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## *Japan's Agricultural Reform in the Era of an East Asian FTA (Summary)*

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Recently, moves towards regional economic integration, including the conclusion of FTAs, have accelerated. Japan is also working to form bilateral FTAs with East Asian countries. Agreements have been reached with some and are imminent with others. Japan's measures aimed at protecting its domestic agricultural products are considered to be a serious obstacle to progress in FTA negotiations, resulting in delays in negotiations in some cases, as well as decreasing the quality of some FTAs due to the inclusion of exceptions.

Considered on the basis of the OECD's PSE (Producer Support Estimate) scale, Japan has a relatively high level of protective measures for its agricultural products, compared with other developed countries, such as the EU members. At the same time, the ratio of MPS (Market Price Support) to PSE is also higher in Japan than in the EU. Thus Japan depends more on boundary barriers, including tariffs, than on domestic support, including direct subsidies to

producers. As a result of simulations in the case of rice using an economic model, we can demonstrate that this kind of policy combination will cause economic inefficiency on a large scale. Therefore, it is necessary to reform Japan's agricultural support system, shifting to one with a greater dependence on direct subsidy.

On the other hand, the multifunctionality of the agricultural sector, including the environmental effect, has been treated as an important issue in trade negotiations. We can see that Japan's agricultural sectors, including rice production, are multifunctional on a large scale. The direct subsidy system is also effective in maintaining domestic agricultural production at a certain level, in order to support this multifunctionality.

Finally, we introduce one proposal for the introduction of a direct subsidy system for rice production. Yamashita (2004) illustrates that the introduction of an effective system would be both feasible and worthwhile.