

## 10 Reasons Why Japan Is Essential For U.S. Agriculture

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China and India have recently generated much more attention than Japan concerning agricultural trade. We hear a lot about China, with its growing middle class ready to spend millions of dollars on imported food products. India, with over 1 billion people, has also been characterized as a market with tremendous potential for U.S. agriculture. With all the talk about these two Asian giants, Japan's importance can be easily underestimated as just a maintenance market. However, Japan has been essential for U.S. agriculture in the past and will continue to be critical for U.S. agriculture in the future.

Japan is the largest net importer of food products in the world and the third largest market for U.S. agricultural products. Likewise, the United States is the leading supplier of Japan's agricultural imports. In 2005, U.S. agricultural, fish and forestry exports to Japan amounted to \$9.75 billion. In fact, the value of U.S. agricultural exports to Japan exceeds the value of U.S. agricultural exports to all EU countries. The cooperators community looks at Japan as an important market. In 2005, for example, there were 41 cooperators active in the Japanese market and FAS approved almost \$36 million in Market Access Program funding for Japan for the year.

The importance of this market can be shown in U.S. jobs. The Japanese market for U.S. agricultural products provides full time jobs for over 100,000 Americans. In addition, U.S. agricultural exports to Japan generated almost \$14.5 billion in economic activity in the United States in 2005.

Given the growing affluence in Japan, the country's poor record in agricultural productivity, its aged and declining agricultural population, and a gradual reduction in trade barriers, there should continue to be a strong demand for food imports, even with a slight decline in the population. Likewise, within this large and affluent market are tremendous growth opportunities for U.S. exporters, given the fact that the Japanese population is aging and consumers are sophisticated and have a high purchasing power. Moreover, Japan sets the standard for Asia in many aspects such as food quality, regulatory requirements and business models.

### 1. The world's second largest economy

Japan, with a population of 127 million people, represents the world's second largest economy, with a Gross Domestic Product (GDP) of \$4,571 billion and a stable and highly convertible currency. To give some perspective of the size of the Japanese economy, Japan's GDP is greater than the economies of China, Canada and Mexico combined. Japan's economy is also beginning to pull out of its decade long slump and is showing signs of recovery. In 2005, for instance, Japan's GDP increased 2.8 percent. Other indicators also suggest that the economy is entering a stable period of economic growth.

Japanese consumers are highly educated and have considerable disposable income. For example, according to the International Monetary Fund, Japan had a per capita GDP in 2006 of \$34,955 compared to China's per capita GDP of \$1,944 and India's

per capita GDP of \$769. In addition, in contrast to developing countries like India, China and Russia, Japan's import, distribution and retail infrastructure is well established. Japan also offers a unified market, characterized by a common language, national media, relatively uniform tastes, and a functional legal system.

## **2. Food is an important priority in the Japanese culture**

The importance of food in the Japanese culture is reflected in the enormous size of the Japanese food industry. The total food market in Japan is valued at approximately \$600 billion for a population of 127 million compared to the total U.S. food market value of \$1,038 billion for a population of 300 million people. Japanese eat less than Americans. According to the Food and Agriculture Organization of the United Nations, caloric consumption per person per day is about 1,000 kilocalories less in Japan than in the United States. Nonetheless, Japan's consumers spend more on food than U.S. consumers. High food spending reflects higher food prices and potentially higher profit margins, but the Japanese consumer is also willing to pay a higher price for quality and convenience.

The key to success in Japan is winning over the demanding Japanese consumer. Japanese consumers are the world's most value-conscious, quality-obsessed consumers. They appreciate taste and all of its subtleties. Japanese consumers are highly brand-conscious and care a great deal about seasonal foods and freshness. They are increasingly health-conscious and they "eat with their eyes" and often view food as art. A food product's aesthetic appearance, on the shelf, in the package, and on the table, is very important to consumers.

Japan is becoming more influential on the world stage regarding food culture and innovation. Japan is trying to become more active in exporting food products, promoting the image of its food cuisine within Asia and beyond. However, the country is dependent on high-quality import ingredients, such as U.S. food grade soybeans, in many of its export products. Similarly, fishery products, many of which are imported, are valued in the Japanese food culture.

## **3. Demand should remain strong for imported food products**

The Japanese food market is highly dependent on imported food to meet the needs of its consumers. The high cost of agricultural production, increased market liberalization, and the growing demand for Western, prepared and healthy foods suggest that the demand for food imports should remain strong even with a slight decline in the population.

The agricultural community has traditionally been protected because of the political influence of farmers. Even with this protection, Japanese agricultural production has been steadily declining over the last 40 years. For instance, agriculture's share of gross domestic product dropped from 9 percent to 1 percent over the past 40 years. On a caloric basis, the nation's rate of self-sufficiency has plummeted from 73 percent in 1965 to 40 percent today, the lowest level among industrialized nations.

Even though the Japanese government is attempting to reform agriculture, this downward trend should continue in the future. Farms are small, with the average farm size of around 3.25 acres, and the number of farmers declining. For instance, according to the Japanese Ministry of Agriculture, Forestry and Fisheries (MAFF), during the five year period from 1998 to 2003, there was a 13 percent drop in the number of commercial farming households along with a 3.4 percent decrease in total agricultural acreage. The number of agricultural workers also fell by 6 percent during

this five year period, while farmers 65 years or older grew to 54 percent. Young people prefer to move into the cities and work in less demanding jobs.

All of this indicates that Japan's dependence on imported foods is likely to grow in the future.

#### **4. Japanese consumers are early adopters of new products**

Japan has been on the cutting edge of developments in the food industry and is likely to remain there in the future. Japan's wealthy consumers have a great deal of interest in new niche products. According to "The Global Competition Report," published by the World Economic Forum, Japanese consumers are the quickest to adopt new products in the world.

Japanese consumers seek the world's highest quality food products and companies in Japan listen to these consumers when developing new products. Thus, it's very important for U.S. food companies and U.S. farmers to use Japan as a test market, to see if a product is really globally competitive. Japan provides a rigorous test, but is also one of the largest markets in terms of buying power. As the Japan External Trade Organization (JETRO) recently stated in one of its publications, "success in Japan is a litmus test for success in the rest of East Asia." American producers also frequently observe that learning to meet Japanese market requirements makes them stronger competitors in other export markets and at home.

#### **5. Asia-wide trends begin in Japan**

For U.S. companies, entry into the Japanese market is often the first step to expansion to the rest of Asia. The country is the largest investor in Asia and has contributed to the development of the region through direct investment. Likewise, Japan is the center for purchasing decisions for bulk ingredients used by numerous Japanese-owned food manufacturers throughout Asia. In addition, the number of visitors to Japan from other Asian countries has increased significantly in recent years. Thus, many food products and trends that gain popularity in Japan go on to become popular in the rest of Asia. For example, according to a JETRO survey in 2006 of overseas companies in Japan, one in five of these companies sees Japan as a base for business activities in Asia. Another example of the importance of Japan both as a market and as a gateway to Asia is FOODEX, the largest food and beverage show in Asia that takes place in Tokyo every March. The show attracts over 2,400 exhibitors from 70 countries and more than 90,000 professional visitors from Japan and abroad.

#### **6. Japan is one of the closest allies of the United States**

The United States and Japan have a very close economic, diplomatic, and military relationship. It is widely perceived that the United States and Japan have never been closer. This close relationship is demonstrated by surveys taken by the State Department that show over 80 percent of Japanese think that relations between the United States and Japan are in good shape.

The popularity of the United States is reflected in American food. Consumers in the country are strongly influenced by American food culture via the Japanese media. American foods such as hamburgers, pizza and other snacks are well liked by a cross-section of the population from children to senior citizens, and especially by young people in their teens and twenties. There is potential to build awareness and acceptance of many more U.S. food products (blueberries and bagels are recent examples).

## **7. Japan's society is experiencing major social changes**

Japanese born from 1947 to 1949 are the first baby boom generation in the country. Around 8 million babies were born during that time, with births 30 percent higher than the three years before and the three years after this period. The official mandatory retirement age in Japan is 60 years of age and therefore the first baby boomers are eligible to retire in 2007. These new retirees are generally wealthy, having benefited from the post war economic expansion, and will have a profound impact on Japanese society. The Japanese government estimates that the financial assets of the baby boom generation are around 130 trillion yen (\$1.13 trillion). Therefore, these first baby boomers will be the pillars for domestic consumption for food products for years to come.

Older consumers will be demanding a greater variety of health foods and functional foods, and niche products that target specific health issues will grow in popularity. This increased demand for health-oriented and functional foods, as well as organic foods, will create tremendous new opportunities for American exporters in the coming years. In addition, the aging Japanese population may have many effects on food consumption, and some of those effects will later be seen in other countries, where a similar demographic transition will occur a decade or so later.

## **8. Japanese food preferences are becoming more diverse**

Given the wide variety of foods in the United States, the internationalization of food in Japan has given the United States an important advantage in the Japanese food market. Until relatively recently, Japan had a very uniform food market, with rice, vegetables, fish, eggs, and soy products making up the traditional Japanese diet. As Japan became more affluent, with more Japanese traveling abroad, there has been a major trend toward food diversification, with consumption patterns changing. For example, the daily consumption of rice from 1970 to 2000 dropped by 45 percent while the consumption of meat products increased by 35 percent.

Western food trends are becoming popular in Japan. According to USDA's Economic Research Service, for instance, the Mediterranean diet popular in the late 1990s increased imports of wine, olive oil, cheese, and pasta to very high levels. While many of these products are introduced through restaurants, they frequently become part of the repertoire of home prepared dishes, propelled by the massive television and print media focus on food and cooking.

The United States has a growing Asian population and is becoming more in tune with Asian food tastes. So in addition to the internationalization of Japanese tastes, U.S. food suppliers are becoming more proficient in producing food products that suit both the traditional and emerging food tastes of the Japanese.

## **9. Japanese food shopping is changing dramatically**

The number of women working outside of the home as well as the number of single family households are increasing in Japan, with consumer ready food products becoming more and more popular. Convenience stores (CVS) are taking advantage of these trends to become the most rapidly growing sector in the Japanese food retail market. CVS stores continue to change and have a bigger impact on Japan's food market than in the past. Some stores are actually becoming small supermarkets. Convenience stores in Japan strive to meet the needs of customers in many ways while remaining affordable. Once again, Japan is the model for Asia. Innovations in the Japanese convenience store market are promptly transferred to the rest of Asia, including China. CVS stores and restaurants provide an ideal means for reaching the

growing middle class in these rapidly developing markets. They are also likely to be influential in the future in the United States and Europe.

The Internet may also have a profound impact on the Japanese food market. Many people in Japan have access to high speed Internet and Japanese are increasingly purchasing products through the Internet. The logistic side that supports this technology is already highly developed in Japan and provides excellent nationwide service. The Internet is of particular interest to producers of high-value and specialty products.

#### **10. An improving business climate**

Japan has the biggest concentration of entrepreneurial capital in Asia. The country also has efficient, state-of-the-art transportation and communications systems. Japan offers a unified market that can be reached through national media campaigns, one language, a relatively uniform culture, and a strong convertible national currency. The country has also established several laws to strengthen intellectual property rights.

Some of the impediments to doing business in Japan, such as high business costs and the complexity in business procedures, have also lessened over the last several years. Moreover, many U.S. exporters have found that once they get into the market, their partnership with Japanese companies is one of loyalty and commitment. Japan's business practices, contractual ideology, banking and financial stability make it a great match for many small to medium sized U.S. companies, and can provide a foothold for penetration into other Asian countries such as Taiwan and Korea.