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JAPAN'S STRATEGY TO STABILIZE FOOD SUPPLIES

Case Study by HARLAN J. DIRKS

DEPARTMENT OF STATE A/CDC/MR

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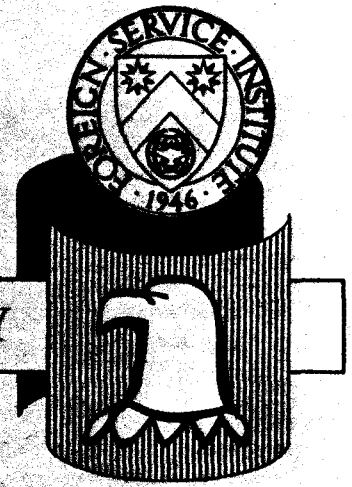
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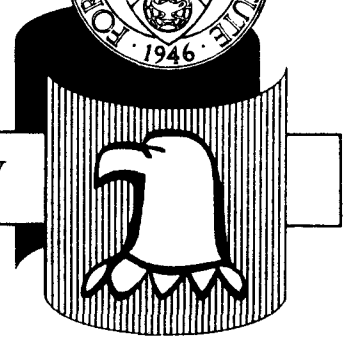
JAPAN'S STRATEGY TO STABILIZE FOOD SUPPLIES

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SUMMARY

A drastically changed world food supply situation in 1973 resulted in sharp political reaction in Japan regarding that nation's long-term food policies. The U.S. decision to put export controls on soybeans raised additional concern about the reliability of the major exporting countries. As a result, strong political pressure developed (partly emotional) to improve Japan's self-sufficiency rate in food production and to push ahead with such international programs as food stockpiling, long term supply contracts and more overseas investments for future imports.

The Japanese hope to increase domestic farm production in the future with new structural reform programs and stepping up the level of subsidies to farmers. In spite of vigorous efforts on the part of the government, the self-sufficiency rate for most commodities, except rice, is expected to continue to decline because of growing consumer demand and limited resources to meet that demand from home production.

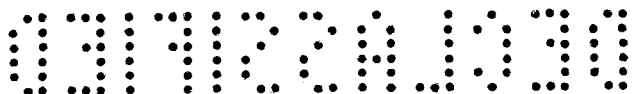
Japan's strategy for diversifying import sources and gaining access to new food supplies is through greater investment of capital and technical aid overseas. The overseas investment program had a modest beginning in the early 1960's but has picked up considerable momentum in recent years. It is still too early to assess Japan's "greening" effort; however, many officials are not especially optimistic about the program's long-term effectiveness. Most LDC's where aid is being given will need about all of the new production for home consumption. About the best that can be hoped for from most of the develop-and-import projects is a stabilizing effect on world supplies. New projects in Latin America and Oceania are currently regarded as the best prospects for opening new sources of supply.

The key to Japan's economic survival in the future will depend to a large extent on its ability to gain wide access to world markets, both on the export and import sides. Japan has announced a new and forward looking trade posture for the forthcoming multilateral trade negotiations which will focus on reducing trade barriers and obtaining a steady expansion of agricultural trade by improved cooperation between exporting and importing countries.

International food reserve policies are now being examined by the Japanese. Japan's basic position is that the major exporting countries have the responsibility of carrying adequate stocks to meet the commercial trade demand. Japan expects to increase its storage capacity as well as use more long-term purchase commitments to facilitate improved planning in both the producing and importing countries.

Japan's long-range policy goals for expanding and stabilizing total food supplies are expected to show positive results, particularly for handling short-term fluctuations in world supplies. It appears that the Japanese will have to continue to look to the major exporters for the bulk of their growing import needs.

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I. INTRODUCTION

The tightening in world food supplies during 1973, climaxed by the Arab oil embargo, has made Japan acutely aware of how dependent she is on imported raw materials. The food situation is of special concern as Japan is only about 50 percent self-sufficient in total food requirements. Agricultural imports have been increasing to meet a rapidly expanding demand for food. Although no real food shortage has as yet occurred in Japan, the possibility of one cannot be overlooked. Japanese officials are now reviewing their national policies and priorities to determine what can be done to alleviate what they feel could be a very vulnerable situation.

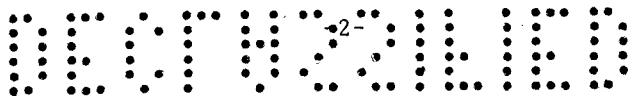
Not all Japanese officials are in agreement that the current soaring prices for food necessarily means a prolonged world food shortage. They have seen these cycles before. Nor is this the first time government officials have acted on policies to assure stable and adequate food supplies both at home and abroad. The Japanese have had programs aimed at promoting greater food security for a number of years. However, the U.S. decision to put export controls on soybeans in July 1973, triggered a new wave of concern that has never before been so strongly voiced in Japan. As a result of this experience, and the uncertain world outlook for food, the Japanese are considering a variety of new plans and strategies to overcome the problems of being one of the world's largest importers of agricultural products.

General Economic Situation

In addition to the concern about adequate food supplies, Japan began 1974 with mounting concern about a rash of new economic problems. Foremost are shortages of raw materials and the impact of higher oil prices. Japan must import 90 percent of its total energy needs and 100 percent of its oil requirements. The real problem in the future will be meeting the higher import costs of crude oil. There is concern that this could lead to serious balance of payments problems as oil costs are expected to soar from \$7 billion in 1973 to as high as \$15 to \$18 billion in 1974. The government is so concerned about the drain on foreign reserves that the Minister of Finance was directed to consider ways of possibly curbing oil imports. Foreign exchange reserves have already been trimmed from a high of \$19 billion to \$12 billion.

The recent oil embargo cannot be singled out as the starting point for Japan's economic problems. Economic pains were felt long before the energy crunch; inflation and labor demands were starting to take their toll. For many years, capital investment has been concentrated in the industrial sector with little going to the social sector. This has given unprecedented industrial growth, but it has also led to an imbalance in national priorities. It also brought with it the costly side effects of pollution. In the future, it is felt that there will be a shift away from heavy investment in the polluting industries to more non-polluting industries which could give a lower rate of growth. This, coupled with more capital going into social programs, could lead to an economic slow down.

The problem of most immediate concern is stagflation. Energy costs are up sharply and wages have been increasing at a rate of 15 percent per year. New labor demands resulted in a 30 percent increase this year. Increased labor costs are now outstripping increases in productivity. It seems clear that the economic miracle that gave Japan a 10 to 10 1/2 percent annual growth is fading. Although there is considerable disagreement about future rates of growth, no one is predicting a collapse of the Japanese economy. The general feeling is that the real annual growth rate will likely level off somewhere in the 5 to 6 percent range. This could mean a drop in the rate of increase in imports. In the past, imports have grown at a rate roughly equal to the growth rate in GNP. Even if the growth



rate drops to 5 percent, Japan will still have considerable buying power. Imports of essential raw materials, such as food, would likely get top priority in the future.

Another emerging problem in the Japanese food picture is the world shortage of fertilizer. Fertilizer holds the key to expanding global food production particularly in the developing countries. Japan is one of the worlds largest producers of nitrogenous fertilizer; of which over half is normally exported. Production has recently been cut back rather sharply due to the shortage of crude oil. Although Japan could probably cut back on exports enough to ensure domestic supplies, it would not be a totally satisfactory solution to the problem. A world fertilizer shortage would only serve to put additional upward pressure on food prices. This is a situation that Japan would like to avoid and will watch closely in the future.

Focus of Study

In order to meet the challenge of providing the people with an adequate and steady food supply, the Japanese government has announced that future policies will be aimed at increasing domestic food production, diversifying sources of foreign supplies, by shifting away from over-reliance on certain areas of the world, and seeking and developing new sources of supply through greater overseas investments. This study reviews past trends and examines the new policy proposals to determine what major developments can be expected and what the potential impact is.

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II. DOMESTIC FOOD POLICIES AND TRENDS

The major limiting factor to Japan's domestic food production is the shortage of land. Japan is a small mountainous country with a total land area roughly the size of Montana. Only 15 percent of the total area is cultivated, yet Japan must feed a population of 108 million, or about half that of the United States. Japan's food policy to date has to a large extent been to import those commodities that can be produced more efficiently abroad and produce the rest at home. However, recent world events, as well as long-range forecasts of world food supplies, have made this position less tenable and has prompted officials to do more long-range planning.

Self-Sufficiency Rate Declining

Japan's self-sufficiency rate in food production has been declining rapidly in recent years. Based on the old method of calculation, self-sufficiency dropped from 90 percent in 1960 to 72 percent in 1972. However, this calculation completely ignored the fact that most of Japan's livestock products are produced entirely on imported feedstuffs. A new calculation on a calorie basis, including calories consumed by livestock, was made for 1972 by the Ministry of Agriculture and Forestry (MAF). This showed Japan's overall self-sufficiency rate was only 53 percent on a food value basis. This growing gap between home production and consumption presented no real problem until recently, as abundant supplies of agricultural products have generally been available on the world market at reasonable prices.

Table 1. Self-sufficiency rate for various agricultural commodities.^{1/}
JFY 1960, 1965, 1970, and 1972

Commodity	1960	1965	1970	1972
Rice	98	92	100	100
Wheat	37	22	9	5
Soybeans	28	11	4	4
Feedgrains	63	21	6	4
Beef	96	95	89	79
Pork	96	100	98	90
Eggs	100	100	97	98
Fruits	97	88	82	84
Vegetables	100	100	99	99
Milk	100	87	90	87
Cotton	0	0	0	0
All Foods ^{2/}	90	81	76	72 ^{3/}

^{1/} Calculation formula: production/production plus imports.

^{2/} Value basis. When 1972 was calculated on a calorie basis, the self-sufficiency rate was 53 percent.

^{3/} Preliminary

Source: Japanese Ministry of Agriculture and Forestry (Food Balance Sheets).

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The reason for the sharp fall in self-sufficiency in recent years has been the strong increase in demand for high resource using, western-type foods and the inability to increase domestic production to meet this demand. The strong demand for more livestock products has called for massive imports of feedgrains and feed proteins. Domestic production of these essential feed inputs has actually been declining. Although Japanese farmers have generally attained high yields, the over-all efficiency of agriculture is relatively low by U.S. standards. One problem is that there are too many small, part-time farmers. Although Japan has had active land reform programs for many years, there has not been any significant improvement in farm size. The average size farm at the end of World War II was 2.6 acres; today it is only 2.8 acres. Productivity of farm workers is low. One Japanese farmer produces enough food to feed only 7.8 people as compared to 52.4 by one U.S. farmer. Prior to the recent sharp increase in world prices, it was calculated that the cost of producing rice in Japan was more than three times the world price. The current government support price for rice in Japan is \$22.76 per hundred pounds, compared to \$6.07 in the United States.

Rapid urbanization and industrialization is putting additional pressures on the limited farming areas. Paddy field land in Japan averages \$18,160 per acre, and non-paddy field land averages \$16,845 per acre. Expanding residential development will continue to push land prices upward. This land boom poses a serious obstacle to farmers seeking to expand farm size. Total cultivated land area dropped from over 6 million hectares in 1962 to 5.6 million in 1972. In the midst of the fastest growing industrial country in the world, Japan's food production capacity is falling behind.

The self-sufficiency rate would probably be even lower if the Japanese were heavy eaters. Per capita food consumption is increasing in Japan, but it is still the lowest of any comparably developed country in the world. This has been due not only to limited domestic supplies, but also to rigid controls on imported foods. Per capita incomes in Japan are now somewhat higher than most countries in Western Europe; however, real expenditures on food per person have not kept pace, leaving a large unfilled demand for food. It has been termed an income-energy gap. In the 1950's the Japanese consumed 2,250 calories per person per day. This rose to 2,400 in the 1960's and reached 2,516 in 1972. This is well below the U.S. at 3,300 calories, as well as the FAO nutritional guidelines. It will likely be some time before consumption reaches 3,000 per day.

Table 2. Per capita daily caloric and protein intake, total and selected foods JFY 1960, 1965, 1970 - 72

<u>Calorie</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1971</u>	<u>1972 1/</u>
Rice	1,106	1,076	914	894	882
Wheat	251	282	299	300	300
Potatoes	82	54	39	40	41
Fruit & Vegetables	113	128	147	149	156
Animal Food	90	161	221	231	239
Fish	87	90	91	96	95
Fats & Oils	105	161	229	239	258
Other	456	456	532	529	545
Total	2,290	2,408	2,472	2,478	2,516
Protein Total (grams)	70	74	76	78	78

1/ Preliminary

Source: "Food Balance Sheets" issued by Ministry of Agriculture & Forestry.



Japanese consumers are shifting away from the traditional rice-centered diet to that of more western-type foods. In addition to the growing demand for more livestock products, Japanese consumers have been substituting bread, made from imported wheat for rice. Self-sufficiency in wheat dropped from 87 percent in 1960 to 5 percent in 1972. The drop in rice consumption has called for a major policy change to reduce rice output. Reducing rice acreage and balancing supply and demand has been the mainstay of the farm policy in recent years. The government has been faced with costly rice surpluses, which must either be sold at much lower world prices, or used as feed.

Historically, the Japanese consumed practically all of their soybeans directly as food. Soybeans were a major source of protein. However, this changed rapidly with the advent of the livestock industry following World War II. A majority of the soybeans today are crushed for animal feed. Self-sufficiency for soybeans dropped from 28 percent in 1960 to 4 percent in 1972. Soybean imports soared from 1.5 million MT to 3.4 million MT during the same period. Although Japan still consumes more soybeans as food than any other advanced country in the world, the percentage of total supplies for human consumption is declining. The percentage of total soybean supplies going into food use dropped about 10 percent between 1960 and 1973. The traditional use of soybeans for food has been mainly tofu, miso, and soy sauce. New uses include soy flour, soy concentrates and isolates and textured and spun soy proteins. The demand for these new products is expected to grow. However, unless the government makes some policy changes concerning livestock production, the percentage of soybeans going for direct food use will probably continue to decline.

Protein from the Sea

If it were not for the food from the sea, Japan's food supply situation would be much tighter than it is. In 1973 the Japanese consumed a record 74 pounds of fish (edible weight) per person--more than in any other country in the world. This compares with about 10 pounds in the U.S. Japan's total catch in 1972 was estimated at 10 million MT or nearly 15 percent of the global catch. The Japanese are the number one harvester of table-grade fish. There is also a long history of fish farming, where the Japanese have developed a sizeable commercial production. However, at best, fish farming is limited and no major development can be expected in the future.

The future outlook for greater supplies from the sea is not promising. The Japanese clearly recognize that there are limits to what their fishing fleets can harvest. The global catch of table-quality fish is probably at or near the maximum sustainable level. Some species are already seriously over-fished. Also, the world's major source of fish meal, the anchovies off the coast of Peru, is now being viewed with considerable alarm. This is important also as the Japanese import considerable quantities of fish meal for animal feed. At one time it was felt that a special fish meal protein concentrate (FPC) would be used extensively as a high-protein source for human consumption, but it did not develop. A small quantity of FPC is used as an additive in food, but its acceptance has been low. There appears to be little future for FPC as a protein food in Japan.

In addition to natural depletion of the seas, the Japanese are also very much concerned about the tendency of other nations to become increasingly protective of sea resources. Under the new proposals of the United Nation's Committee on Law of the Sea Bed and Ocean Floor, many countries are seeking to move their exclusive fishing rights from the 12 mile limit to 200 miles off shore. With the exception of migratory fish, practically all fish gather in the costal water on the continental shelves. If the 200 mile limit is generally adopted, it would make many of the rich fishing areas of the world inaccessible to Japanese fishing boats. This could have a serious impact on Japanese fleets that have traditionally fished all over the world.

Another pressure on the protein from the sea is pollution, particularly in the costal waters around the highly industrial areas of Japan. The Japanese recently found heavy

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chemical contamination in fish. This resulted in a drop in fish consumption in some areas. Pollution is also taking its toll on seaweed and other forms of marine plant life. There are no longer sufficient supplies of seaweed to meet the demand and so far, there has been little success in locating new sources. In the absence of any world wide cooperation on pollution and sea bed development, yields of both fish and marine plants could fall. The best that can be hoped for would be to hold output near current levels. This means that consumers may be shifting more to nonfish sources for protein in the future. A shift to more red meat would call for higher levels of feedstuff imports.

New Protein Sources

The effects of rising affluence on the demand for protein-rich food is best understood in countries such as Japan, because of the heavy dependence on imports to satisfy the growing demand. Feed-proteins are needed in large quantities for the rapidly expanding livestock sector. High prices for fish meal and soybeans this past year prompted the Japanese to focus renewed attention on a long-term scientific program to develop new sources of protein feeds. The results to date have not been encouraging.

Urea, which is manufactured from a petroleum derivative, has been used for many years not only as a fertilizer, but as a protein source for animal feed. However, its use as a protein feed is limited and can be fed successfully only to ruminants being fed on high energy diets. The Japanese claim they have several other new protein sources for animal feed, but the one showing most promise at the moment is yeast. The crude protein content (on a dry matter basis) of yeast is 50 to 60 percent, and it can be reproduced by feeding on air and a carbon source. Potential sources of carbon are plentiful and include industrial and animal wastes. Another carbon source is paraffin, a petroleum derivative.

Although the Japanese authorities declared the yeast-proteins from paraffin safe for animal feed, plans for large scale production were suspended in 1973 due to consumer reaction. It may have been questionable anyhow as a rough estimate of the cost of production shows that yeast made from paraffin would have cost substantially more than fishmeal or soybean meal. Yeast made from other sources would have been cheaper; however, the technology for making protein from wastes has not been developed. There appears to be no breakthrough in this area as yet, and the situation looks even gloomier with the higher petroleum prices. There is nothing here as yet to substitute for imported protein feeds.

New Policies for Domestic Agriculture

Recognizing the political pressures and the rationale for expanding and stabilizing domestic food supplies, MAF announced some new policies for Japanese agriculture. The main thrust of the new policy which shows some important shifts in emphasis, is as follows:

- (1) Hold self-sufficiency near current levels. Increase domestic production of feedgrains, wheat, soybeans, fruits & vegetables.
- (2) Balance supply and demand for rice.
- (3) Produce most of the country's requirements for livestock and poultry products.
- (4) Increase storage capacity for major commodities.
- (5) Improve efficiency in agricultural production with more aid to full time farmers.



The new programs, which are effective in FY 1974, are aimed at improving self-sufficiency and building large stocks of critical food supplies in order to reduce the vulnerability against short term changes in world supplies. In addition to balancing the rice supply-demand situation, the government is providing hefty subsidies aimed at increasing domestic output of feedgrains, soybeans, wheat and barley where production has been decreasing and imports increasing rapidly in recent years.

Japanese soybean production declined from 500,000 MT in 1955 to 118,000 MT in 1973. Wheat output dropped from 1.5 million MT to 202,000 MT in the same period. The government would like to increase the production of these crops, but probably is even more interested in preventing the fallow rice land from being put back into rice production when payments of \$460 per acre to divert from rice to fallow are dropped. The current government support price for soybeans in Japan is \$11.18 per bushel and for wheat, \$7.20. This compares to \$2.25 and \$1.46 per bushel respectively in the United States.

Total rice area is expected to increase by about 100,000 hectares in 1974 with the termination of the government incentive payment for fallowing rice land. This could give a production of about 12,240,000 MT and an increase in stocks of about 290,000 MT. These stocks are not considered excessive in light of the current world food shortage.

Even with the high subsidies, soybeans and wheat will not be nearly as profitable as rice. Therefore the immediate goal of increasing self-sufficiency in these crops is at best marginal. Actually, the program can be viewed more as a small measure of insurance against times when world supplies may cut off rather than as one to increase total supplies. The aim of the wheat policy is to produce more of the soft wheat variety used in a specialized noodle popular in Japan. Domestic soybean output is also for special food uses.

A new public corporation, The Farmland Development Corporation (FDC) will be created in 1974 to help expand agricultural production. FDC initial budget of \$410 million will be used to make financial assistance available to established corporations to enable them to buy, sell and rent farmland, as well as further livestock rearing and farming in less progressive areas. It is hoped that this will lead to larger farms, but with the high land prices and the many small farms, not too much change can be expected for some time.

The recent experience of short world supplies made the Japanese suddenly aware of how short they were on storage, especially for oilseeds and cereals. Officials have concluded that the current situation for these two extremely important commodities is far too vulnerable and that storage should eventually be doubled and maintained to the extent of meeting the demand for about 3 months. This is considered a minimum reserve needed to protect Japan against supply difficulties created by temporary shortages, transportation problems, or dock strikes. Although it is a good start, the goal seems a modest one in terms of total food reserve stocks for a major importer like Japan.

In cooperation with private enterprise, the Ministry of Agriculture will establish a "soybean supply stabilization fund" in 1974 to be used to maintain a one month supply (50,000 MT) of soybeans for food use. This program will benefit mainly the soy food manufacturing industry. Wheat stocks under government control will be increased from 1.7 months supply to a 2.3 month supply. Feed stocks will also be raised. Government feed grain stocks (mostly barley) will be expanded 50 percent. Private compounded feed stocks will be increased from 1 month to 2 months. The plan will also include loans for the construction of new storage.

To augment the new programs, the government has proposed that the budget for FY 1974 be increased from \$5.8 million to \$6.1 million, or 19 percent increase. Similar or greater budget increases can be expected in the future.

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Goals for 1982

The government feels that the current level of self-sufficiency for Japan's food production is nearing the minimum and that any further declines would not be desirable from a national security point of view. Projections for 1982 made by MAF would hold the overall self-sufficiency somewhere near the current levels. Increased self-sufficiency is the goal for wheat, soybeans and animal products. While MAF does have ambitious plans to increase domestic production, the official projections appear to be more of a political goal than an objective analysis.

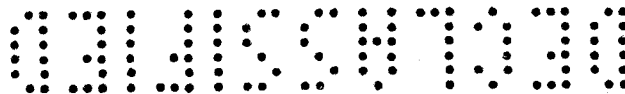
Table 3. Projections for Japanese production and demand for selected agricultural products, 1982.

Commodity	Consumption-Demand		Change	Production	Self-sufficiency rate
	1970	1982	1982/1970	1982	1982
	1000 MT		Percent	1000 MT	Percent
Rice	11,948	10,830	91	10,830	100
Wheat	5,207	5,760	104	480	8
Barley	1,685	2,340	139	578	25
Potatoes	6,175	5,080	82	5,080	100
Soybeans	3,281	4,427	135	536	12
Pulses	393	381	97	222	58
Peanuts	115	188	165	94	50
Tea	100	130	130	130	100
Vegetables	15,210	21,170	139	21,170	100
Fruit	6,636	10,736	162	8,827	82
Dairy Products	5,355	9,230	172	8,482	92
Meat	1,678	3,878	231	3,455	89
Eggs	1,817	2,271	125	2,271	100

Source: Japan Ministry of Agriculture and Forestry.

It is doubtful if the use of heavy subsidies will change the self-sufficiency rate for feedgrains, soybeans, and wheat. Increasing self-sufficiency in soybeans from the current 4 percent to 12 percent, and wheat from 5 percent to 8 percent will be difficult if not impossible, in view of the limitations on cultivated land and the apparent lack of profitability relative to other crops. Also, comparatively cheaper priced imports will make national programs for these crops difficult to justify to the taxpayers and consumers in the long run.

A majority of Japan's agricultural imports are feedstuffs for livestock production. Feed-grain imports alone increased from 3.3 million MT in the early 1960's to over 13 million MT in 1973. The demand for livestock products is expected to more than double by 1982, which will require a substantial increase in feedgrain imports above the current high levels. There is considerable concern among officials as to whether Japan will have access to that much feedgrain each year in world trade. There are also doubts as to Japan's capacity to increase livestock production, particularly beef, that much above current levels. Some large feeding units (both hogs and beef) have closed down recently due to pollution problems. Others have had to install very expensive manure disposal units. These extra measures have added additional overhead to a livestock industry that is already at a comparative disadvantage. Therefore, domestic production will face strong odds in meeting the growing demand for livestock products. Members of the private trade interviewed agreed that the gap between domestic output and demand would widen and that increased imports of



meat products would be needed to fill the demand. This trend is further indicated by Japan's heavy capital investments abroad in beef production and feedlot operations.

Japan hopes to up farm output by increasing farm size and extending more financial aid to full-time farmers. Hopefully, larger farms will be able to diversify their production patterns and grow more soybeans, wheat, feed grains, and livestock and less rice. However, it is doubtful if the trend to larger farms will have any significant impact on improving the overall level of self-sufficiency in the future. Nearly all the land that can be farmed is now being farmed. The government's goal of increasing farm output, and the public's demand for more land for industry, housing and recreation appear to be conflicting goals.

In the final analysis, it is difficult to see how Japan can realistically expect to maintain its current rate of self-sufficiency. Expenditures on food are estimated to increase at an annual rate of 5.3 percent. This estimate may be too modest considering the huge wage increases granted in 1974. Population growth is expected to increase at about the current rate of 1 percent per year. Per capita calorie intake is expected to increase from the present level of 2,516 per day to 2,640 by 1982. Then too, a higher proportion of the protein is expected to come from livestock products. In light of this strong growth in demand, and the limited possibilities to increase domestic production, the self-sufficiency rate can only go down. With no major policy changes, the self-sufficiency rate could easily slide another 10 to 15 percent by 1982, meaning higher levels of imported agricultural products in the future. The only way this trend can be avoided would be for the government to control the level of imports or the level of demand.

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III: OVERSEAS INVESTMENT STRATEGY

An important part of Japan's long-range planning to diversify sources of supplies and assist foreign countries expand production is through capital and technological investments overseas, particularly in less developed countries. It has become known as Japan's "Develop-and-Import" program. Develop-and-import projects can be roughly divided into two groups; one is pure economic cooperation or aid type projects, while the other is aimed directly at securing greater access to new sources of food and raw material reserves.

The Japanese Government recently encouraged stepped-up activity in aid programs partly as a means of reducing its heavy accumulation of foreign reserves. Foreign investment was also encouraged to develop production in LDC's where Japan had a strong favorable balance of trade and where these countries had the capacity to produce raw materials that Japan badly needed. The tempo of Japan's overseas investments has been moving ahead at a rapid pace, but now, with the higher costs for imported energy, Japan may find itself in a considerably less favorable position to expand its overseas aid and investments programs in the immediate years ahead. Declining foreign exchange reserves have already called for some restrictions and approvals are now more selective. The government will discourage overseas investments in such areas as real estate, recreation, and stocks, while investments in resource development will be encouraged. Top priority will likely be given to energy and food.

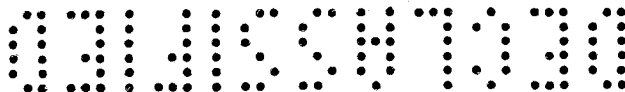
A possible slow down in aid assistance could have political repercussions as some LDC's have been looking more and more to Japan for assistance. Japan's economic capacity to make such contributions has become increasingly strong. The total amount of aid extended by Japan in 1971 ranked second in the world only to the United States. In 1972, Japan's development assistance dropped to 4th place. Further declines could develop, depending on Japan's national priorities and policies regarding overseas investments.

Total official and private Japanese foreign aid has increased each year from \$625 million in 1966 to \$2.7 billion in 1972. The accumulated total amount of aid extended from FY 1966 through FY 1972 is placed at \$10.4 billion. The amount flowing into foreign aid has increased from 0.62 percent of the GNP in 1966 to 0.93 percent in 1972. Japan's goal is to maintain its foreign assistance at a level equal to 1 percent of its GNP. If Japan holds to its goal there could be some \$40 billion more going into foreign aid by 1982. However, the Japanese press recently reported that with the pending balance of payments problem, foreign investments could be cut as much as half in FY 1974.

The share of Japan's foreign aid going into agricultural development (Agriculture, forestry and marine sector) was 5.2 percent in 1971. This was increased to 9.4 percent in 1972. Japanese officials that were interviewed indicated that greater emphasis would be placed on agricultural development in the future.

Japan's foreign aid and technical assistance programs are closely tied to the commercial and private business sectors. Government level aid in FY 1972 amounted to \$1.16 billion. This included loans, grants, and multilateral contributions. In the same year, the private business sectors added another \$1.57 billion of aid in the form of export-financing credits, loan participation programs, and direct investment financing.

The Overseas Economic Cooperative Fund (OECF) is a government agency which specializes in making soft loans to developing countries at low interest rates. At the end of FY 1972 committed loans and investments by OECF amounted to \$1.23 billion. Out of this total, 78 percent were direct loans to foreign governments which carried an interest rate of 3 to 4.5 percent and a repayment period of more than 20 years. The balance were



loans to Japanese private enterprises for projects in less developed countries. Interest rates in these private enterprise loans vary from 4 to 5.5 percent depending on the project.

Table 4. Japanese foreign aid 1966 - 1972. ^{1/}

Item	1966	1967	1968	1969	1970	1971	1972
----- million dollars -----							
Government:							
Grants	104.0	138.4	117.0	123.4	121.4	125.4	170.6
Loans	130.0	207.5	190.5	216.2	250.3	306.7	307.2
Multilateral contributions	50.2	44.6	48.8	113.9	307.9	450.3	681.7
Total	284.9	390.5	356.3	453.5	676.7	882.4	1,159.5
Private:							
Export credits	243.1	322.4	570.5	609.5	736.4	765.7	456.9
Investments	97.1	84.6	122.6	199.9	408.1	492.5	1,209.0
Total	340.2	407.0	693.1	809.4	1,144.5	1,258.2	1,565.9
Grand Total	625.1	797.5	1,049.3	1,262.9	6,824.0	2,140.6	2,715.4
----- Percent -----							
Percentage of GNP	0.62	0.67	0.74	0.76	0.93	0.95	0.93

^{1/} Japan's fiscal year begins April 1.

Source: Japanese Ministry of Finance.

Technical assistance is handled by a government agency called Overseas Technical Cooperative Fund and is under the direction of the Ministry of Foreign Affairs. The various Ministries in government supervise their own technical specialities under the program. The program consists of assigning Japanese technicians overseas, establishing technical co-operation centers in foreign countries and receiving foreign technicians for training in Japan. During FY 1972 over 8000 people were involved in Japan's technical cooperation programs. This included students, trainees and specialists. The budget has been increased steadily. In 1969 the budget was \$19.5 million. This was increased to \$45.6 million in 1972. The amount of technical assistance going to agricultural development and cooperation was increased from \$1.5 million to \$5.2 million during the same period.

Area Development Programs

Japanese aid was originally started in Asia. This area has had close ties with Japan for many years and ranks near the top as an export market. The balance of trade with this area has been strongly in Japan's favor. In 1972 Japan exported \$6.3 billion worth of goods to the Asian countries and bought only \$4.2 billion, giving a trade surplus of over \$2 billion. The Japanese would like to see some correction in this imbalance by improving the area's capacity to export raw materials.

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Japan has a total of 14 funded aid projects for agricultural development in Asia with a capital value equal to \$76 million. Programs in Asia have been mainly for improvement in local food supplies and feed grain production for export. The best results in feed grains have been corn production in Thailand and Cambodia. Aid and technical assistance has been granted to several Asian countries, mostly to the Phillipines, Indonesia, Malaysia and Vietnam for rice production improvement.

Another important area is Latin America. The climate for investment seems favorable there. The Japanese interest is shifting from Asia to Latin America. In 1970, 60 percent of Japan's direct investment in LDC's was in Asia, and 20 percent in Latin America. In 1972, direct investment shifted to 46 percent in Latin America and 37 percent in Asia. There are a total of 46 funded agricultural projects in Latin America. The bulk of the commercial interest has been centered in Brazil. The agricultural commodities of most interest to the Japanese in Brazil are soybeans, corn and beef, but the trade is also interested in coffee, cotton, spices and orange juice. Japan's largest single commitment in South America is the "export corridors program" in Brazil. Under this program, grain storage, warehousing and refrigeration facilities are being expanded in the port areas. Japanese traders interviewed were rather optimistic about Brazil for further development.

Japan has some interest in Africa, but with the exception of South Africa, the outlook for resource development is not good. The Japanese have 11 active development projects for agriculture in Africa at this time. It will be a long time before any results can be expected. The major interest is in corn, tea, beef and oilseeds. There have been some advances in Madagascar for development of beef production. The availability of beef from this source appears to be a long way off.

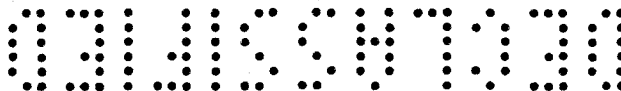
The Japanese have a strong interest in developing food supplies in Oceania, particularly Australia, which ranks second behind the United States as the most important supplier of agricultural products to Japan. The interest is centered in beef, sorghum and oilseed production. The major advance "down under" at present is securing larger supplies of quality beef. Most of the investment plans call for the establishment of joint ventures with Australian beef producers for starting feedlot operations. Some 40 Japanese firms are reportedly planning to move into Australia to develop beef feedlot and slaughter operations. Japanese importers hope to improve the quality and marbling of Australian beef by grain feeding in feedlots. Japan's import quotas for beef could limit expansion of this program at least in the short-term.

New "Develop-and-Import" Agency

A new government financed aid agency to be called "International Cooperation Agency" has been proposed and presented to the Diet (Japan's parliament) for approval. The call for the new agency was triggered by the U.S. decision to ban soybean exports in 1973 and the current wave of uncertainty regarding the outlook for world food supplies. The purpose of the new agency is to streamline efforts and to vigorously propel the develop-and-import projects overseas starting in FY 1974.

If created, the new agency would be headed by the Ministry of Foreign Affairs. As in the past, MAF would head up all of the agricultural projects and MITI would take charge of all industrial development projects. The main emphasis would be to assist developing countries to boost food production and to help tap vital resources. At the time of this writing, the Diet had not approved the new agency, but it was given at least a 60 percent chance of passing. The recent sharp drop in foreign exchange reserves could delay passage of the new agency this year.

Under the current proposal, the new agency would not directly take over the functions, nor the funds of the Government's OECF, but officials said that OECF may want to channel most of its money into the new agency's projects. To improve efficiency, the



Foreign Minister has asked that the new aid agency take over the supervision of the Overseas Technical Cooperative Agency as well as Japan's Immigration Service. It is expected that the agency will direct the bulk of its efforts to Asia and Latin America where the prospects for results are considered the best. Projects in developed countries, mainly Oceania, will be included.

The proposed Agency's projects will be divided into two classifications: (1) Government to government projects, and (2) Government support to Japanese private enterprise projects. MAF has submitted a list of 23 new projects to be started from FY 1974, and is asking for \$300 million in direct government loans. No specific amounts have been recommended for aid support via the private sector, except for some sizeable loans for soybean production in Brazil and palm oil production in Indonesia.

A summary of the proposed projects to be carried out by MAF starting in FY 1974 is as follows:

GROUP I: Government to Government Projects

- (1) South Salawes and Indonesia for general development & irrigation, \$25 million.
- (2) The Phillipines for corn production, \$17 billion.
- (3) Mexico for soybeans and corn, \$27 million.
- (4) Phon Hong, Laos for general development and irrigation, \$17 billion.
- (5) Indonesia for general development of agriculture, \$21 million.
- (6) Indonesia for beef production, \$14 million.
- (7) Madagascar for beef production, \$11 million.
- (8) The Phillipines for lumber, \$91 million.
- (9) Indonesia for lumber, \$80 million.

GROUP II: Joint Projects with Japanese Business

- (1) Indonesia (corn production)
- (2) Indonesia (palm oil)
- (3) Indonesia (beef production)
- (4) Mexico (beef production)
- (5) Brazil (lumber and plywood)
- (6) Mexico (corn and sorghum)
- (7) Brazil (corn)
- (8) Argentina (corn and sorghum)
- (9) Thailand (corn)
- (10) Australia (cereals and seed)
- (11) Madagascar (beef production)
- (12) Brazil (soybeans)
- (13) Indonesia (palm oil)
- (14) Indonesia (grain storage and beef)

Japanese Private Investment Overseas

Japanese private overseas investment has increased dramatically following the gradual removal of the stringent controls on foreign investment that existed since the end of World War II. Near complete removal of restraints occurred in 1971. Overseas investment in FY 1972 increased sharply to \$2.34 billion, 2.7 times the \$858 million invested in 1971. This brought the cumulative total of Japanese foreign private investment through the end of FY 1972 to \$6.8 billion. Of this total, nearly a half billion dollars has been invested in agriculture, lumber, food processing and fisheries. Geographic distribution is wide and the total is hardly sufficient to add much stability to overseas food and fiber supplies as yet. However, the Japanese private sector plans to increase overseas activity in the

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food sector by more joint ventures and through greater investment of equity capital in foreign firms. There has also been a noticeable increase in overseas activity by smaller Japanese firms.

Total Japanese private investment in the United States is small--only about \$1.3 billion, cumulative total as of the end of FY 1972. This represents only about 2 percent of the total foreign capital invested in the United States. Recently, the Japanese have shown considerable interest in U. S. stocks, bonds and real estate.

Table 5. Japan's officially approved overseas private investments, by industry and area, (cumulative March 31, 1972).

Industry	- - - - - Million Dollars - - - - -							Total
	Asia	Middle East	Africa	Latin America	Europe	North America	Oceania	
Mining	371.4	376.8	85.1	164.8	824.3	201.7	249.9	2,274.0
Commerce	39.0	0.8	0.9	47.6	76.4	569.0	22.7	756.2
Finance & Ins.	79.2	2.9	0.5	120.1	123.2	199.5	16.0	541.5
Textiles	291.7	--	21.9	89.8	1.4	9.7	1.9	416.1
Timber & Pulp	30.6	--	--	10.4	--	218.4	36.8	296.1
Iron & nonferrous metals	70.5	--	3.3	117.4	10.1	1.7	37.4	240.3
Transp., Equip.	33.4	1.2	--	96.8	4.2	--	6.8	142.3
Machinery	29.6	1.0	--	69.9	14.8	21.4	1.4	128.0
Ele Machinery	100.6	2.0	1.1	33.3	3.0	28.6	3.0	171.6
Agri & Forestry	59.1	0.4	--	9.5	0.4	6.1	7.7	83.3
Foodstuffs	34.7	--	3.9	18.5	7.5	12.1	22.2	98.8
Chemicals	44.0	--	1.4	57.2	18.2	13.0	7.5	141.3
Construction	6.6	--	--	31.5	0.7	8.4	0.3	47.4
Overseas Branches	23.0	218.0	0.8	2.8	17.5	25.6	2.8	290.4
Fisheries & Marine Products	16.6	0.1	11.3	11.2	0.1	2.7	6.9	49.1
Other	160.1	3.2	17.7	118.5	557.4	230.5	8.8	1,096.2
Total	1,309.7	606.4	148.0	989.2	1,659.4	1,548.4	432.1	6,772.8

Source: Japanese Ministry of Finance (loan approval basis).

The total accumulated value of private Japanese capital invested in United States agricultural enterprises (agriculture and forestry, food processing, timber and pulp and fisheries) amounted to \$107 million for this period. There is considerable speculation that this figure may have jumped substantially in 1973. However, it is difficult as yet to tell if these rumored investments were bonified business ventures, or real estate transactions. The bulk of current outlays are invested in timber and pulp and fish processing plants along the west coast of the United States. According to the Japanese Ministry of Finance the break-down for investment in the United States is as follows: Food manufacturing, \$10.9 million; agriculture and forestry, \$3.9 million; timber and pulp, \$90.3 million and fisheries, \$2.0 million.

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A complete list of Japanese firms operating in the United States as of October 1, 1973 in the agricultural field is as follows:

<u>Parent Company</u>	<u>American Subsidiary</u>	<u>Location</u>	<u>Product</u>
<u>Food Processing:</u>			
Kikkoman Shoyu Co. Ltd Kokuyo Co. Ltd.	Kikkoman Inc. Whitney-Fidalgo Seafoods Inc.	Wisconsin Washington	Soy & teriyaki sauce Seafood processing
Marubeni Corp. Mitsubishi Shoji Kaisha Ltd.	Tad Fishing Co. J/V Orca Pacific Packing Co. Sand Point Pkgn. Co. J/V	Alaska Alaska	Fish processing Seafood processing & packing
Nisshin Food Products Ltd. Taiyo Fishery Co. Ltd.	Nisshin Foods (USA) Inc. Maryland Tuna Corp. J/V	California Maryland	Food processing & packaging Seafood processing
<u>Non-Food Products:</u>			
Alaska Pulp Co. Ltd.	Alaska Lumber and Pulp Co. Inc. Wrangell Lumber Co.	Alaska Alaska	Pulp & Lumber Lumber
Iwakura-Gumi Lumber Co. OJI Mokuzai Co. Ltd.	South Central Timber Development Inc. Alaska Prince Timber, J/V	Alaska Alaska	Lumber Lumber
Toyo Pulp Co. Ltd.	Toyo Co	Idaho	Wood Pulp
<u>Agricultural Related Products 1/</u>			
Japan Gas Chemical Marubeni Corp. Marubeni Corp.	Alaskan Gas-Chemical Don Juan Mfg. Co. J/V Wateree Textile Corp. (J/V under constr.)	Alaska N. Carolina S. Carolina	Urea Fertilizer Clothing Textiles
Mitsubishi International Corp. Toyobo Ltd. Tsuzuki Spinning, Ltd.	Joffe Jentra Ltd. J/V Rosewood Fabrics Henderson Mills, Inc.	- - - - - - S. Carolina Georgia	Fabrics Textiles Yarn

Source: U. S. Department of Commerce.

1/ Not included as an agricultural investment.

Results of Develop-and-Import-Programs

It is still too early to make an accurate appraisal of Japan's international development strategy. It takes about three years before any results at all can be expected in agricultural production. In other cases, massive investments are needed and long-term development before there are any visible results. The entire program suffered a drastic setback due to abnormally bad weather conditions during the past two years in many countries where large projects were underway. The situation led to a state of near crisis proportions in many less developed areas of the world. Then too, not all of the Japanese aid projects are expected, or intended to result in greater access to food supplies for Japan.

ownership, joint ventures, or by providing equity capital so that most of the increased output is shipped to Japan. This type of investment also gives greater control over such factors as quality, storage and delivery.

It seems clear that Japan's efforts to develop alternative sources will show some definite gains; however, virtually all officials interviewed felt that gains would be only incremental and that Japan would have to continue to look to the big commercial suppliers--the United States, Canada, Australia, and South Africa--for the bulk of its growing import needs.

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IV. POLICY ON FOREIGN TRADE

Japan is unique among the industrialized countries of the world. No other advanced nation is so highly dependent on imported raw materials both for manufacturing and sustaining human life as is Japan. That makes this economic giant more vulnerable to the decisions of foreign suppliers than most other advanced countries. Japan's future economic growth rests primarily on its ability to gain wide access to world markets, both on the export and import side. As a result of the recent experience of short world supplies, the Japanese are expected to vigorously push for more world-wide agreements to assure adequate supplies of basic raw materials and food.

The Japanese have long been accused of advocating freer trade and better market access while themselves following restrictive import practices. Over the past few years, Japan has been slowly moving away from its traditional restrictions of imports. The Japanese have assured other nations that it will pursue both a positive and forward-looking external trade policy in the future. The main objective of Japanese traders is to obtain steady supplies without the wild fluctuations in volumes and prices they experienced this past year. The Japanese hope to accomplish this through participation in the multilateral trade negotiations (MTN) and by improved cooperation between trading countries.

Even though Japan has long pursued a policy of strict controls on agricultural imports to protect domestic farmers, imports have increased steadily and now account for about 10 percent of all the agricultural products in world trade. Japan must import 95 percent of its soybeans and feedgrains and all of its cotton and about 10 percent of its livestock products. The total value of Japanese agricultural imports from all sources in 1973 was \$8.6 billion.

In November 1972, Japan announced some sweeping changes in its tariff structure in order to help restore greater equilibrium in its balance of trade surplus. There was a 20 percent across the board tariff cut. Some important exceptions were withheld mainly in the agricultural sector. On April 1, 1973, the Japanese made additional tariff reductions on a number of agricultural commodities. While this in total amounted to considerable liberalization, Japan still maintains import quotas on 22 agricultural categories. This was reduced from a high of 60 at one time. In addition to quotas and tariff, the Japanese also maintain some troublesome non-tariff barriers and use state trading on wheat, tobacco, barley, rice, salt and butter which restricts the flow of imported goods. Strong protection is still given on most consumer ready goods to protect domestic processors.

There is little doubt that the recent tariff cuts have helped to boost U.S. agricultural sales to Japan. Helped by sharply higher prices, and the removal of quotas, 1973 U. S. sales amounted to over \$3 billion, about double the rate for the two previous years. This level of sales was equal to about a third of the total Japanese import market, and accounted for 17 percent of all U.S. agricultural sales overseas on a value basis. The U.S. supplied Japan 86 percent of its import requirements for soybeans, 73 percent of the feedgrain, and 57 percent of the wheat in 1973. Sales to Japan in 1974 are expected to exceed the record level set in 1973.

Basic Policy on Multilateral Trade Negotiations

It is Japan's official view that the forthcoming MTN are of the utmost importance not only to the future development of its own economy, but to the economy of all nations as well. Therefore, Japan proposes to seek a series of measures designed to further open up and liberalize world trade. Japan's basic interests in the negotiations as set forth by the Ministry of Foreign Affairs are as follows:

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- (1) The Negotiations should be conducted in accordance with the objectives and principles of the GATT and with a view to securing overall reciprocity.
- (2) Substantial reductions (including elimination) of tariffs will be sought for.
- (3) The elimination or reduction of non-tariff measures, or the trade restricting or trade impeding effects of these measures will be sought for.
- (4) With a view to seeking a further promotion of trade liberalization and aiming at preserving such results, multilateral safeguard having in mind the principle of non-discrimination, will be examined.
- (5) In respect of trade in agricultural products, in line with the general objectives of the Negotiations, considering the special nature of the agricultural sector and based upon mutual benefits through cooperation of exporting and importing countries, a steady expansion under stable market conditions will be sought for.
- (6) Taking into account the development needs of the developing countries, due attention will be paid to securing additional benefits for the international trade of these countries. At the same time, reciprocity will not in principle be expected of the developing countries.
- (7) If it proves necessary during the course of the negotiations that the GATT provisions should be reviewed, it will be dealt with in line with the objectives and principles of the Trade Negotiations.

Japanese officials admit that the most troublesome area during the MTN will be agriculture. There will be strong national pressure to protect domestic farmers and to keep the present level of self-sufficiency from sliding further downward. However, consumer resistance and strong growing demand will likely force further relaxation of food import constraints.

The Japanese feel that for MTN to be effective, there should also be negotiations on monetary reform. The Japanese generally recognized that the yen was undervalued prior to the Smithsonian Agreement and that some realignments were needed; however, traders have suffered from the floating yen and it has also been a factor in running down the nation's reserve position. Depreciation of the dollar against the yen at the deepest point was about 28 percent. There has been some recovery of the dollar since the low point. The Japanese favor a return to some form of "fixed" exchange rates. They would like to see a controlled fluctuation ban set under the guidance of the International Monetary Fund.

Long-Term Supply Contracts

Japan's importers this past season were frustrated by a large number of contracting and delivery problems. They were faced with export embargoes, contract cancellations, requests for new price negotiations under existing contracts and government imposed minimum export prices to circumvent earlier agreed-on prices. The Japanese are still expressing concern to many of the major supplying countries over the possibility of their imposing export controls before the new crop is harvested.

This experience has prompted Japanese government officials and importers to explore the possibility of expanding the use of long term supply contracts (LTSC) with exporting countries to gain greater market stability and to enable improved planning in both the importing and exporting countries. The Japanese are looking for government to government "guaranteed" contracts that would not be voided by the imposition of export controls. If an

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absolute "guarantee" is not possible, as a minimum, the Japanese would likely insist on prior negotiations before any export stop, and that preferential treatment be given LTSC in times of short supplies.

The GOJ has successfully used LTSC in the past. LTSC have been signed with the Canadian and Australian Wheat Boards for the delivery of wheat. Private firms that were interviewed had mixed thoughts on LTSC. Some felt that any "guaranteed" LTSC would have to be handled by the government. However, many private firms have been using various forms of LTSC on their own for some time. For example, Japanese importers have signed LTSC with the Canadian Hog Producers Board for delivery of a specified quantity of pork over a three year period. Other firms have used LTSC for cotton purchases. Many firms are reportedly looking for new LTSC to help stabilize foreign supplies, especially where such arrangements would be mutually beneficial to both sides.

According to officials in MAF, the government would have a number of problems to overcome before LTSC could be used extensively. For one thing, the government budgeting system is set up on an annual basis, and hence, it cannot honor commitments for more than one year in advance. The only commodities approved for direct government contracting at present are wheat, rice, and barley. It is felt that this list could be expanded; in fact, it was felt by some officials that feed firms could probably buy under government agreement using LTSC at the present time.

The U.S. favors long-term purchase commitments as well as more long-range planning of future needs and supplies; however, the USG has no authority to "guarantee" LTSC to foreign buyers. Due to a number of practical and legal problems, the USG is reluctant to seek authority to participate in LTSC with the commercial trade at this time. The current U.S. policy is to increase production and availabilities to such a level that the question of export controls will not arise. The U.S. has assured Japan on several occasions that it will continue to be the world's largest and most reliable supplier in the future.

In the near-term, no strong deviation from past buying practices is anticipated by the Japanese trade; however, one gets the feeling that buyers intend to sharpen their terms in the future to gain more assurance of performance. They will likely use more LTSC and seek more storage agreements with exporters. Actually, LTSC could be nearly as effective as expanded storage capacity at home. A closer working relationship will likely develop between the Japanese government and the trading companies. This will be particularly true for the purchase of certain essential commodities. These programs, however, will probably be used more for leveling out short-term fluctuations in world supplies than for any major change in normal purchasing policies.

International Commodity Arrangements and Food Reserve Policies

As a result of the recent world food crisis, the Japanese are examining international commodity arrangements and multinational food reserve policies to see what can be done in providing greater food security. Past experience with these programs has not been especially good, but MAF officials now feel some form of multinational commodity reserves may help level out the hazards of free markets. Japan's position is that the major exporters, as reliable suppliers, should maintain the necessary reserves to meet foreign commercial demand. Japan's contribution to the scheme would be to expand its own storage capacity. The Japanese would also like to see an improved world-wide information system on the food situation and more international cooperation for the expansion of agricultural production in developing countries.

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The key issues that will likely be debated in the world conferences on international food reserves are:

- (1) How should emergency food reserves be maintained for use in international disaster relief?
- (2) How should sufficient stocks of food be maintained for commercial use around the world?
- (3) What approach each individual country should take to meet long-term food supply needs, based on its own national priorities?

The United States has some serious reservations concerning the formation of strict international commodity arrangements whereby each country holds or makes a specific contribution to a world "Food Bank". It is felt that this would have the same stagnating effect on commercial trade and production incentives as did the huge stocks the U.S. government held in the past. The U.S. position is that each nation should determine its own best means of maintaining adequate commercial stocks. Multilateral negotiations on arrangements to prevent world hunger and starvation is another matter. Although there appear to be some basic differences on food reserve policies, both the U.S. and Japan agree that more information on the world food supply and demand situation should be developed and shared, and that sufficient commercial stocks should be maintained in order to plan ahead and meet the world's growing demand for food. Japan's present intentions for expanding its storage capacity seems to fall short of carrying its fair share of commercial food reserves.

Policy On Foreign Firms in Japan

The Japanese have liberalized most of the controls on foreign investment in Japan; however, certain sensitive areas are still subject to close screening and internal restrictions. These are mainly in the agricultural and food areas where foreign investment could have "detrimental" effects on Japanese interests.

Although many of the restricted areas are scheduled for greater liberalization within the next few years, it might be in Japan's best interest to step the schedule up, particularly if world food supplies remain tight. Increased foreign investment in the food sector could bring with it expanded storage facilities and a more uniform flow of raw materials from the foreign firms representing the major supplying countries. Liberalization of restrictions could stimulate foreign investment interest in such industries as feed manufacturing, soybean crushing, edible oil processing and general food retailing. The U. S. has asked for and is encouraging this type of liberalization.

In summary, Japan claims to be a large and steady market for imported agricultural products and expects the exporting countries to be reliable suppliers. The large exporting countries, on the other hand, will likely claim that market access is the major problem in getting steady supplies into Japan. To be consistent with its new trade policy, Japan's agricultural import constraints will probably be reduced in the future, but only at a rate that is compatible with domestic agricultural policies. Those countries that can supply Japan a reliable supply of quality agricultural products will find a large and growing market.

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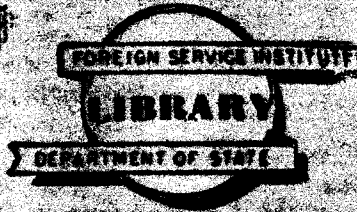
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