flexibility in tariff reduction. The EU proposed a gradual liberalization following along the UR linear reduction formula, which both Korea and Japan support. Importing economies prefer to maintain the current framework of amber, blue and green boxes but accept further reduction of the AMS at a tolerable rate. Japan supports gradual reduction of export subsidies but at the same time stresses the need to discipline the export controls and suggests their tariffication.

Korea proposed that it should be allowed to apply the developing country provisions for the next ten years during which it will make a full-fledged effort for agricultural reform. China insisted on more special and differential treatment to be given to developing economies with a view to ensure food security and increasing income and work opportunities for low income people and resource-poor farmers in the rural areas. China also emphasized that it has made substantive tariff reduction commitments in its accession negotiations and that the new WTO members should be exempted from making further tariff reductions. Both Thailand and China argue that, while developed economies utilize both border measures and domestic support to help domestic production, developing countries cannot afford to resort to domestic support due to budgetary constraints and still require special safeguards or other border restrictions. Thailand complains that 'unrealistically' stringent SPS standards by some developed countries tend to impede its export of agricultural products.

#### a. Multi-functionality of agriculture

The concrete contents of multi-functionality, which Japan insists be taken into account in the

negotiations, vary according to the history and national conditions of each country. The following functions may be considered as major elements: (1) land conservation including preventing floods, preventing soil erosion, and preventing landslides; (2) fostering of water resources; (3) preservation of the natural environment including management of organic waste, resolution and removal of polluted substances, air purification, and maintenance of bio-diversity and preservation of wildlife habitat; (4) formation of scenic landscape, (5) transmitting culture; (6) rural amenities; and (7) maintaining and revitalizing rural communities. Most functions are the so-called externalities created by agricultural activities.

Recognition of multi-functionality of agriculture itself is an important step in the evaluation of agricultural activities, especially from an environmental viewpoint.<sup>2</sup> But what needs to be asked is how to maximize the net benefits from the multiple functions of agriculture with consideration given to the costs of maintaining agricultural operations. It is necessary to estimate the marginal loss (gain) of the social value caused by multi-functionality as agricultural production shrinks (expands), if multi-functionality is to be placed at the center of the agricultural trade negotiations.

However, the relationship of multi-functionality to agricultural production is not straightforward. There are many alternative levels of production and many combinations of products needed to achieve a certain level of social value created by agricultural activities. WTO negotiations are designed to discuss the levels of support and protection that affect trade and production. Thus, the quantitative assessment of multi-functionality in terms of agricultural production is necessary. The externalities that multi-functionality emphasizes, by definition, are not the targets that agricultural production considers. Agricultural production may not necessarily be the most efficient means to fulfill the social needs. The complexity and ambiguity of the relationship of the relationship of multi-functionality with agricultural production make it difficult to quantitatively assess in a scientific way the importance of

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<sup>2</sup> For a review of studies estimating the value of multi-functionality, see Demura and Yoshida (1999). For criticisms of the methods of calculation and data used to evaluate the value of multi-functionality, see, for example, ABARE (1999) and Trewin (2000).

multi-functionality. Instead, countries might promote these externalities directly via the Green Box, conservation, water, environment, culture and other multi-functional values of rural areas.

b. Food security and safety

Food security is also a non-trade issue of concern and is defined as the state in which all households have both physical and economic access to adequate food for all members and in which households are not at risk of losing such access.<sup>3</sup> We have two options on how to achieve food security at the national level. One is the pursuit of food self-sufficiency and the other is food self-reliance. Food self-sufficiency means meeting food needs as far as possible from domestic supplies and minimizing food imports. But here is a risk relying predominantly on domestic production. On the other hand, food self-reliance means maintaining a level of domestic production but relying also on international trade to meet the food needs of the population. Which strategy a country should take depends on the benefits and risks of relying on international trade.

Food security is an important issue in countries whose food self-sufficiency rates are very low. In Japan, the food self-sufficiency ratio has dropped to 40 percent on a calorie basis, which is the lowest among the developed countries. Some people are greatly concerned about this low level of self-sufficiency from the food security viewpoint. Ensuring food security is a basic role that the government should play. The Ministry of Agriculture, Forestry, and Fisheries (MAFF) has set a target level of food self-sufficiency ratio at 45% as a guideline for public efforts to raise the food self-sufficiency ratio to that level by 2010.

Imports and stockpiling as well as domestic production are acknowledged as policy measures for food security. However, excessive dependence on imports is considered to have the following problems: (1) the world food supply may become unstable in the short term and tighter in the medium to long term; (2) agricultural trade has such unstable features as relatively lower proportions of output being exported and the major agricultural products only being exported by some specific countries; and

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<sup>3</sup> See FAO (1996).

(3) large purchases by an economically-dominant country at a time of food shortage may have a negative impact on the international market. Stockpiling is also questioned because it is only a short-term measure to affect the loss in quality and the cost of stockpiled food.

Policy measures for food security differ by the types of crises to be considered.<sup>4</sup> The predictions of future world market conditions depend on the assumptions and forecasts of exogenous variables. It is important to prepare policy measures at a minimum social cost for possible different food security risks. In addition, the volatility of the world food market prices increases as a result of the intervention of governments endeavoring to insulate domestic markets from international trade, which makes the world market smaller than it would be without intervention. If all domestic markets are integrated to international trade, poor or rich harvests in some areas can be easily absorbed into the world market. Therefore, limiting trade for food security purposes is not the correct policy measure to achieve its purpose.

Full regard should be given to consumers' concern about food safety as well as prices and availability (security). Exporters should cooperate fully with importers to eliminate pesticide residues and causes of disease in foodstuffs. However, it must be warned that too strict a standard and testing to be adopted under the name of safety will impede food trade. The WTO Agreement on Sanitary and Phyto-sanitary Standards (SPS) sets an international standard and recommends that SPS measures be well-founded on sound science and based on risk assessment. Importing economies should also be encouraged to assist exporters, especially developing economies, to enhance their capacity to comply with the SPS measures.

#### c. Tariff peaks

An important issue in the current negotiations is to reduce tariff peaks. High tariffs for agricultural imports are not unique to Korea or Japan. Tariff peaks in agriculture are commonly observed in developed countries. Table 1 shows the number of tariff peaks in terms of tariff lines for the EU, Japan,

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<sup>4</sup> For example, Hayami (1988) has classified possible food crises and proposed appropriate policy measures.

and the United States. Tariff peaks are defined here as tariff rates of 20 percent or more and are most common in dairy products, cereals (not in the U.S.), sugar, and processed food products. For all agricultural and fisheries products taken together, the proportion of tariff lines for which duties exceed 20 percent is about one quarter of all tariff lines for both the EU and Japan and about one tenth for the United States.

Problems relating to tariffication are not only tariff peaks but also tariff rate quotas (TRQ). For those commodities whose border measures were converted from non-tariffs to tariffs, TRQ were adopted. The quantities to which lower tariffs are applied are mostly the base period imports under the previous Imports Quotas (IQ). The secondary tariffs are set at very high levels as tariff equivalents (TEs). If TEs are prohibitively high, there are no imports beyond TRQ. Thus, TRQ work the same as previous IQ.

Table 2 indicates the differences between within-quota tariffs and secondary tariffs on the average for several countries. Japan, Canada, Norway, and Korea have extremely high secondary tariffs applied to newly tariffied products. Meanwhile, Norway has high tariffs even within TRQ. With these high secondary tariffs applied to imports beyond TRQ, tariffication has not fundamentally changed the nature of the previously existing non-tariff border measures. This is why exporting countries, particularly developing countries, require reduction of tariff peaks in the negotiations.

#### 4. NEW DIMENSIONS OF AGRICULTURAL NEGOTIATIONS

The Uruguay Round (UR) resulted in the conclusion of the two-party, Blair House accord between the United States and the EU. However, this was merely an arrangement composed of measures that would benefit the two parties. Other member nations, particularly developing nations, felt strongly that they had been left out of the negotiations. In fact, many expressed dissatisfaction with the UR Agreement, claiming developing nations enjoy no benefit from it. With the UR negotiations concluded by Europe and the United States, in the current situation, with three of every four WTO members being developing nations, it seems clear that the same method of reaching an agreement will not work in the Doha Round.

In fact, the traditional alliances of agricultural producers were transformed in reaction to the US-EU proposal in August 2003 and the counterproposal from developing countries later known as

G-21 countries. The emergence of the G-21 group, led by Brazil, China, and India, has complicated negotiations by polarizing the debate into a North-South debate on the most sensitive issue in the Doha Round that is agriculture.

Among the major objectives, the G-21 group seeks: (1) further reduction of the blue box domestic support; (2) reduction of export subsidies by including export credit programs; and (3) elimination of the extension of the peace clause. The group intended to engage in serious negotiations and was disappointed by the collapse of the talks in Cancun before discussion on agriculture took place. A lesson learned at Cancun is the necessity of strong will and leadership in negotiations.

Another dimension that appeared important at Cancun is the so-called Cotton Initiative, in which four West African producing countries pleaded for the reduction and elimination of cotton subsidies, particularly in the United States, EU, and China, all of which are heavy subsidizers of cotton. The initiative itself was outside the context of agricultural negotiations but drew attention to the plight of some of the poorest WTO Members. The West African countries submitted a test draft to WTO Director-General Supachai, who coordinated the negotiations on the Cotton Initiative.

The second Ministerial draft, however, reflects much of the language of the United States, which had resisted inclusion of the Cotton Initiative in the draft. The text suggested that the African countries stop growing cotton rather than compel the subsidizing countries to address the cause of the problem. This angered the West African countries and together with anti-trade NGOs and the African Caribbean Pacific (APC) group led to the refusal of negotiations on the Singapore issues. Here again it appears that the negotiations lack an appropriate coordinator to bridge the interests of the North and South countries.

##### 5. FTA AND AGRICULTURE: A CASE FOR FTA WITH KOREA

With the WTO negotiations at a stalemate, there have been increased efforts to expand international trade through increases in FTAs among many countries, particularly the developed countries. Japan established an FTA with Singapore in 2002. Japan also reached an agreement on major items for an FTA with Mexico in March 2004. However, the liberalization of agricultural trade was limited in each case. Agricultural issues will be more serious in further FTA negotiations with other countries that expect to

export more agricultural products to Japan.

To consider the treatment of agriculture in FTAs, I will now examine the possible FTA between Japan and Korea.<sup>5</sup> It may illustrate the ways of treating agriculture that can apply to other FTAs, in particular those with other Asian countries.

#### a. Trade of agricultural, forestry and fisheries products between Japan and Korea

Japan and Korea are both large importers of agricultural products such as wheat, corn, soybeans, and beef. Korea at the same time is an important food supplier to Japan. For the exports of agricultural, forestry and fisheries (AFF) products, Japan has been the largest market for Korea. More than half of Korean exports of AFF products go to Japan. The export value of AFF products from Korea to Japan was \$2,135 million in 1995 though it declined to \$1,845 million in 2000 and \$1,413 million in 2002, as seen in Table 3. The value of Japan's exports of AFF products to Korea has been around \$300 million for the last several years.

Among the exports of AFF products from Korea to Japan, the most important are fisheries products that occupy more than half of total AFF products in value. In agricultural products, livestock products were important but have declined since 2000 because of hog cholera that caused prohibition of pork imported from Korea. Japanese exports of fisheries products to Korea have been increasing in recent years.

#### b. Structure of agriculture in Japan and Korea

In discussing the competitiveness of agriculture in Japan and Korea, it is important to examine the structure of agriculture in both countries. Japanese agricultural production created farm-gate sales of 9 trillion yen and value added of 5.5 trillion yen in 2000. There are 2.9 million workers engaged mainly in agricultural activities from 3.12 million farm households as of 2000. The weight in the total economy, however, is declining. The share is 1.0 percent in GDP and 4.4 percent in labor force. The fact that the number of workers engaged mainly in agriculture is less than that of farm households means that in

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<sup>5</sup> For general discussions on a Japan-Korea FTA, see Yamazawa (2000) and TCER (2004).

some farm households there are no workers engaged mainly in agriculture. This depends on the definition of a farm household that covers many small part-time farm households.

Japan's Agricultural Census defines a farm household as one that operates on 10 acres (0.1 hectare) or more of farmland, or has annual sales of agricultural products of 150,000 yen or more. Thus, it includes very small units of farm operations in which there are no full-time farm workers. Indeed, full-time farm households in which there are no workers engaged in other employment account for only 13 percent of total farm households. On the other hand, non-commercial farm households, which operate on less than 30 acres of farmland or annual sales of less than 500,000 yen, account for 23 percent of total farm households. In addition, among part-time farm households the majority are Type II part-time farm households whose income from non-agricultural sources exceeds agricultural income, and they account for 50 percent of total farm households. (Type I part-time farm households are farm households whose income from farming exceeds income from non-agricultural sources.)

Agricultural workers in Japan declined from 12 million in 1960 to 2.8 million in 2000 but the number of farm households in 2000 is one-half of that in 1960. Together with the decrease in agricultural land, this has resulted in just a small increase in agricultural land per farm from 1 hectare in 1960 to 1.5 hectares in 2000. The size of agricultural land per farm in Japan is small. It is only one 127th of farms found in the United States and one 20th to one 45th of farms in the European countries. This is important in considering the comparative advantage of Japanese agriculture, particularly the land-intensive sectors.

Part-time farm households have tended to concentrate on rice farming because it is a staple crop offering a high return for only intermittent labor. Because rice marketing had been carried out through the channels determined by the government until the former Food Control Law was abolished in 1995, rice farmers were guaranteed a high price and could easily sell their harvest through agricultural cooperatives. In addition, agricultural research and extension services have traditionally concentrated on the rice crop to the extent that rice cultivation has become highly standardized and there is relatively little difference in productivity between part-time and full-time farmers. That the production of Japan's staple crop has been geared to part-time farming in this way is a major factor encouraging part-time

farming and impeding the consolidation of farms.<sup>6</sup>

Korea has an agricultural structure that is similar when compared with Japan with agricultural land per farm household that is about 1.5 ha, although overall the shares in GDP and labor force of agriculture are much larger in Korea than in Japan. Table 4 summarizes the differences in agricultural structure between Japan and Korea. Differences are in the ratio of fulltime farm households, number of family members in farm households, composition of products in agricultural production and income of farm households.

As noted before, in Japan, part-time farming is very common, particularly in rice farming, and the ratio of full-time farm households is only 14 percent in total farm households. On the other hand, full-time farm households in Korea account for 65 percent of total farm households. The number of family members in Japan is still as large as 4.31, of which, however, persons who mainly engage in farming is less than one, though. In Korea, the number of family members in farm households is 2.91 on average. The difference between the two comes from the differences in job opportunities in rural areas. That is, in Japan job opportunities are widely available in rural areas so that family members can be employed while remaining in the farm household while in Korea family members have to leave their farm households if they try to get off-farm jobs because of fewer job opportunities in rural areas. Meanwhile, in Korea the share of grains, mostly rice, in production is 38 percent in value, which is much greater than in Japan.

There are accordingly significant differences in income of farm households between Japan and Korea. In Japan the average annual income of farm households in 2000 was 8.3 million yen, of which income from farming was only 1.1 million yen. In Korea income of farm households was 23 million won (2.3 million yen), of which two-thirds was from agricultural activities. This suggests that the liberalization of agricultural trade may cause more serious impact on agriculture in Korea than in Japan insofar as the income of farm households in general is concerned. It is therefore important in this regard

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<sup>6</sup> For further discussions of Japanese agriculture, see, for example, Honma (1994), Honma (2000), Honma and Hayami (1989), and Okuno and Honma (1998).

to consider the political economy of agricultural policies in Japan and Korea.

c. The level of agricultural protection

Japan and Korea are protecting their agricultural sectors using various kinds of policy measures. Table 5 shows the levels of agricultural protection in Japan and Korea in PSE and NPC. PSE (Producer Support Estimate) is an indicator of the annual monetary value of gross transfer from consumers and taxpayers to support agricultural producers, measured at farm gate level, arising from policy measures on farm production or income. The percentage PSE shown in Table 6 is the ratio of the PSE to the value of total gross farm receipts, measured by the value of total production at farm gate prices, plus budgetary support. On the other hand, the NPC (Nominal Protection Coefficient) is the ratio between the average price received by producers at the farm gate, including payment per ton of current output, and the price of equivalent imports measured at the farm gate level.

Rice and milk are highly protected in both Japan and Korea while the protection levels for chicken (in Japan) and eggs (in Japan and Korea) are low. The total protection level both in percent PSE and NPC is substantially higher in Korea than in Japan. In Korea the transfer from consumers and taxpayers to agricultural produces was 73 percent of their total gross farm receipts in 2000 while it was 64 percent in Japan. Agricultural producers in both countries are protected strongly by border measures such as high tariff rates, which resulted in large NPCs of 2.97 for Japan and 3.37 for Korea in 2000. This means that agricultural prices at the farm gate in Japan and Korea on average are about three times of those in the world markets.

d. Strategies to take advantage of the FTA for agriculture and fisheries

Agriculture has sensitive sectors both in Japan and Korea. Rice is politically very important. Korea still maintains the import restriction for rice exempted from tariffication under the Uruguay Round Agreement, although it is importing rice with the minimum access commitment that is being increased to 4% of domestic consumption in 2004. Economically, rice seems to be more important in Korea than in Japan because of heavy reliance of farming on rice and the fewer job opportunities available in rural areas in Korea. In Japan, the majority of rice farmers, who are part-time farmers, do not depend on rice

as their main source of income. It is necessary, though, to concentrate rice farming in the hands of full-time large farmers and the recent guideline for rice policy reform is encouraging this. It is the time for Japan to consider its rice policy not for protecting farmers but for the national interests.

To take advantage of the FTA, Japan and Korea should seek possibilities to export and import the same commodity to each other, via intra-industry trade. Rice could be an example. Rice is now highly differentiated in quality and rich consumers are willing to pay for high-quality rice. It appears that in Asian countries the demand for Japonica varieties of rice is increasing rapidly as their income goes up. Japan may have a comparative advantage in high-quality rice exports to some countries. It is thus important to consider and search for comparative advantage beyond the traditional classification of agricultural products and to develop new strategies for exports. A Japan-Korea FTA should be the first step in that direction for both countries.

In fisheries Korea seems to have an advantage compared to Japan. The Japanese fishing industry has been rapidly losing its competitiveness and the self-sufficiency ratio of edible fish declined from 71% in 1991 to 53% in 2001. Coastal fishery households are facing particular difficulty in maintaining their income as there are fewer job opportunities outside of fishing available to supplement their fishing income. This may result in fishing households leaving the industry permanently (see Table 6).

Japan maintains quantitative restrictions on imports of herring, cod, yellowtail, mackerel, sardine, horse mackerel, and saury to protect its domestic shoreline fishing. Therefore, the trade liberalization of fisheries would damage those households who are operating shoreline fishing. However, Japan may have comparative advantage in cultured fisheries. As shown in Table 6, incomes of cultured fishery households are much higher than those of coastal fishery households, and even higher than commercial farm households. Thus, the strategies for seeking intra-industry trade can be applied to fisheries as well.

On the other hand, there have been longtime fisheries issues between Japan and Korea. In the fishing grounds that both countries have common access to, sardine, mackerel, saury, crabs, and other marine products are competitively caught. Negotiations between the two countries have faced difficulties particularly on the management and conservation of their common resources because they

deal with the issue of resource management quite differently even while each country uses common resources outside of their exclusive fishing zones. From the perspectives of resource management and maintenance of regional communities, Japan enforces import restrictions and imposes relatively high tariffs on these products.

## 6. ROLE OF JAPAN: CONCLUDING REMARKS

In the WTO negotiations on agriculture, the draft on agriculture that is based on the US-EU proposal is at a standstill in the face of opposition from developing nations. This provided an excellent chance for Japan to take its place in breaking the deadlock of the negotiations. The conflicting issues between the US-EU and developing countries are export subsidies and domestic supports that are tantamount to export subsidies. Japan does not make use of either of these policies. Japan could play a positive role to bridge them.

The WTO is an international institution whose mission is to achieve economic prosperity through freer trade. The introduction to the Agreement on Agriculture includes the following as a long-term objective: establishment of “a fair and market-oriented agricultural trading system.” Article 20 of the Agreement on Agriculture states that the objective of agricultural negotiations is the continuation of “fundamental reforms” through reductions in “support and protection.” It is vital for Japan to link agricultural negotiations to structural reforms in agriculture.

Today, structural reforms resulting in a single management structure overseeing all the agricultural land of each city, town, and village are necessary for Japanese agriculture to survive in the face of international competition. Japan must consider various measures to promote the investment of capital from outside agriculture and the accumulation of new human capital. Through market competition, production resources must be concentrated in efficient farm businesses, through various developments in management, instead of adherence to farming by family-farms.

Structural reforms in agriculture are also essential to make possible FTAs more effective to promote economic recovery and to seek sustainable growth via international cooperation. The key for success in FTA negotiations is to seek commodities based on comparative advantage and to promote

intra-industry trade. Even rice is now highly differentiated in quality, and it may be possible to trade mutually different varieties of rice between nations.

Agricultural policy in developed countries has been shifting toward decoupled policy such as direct payments to farmers. The government should also promote comparative advantage in the sector for intra-trade, by assisting information gathering and investing for research and development.

In addition, it is desirable to establish a forum among Asian countries to discuss their agricultural issues. Not only the issue of tariff reductions but also many other problems relating to the agricultural sector could be addressed in an Asian FTA. It is very important, for example, for encouraging agricultural trade in Asia to harmonize the SPS (Sanitary and Phytosanitary) measures. We have the SPS Agreement in the WTO but the achievements in enforcing effective discipline are far below expectations.<sup>7</sup> In particular, developing countries have failed to participate in the implementation of the Agreement as equal partners. It might be more effective if Japan could provide Asian developing countries with technical and financial assistance for their participation in SPS harmonization.

In organizing such a forum to be called “Agricultural Partnership in Asia” for wider cooperation of agricultural policy and agricultural resource management with the possible partners of FTA in Asia, Japan should take a strong leadership and make substantial steps toward domestic reform.

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<sup>7</sup> For the SPS issues and developing countries, see, for example, Athukorala and Jayasuriya (2003) and Finger and Schuler (2002).

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TABLE 1  
Tariff Peaks by Agricultural Product Groups (European Community, Japan, and the United States)

Product group	Number of tariff lines within a tariff range				No. of peaks	Share in total %
	Total	20-29 %	30-99 %	>100 %		
<u>European Community (EC)</u>						
Meat, live animal (1-2)	351	68	79	14	161	46
Fish and crustaceans (3)	373	45	0	0	45	12
Dairy products (4)	197	21	77	9	107	54
Fruit and vegetables (7-8)	407	10	5	1	16	4
Cereals, flours etc. (10-11)	174	29	75	0	104	60
Veg.oils,fats, oilseeds (12,15)	211	0	8	2	10	5
Canned & prep.meat,fish(16)	105	17	8	0	25	24
Sugar, cocoa & prep. (17,18)	75	34	6	0	40	53
Prepared fruit,vegetables (20)	310	70	39	1	110	35
Other food ind. prod(19,21)	90	27	8	0	35	39
Beverages & tobacco (22,24)	202	9	15	2	26	13
Other agr.prod(5-6,13-14,23)	231	4	14	4	22	10
All agr., fish. Products(1-24)	2,726	343	334	33	701	26
<u>Japan</u>						
Meat, live animal (1-2)	136	3	19	7	29	21
Fish and crustaceans (3)	189	0	0	0	0	0
Dairy products (4)	146	45	57	22	122	84
Fruit and vegetables (7-8)	209	1	2	7	10	5
Cereals, flours etc. (10-11)	132	37	24	10	71	54
Veg.oils,fats, oilseeds (12,15)	161	1	1	3	5	3
Canned & prep.meat,fish(16)	101	21	3	3	27	27
Sugar, cocoa & prep. (17,18)	80	26	19	6	51	64
Prepared fruit,vegetables (20)	231	52	5	2	59	26
Other food ind. prod(19,21)	232	113	2	15	130	56
Beverages & tobacco (22,24)	65	8	0	0	8	12
Other agr.prod(5-6,13-14,23)	208	0	0	0	0	0
All agr., fish. Products(1-24)	1,890	307	132	75	514	27

<u>United States</u>	116	6	0	0	6	5
Meat, live animal (1-2)	114	0	0	0	0	0
Fish and crustaceans (3)	251	29	58	9	96	38
Dairy products (4)	269	13	0	0	13	5
Fruit and vegetables (7-8)	59	0	0	0	0	0
Cereals, flours etc. (10-11)	124	0	2	2	4	3
Veg.oils,fats, oilseeds (12,15)	90	1	1	0	2	2
Canned & prep.meat,fish(16)	144	6	13	2	21	15
Sugar, cocoa & prep. (17,18)	169	3	2	3	8	5
Prepared fruit,vegetables (20)	156	11	18	2	31	20
Other food ind. prod(19,21)	126	1	3	8	12	10
Beverages & tobacco (22,24)	161	0	2	0	2	1
Other agr.prod(5-6,13-14,23)	1,779	70	99	26	195	11
All agr., fish. products(1-24)						

Notes:

Tariff peaks are defined as tariff rates that are 20 percent or more. All are MFN tariffs.

The numbers within the parenthesis in the product are SITC numbers.

Source: FAO compilation based on data provided in UNCTAD/WTO (1997), *The post-UR tariff environment for developing countries*, TD/B/COM.1/14, tables 1-3.

TABLE 2  
Average Tariff Rates Applied to Agricultural Imports for Selected Countries.  
(Percent)

	All Agricultural products	Products newly tariffied		All Products
		Within TRQ	Secondary	
		Japan	12 %	
United States	6	10	29	4
EU	20	8	45	7
Canada	5	8	203	5
Australia	3	7	27	10
Switzerland	51	36	81	9
Norway	124	216	239	26
Korea	62	21	366	18
Thailand	35	31	91	29

Source: OECD, *Review of Tariffs Synthesis Report*, 1999.

TABLE 3  
Trade of Agricultural, Forestry and Fisheries Products between Japan and Korea, 1995-2002 (\$ million)

Year	Korea to Japan					Japan to Korea				
	AFF Total	Agricultural products*	Livestock products	Forestry products	Fishery products	AFF Total	Agricultural products*	Livestock products	Forestry products	Fishery products
1955	2135	320	137	389	1289	342	236	17	42	47
1996	2048	293	241	290	1224	294	163	14	57	60
1997	1831	284	279	250	1018	305	176	19	38	72
1998	1679	305	351	127	896	139	76	15	10	38
1999	2099	408	373	163	1155	273	124	21	21	107
2000	1845	461	101	158	1125	404	165	35	19	185
2001	1563	474	29	135	925	347	158	38	12	139
2002	1413	460	27	103	823	349	153	41	9	146

\* Excluding livestock products.

Source: Japan Tariff Association, *Japan Exports and Imports*, various issues.

TABLE 4  
Comparison of Agricultural Structure in Japan and Korea, 2000

	Unit	Japan (J)	Korea (K)	K / J
Number of farm households	1000	3,120	1,384	0.44
Ratio of full-time farm hh.	%	13.7	65.2	4.76
Population in farm hh.	1000	13,458	4,032	0.30
Ratio to total population	%	10.6	8.7	0.82
Persons / farm household		4.31	2.91	0.68
Arable land	1000 ha	4,594	2,098	0.46
Per farm households	ha	1.47	1.52	1.03

Source: JMAFF, *Nogyo Hakusho Fuzoku Tokei-hyo* (Statistical Appendix of Agricultural White Paper), various issues.  
Korean Government, *Major Statistics of Agriculture, Forestry and Fisheries*, various issues.

TABLE 5  
Percent PSE and Nominal Protection Coefficient of Agricultural Products in Japan and Korea, 2000

Commodity	Percent P S E		Nominal Protection Coefficient	
	Japan	Korea	Japan	Korea
Wheat	86	-	6.31	-
Rice	88	84	8.17	6.25
Oil seeds	61	90	2.05	10.03
Sugar	43	-	1.66	-
Milk	81	74	5.15	3.70
Beef	32	68	1.42	3.19
Pork	58	47	2.35	1.72
Chicken	11	52	1.12	1.66
Eggs	16	2	1.17	0.92
Total	64	73	2.97	3.37

Source: OECD, *Agricultural Policies in OECD Countries*, 2001.

TABLE 6  
Income Comparison between Fishery and Farm Households in Japan (1000yen per Household (hh))

	1997	1998	1999	2000	2001
Coastal fishery hh	6,076	5,705	5,745	5,493	5,619
From fishery	2,455	2,158	2,168	1,951	2,257
Cultured fishery hh	11,868	10,171	10,694	12,379	10,270
From fishery	7,961	6,394	6,935	8,219	6,869
Commercial farm hh	8,796	8,680	8,459	8,280	8,022
From farming	1,203	1,246	1,141	1,084	1,034

Source: MAFF: *Statistical Yearbook on Agriculture, Forestry and Fisheries* (various issues).