

# FTA Issues and Internationalization of Hokkaido's Agriculture



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## 1. FTAs

Amid the recent trend toward increasingly complicated negotiations under the World Trade Organization (WTO), moves toward concluding free trade agreements (FTAs) are gathering momentum. An FTA is a pact to eliminate trade barriers such as tariffs, quotas and other quantitative restrictions with the intention of stimulating trade among its member countries, and is a form of regional economic integration. Since the number of WTO members has increased, their conflicting interests have made it difficult to secure progress in multinational negotiations. In contrast, harmonizing the interests of FTA partners is easier, and FTAs are concluded and implemented promptly. This is why FTAs are rapidly proliferating across the globe. An FTA may lead to a free trade area with many member nations, as seen with the European Union (EU) and the North American Free Trade Agreement (NAFTA). In this case, the opportunity cost of not entering into such agreements is higher. By way of example, the Economic Partnership Agreement (EPA) concluded between Japan and Mexico in September 2004 was also intended to remove the demerits of exclusion from these free trade networks.

FTAs have political and diplomatic implications in addition to their economic impacts. In international politics, regional voices have come to carry more political weight than those of single nations; this is particularly true if the former represents the consensus of a region in which countries share common political interests. As seen in the EU, economic integration and political cooperation are two sides of the same coin, and a successful FTA strengthens both the political and economic relationships of its member countries.

The current global trend is toward the networking of nations through FTAs. Accordingly, on the one hand, there is a possibility that a dual structure consisting of an FTA block and a non-FTA block will emerge. In the FTA block, countries will actively join the free trade network to enjoy its advantages. From this perspective, South Korea has been actively using the FTA framework, while Japan has lagged behind.

The FTA coverage rate is the proportion of a country's overall trade with FTA partners (signed or already in force). Statistics for the FTA coverage rate by country show that while Japan's coverage is only 16.5 percent, the figures for China and South Korea are 21.5 and 35.6 percent, respectively. In particular, the gap between Japan and South Korea is significant. The FTA coverage rate of the U.S., which has the NAFTA free trade agreement, is 38.0 percent, whereas that of the EU is 74.8 percent. In this connection, the EU's FTA coverage in trade with non-EU countries is 27.2 percent.

Because South Korea is racing ahead of Japan in terms of FTA deals, Japan faces considerable tariff-related disadvantages. Seoul has already concluded FTAs with the EU and the U.S., thereby paving the way for the elimination of tariffs on virtually all manufactured goods exported from South

Korea. However, high tariffs are still imposed on imports from Japan. EU import tariffs on major manufactured products from Japan include 10 percent for automobiles and 14 percent for flat-panel TVs, and the U.S. imposes 25- and 9-percent tariffs on Japanese trucks and bearings, respectively. In this way, Japanese products are at a disadvantage in competition with their South Korean rivals in the EU and the U.S.

## **2. The TPP**

The Trans-Pacific Partnership (TPP) was formed by four APEC member states in 2006. Since the 2010 APEC summit in Yokohama, TPP negotiations have been expanded to include nine countries on both sides of the Pacific, including the U.S. and Australia. The TPP seeks a more comprehensive, higher-level agreement than that laid down by the terms of an FTA, and creates hurdles for Japan as a result because it incorporates new rules in such areas as the environment, labor and food safety rather than simply eliminating tariffs. In particular, Washington has shown a strong commitment to the TPP, with President Obama and business leaders alike taking the lead in promoting the trade pact.

In Japan, the TPP has suddenly come to prominence for several reasons. The first is that Japan will experience disadvantages if it fails to participate in these high-quality free trade agreements, which do more than simply eliminate tariffs. Furthermore, if Tokyo lags behind in its commitment to joining the TPP, it will miss the opportunity to participate in the formulation of TPP rules. Additionally, against the background of Japan's diplomacy toward China, this trade pact would help to strengthen Japan's relationship with the U.S.

## **3. FTAs and agriculture**

As mentioned above, comparison with South Korea (which has been promoting FTA involvement ahead of Japan) highlights the problems Japan faces more clearly. First of all, Japan and South Korea have different political systems. South Korea has a presidential system in which great authority is vested in the president. In contrast, Japan has a parliamentary cabinet system with a prime minister who has only limited authority, and the administration is burdened by time-consuming decision-making processes. There are also other differences between Japan and its Asian neighbor, such as different levels of emphasis on rice among farm products and different income support programs for farmers.

Then, what impacts will FTAs have on agriculture in Japan? The Ministry of Agriculture, Forestry and Fisheries and other relevant institutions have released a range of forecasts on the potential impacts of the TPP and FTAs. However, these forecasts were not based on appropriate assumptions, and thus lack credibility. It must also be acknowledged that the majority of agricultural issues in Japan in relation to market liberalization involve rice.

Against this background, Japan must equip its farmers with the ability to make adjustments as necessary after opening agricultural markets to imports. As trade liberalization gains momentum, it is becoming increasingly difficult for the Japanese government to continue its conventional policy of agricultural protection. Although agriculture accounts for only one percent of Japan's GDP, the

country has a broad range of food-related industries. Additionally, amid growing interest in food safety, there is a need for the clarification of a way to achieve agricultural self-sufficiency.

Generally, Japanese agriculture is considered vulnerable to the effects of tough international competition. According to provisional calculations, if the tariffs now imposed on farm products were eliminated, the value of Japan's domestic production would fall from its current figure of 8.6 trillion yen to 5 trillion yen. Vegetable and fruit farmers would probably survive the influx of cheap agricultural produce that would result, and agriculture in Japan would move closer to the situations seen in the Netherlands and Denmark. For rice farmers, however, the issue of whether ongoing protection would be required must be considered.

Next, let us focus on agriculture in Hokkaido. We tend to consider agriculture uniformly for the entire country, and agricultural policy is also uniform across the nation. It should be understood, however, that agriculture in Hokkaido differs significantly from that in the rest of the country. For example, will Hokkaido's agricultural industry be destroyed if the TPP agreement is concluded? The average cultivated area per farm household is larger in Hokkaido than in Honshu (the main island of Japan), and Hokkaido will be able to survive trade liberalization by introducing the various measures outlined below.

#### **4. Hokkaido's economy and agricultural revival**

Here, I would like to highlight internationalization as a prerequisite for the revitalization of Hokkaido's agriculture. First, the Japanese government's agricultural policy so far has been designed by bureaucrats in consideration of the general situation nationwide. That is, Tokyo bureaucrats have devised related government programs based on national average values. However, Hokkaido's climate, natural characteristics and scale of farming are different, making it unreasonable to include the region under the uniform agricultural policy in the first place. Accordingly, there is a need to establish Hokkaido's own agricultural scene independent of decisions by Tokyo bureaucrats.

A way to achieve this would be to introduce a large-scale special administrative zone in Hokkaido to establish free agriculture unfettered by a nationally uniform agricultural policy. Collaboration with different industrial sectors may give rise to novel ideas, and thus new forms of agriculture, enabling Hokkaido farmers to keep supplying their products to domestic markets in order to counter the need for imported farm produce. Furthermore, the ability to pioneer new overseas markets and engage in export-oriented agriculture will no longer be a fantasy.

Activities should not be limited to simply revitalizing agriculture; ways to revive Hokkaido's economy overall should also be considered. The term *glocal* represents the concept of thinking globally and acting locally, which is indispensable for the revitalization of regional economies. There is a need to add significant value to agricultural produce through collaboration between farmers and parties in other industries without being tied down to past ideas and assertions. If necessary, the idea of introducing foreign capital also deserves serious consideration. Outgrowing inward-looking ways of thinking is also important in terms of fostering individuals who can act globally and promoting people-to-people exchanges with other countries. It would also be interesting to establish a trading company that specializes in the overseas promotion and sales of Hokkaido's farm produce.