



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 third largest market for U.S. consumer oriented foods. U.S. consumer ready exports to Japan in 2010 totaled \$5.1 billion, equal to Hong, China, and Korea combined. Total U.S. agricultural, fish and forestry exports to Japan amounted to \$13.2 billion, more than the value of U.S. agricultural exports to all EU countries. Looking at Japan imports, Japan is the largest net importer of food products in the world and the United States is the leading supplier of Japan's agricultural imports. The U.S. agricultural community looks at Japan as an important market. In 2006 there were 31 U.S. Agricultural Trade Associations active in Japan. In 2010, there were more than 50!

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.

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 third largest economy

Japan, with a population of 127 million, is the world's third largest economy. Japan's Gross Domestic Product (GDP) reached \$5.458 billion in 2010 (est), and has a stable and highly convertible currency. To give some perspective of the size of the Japanese economy, Japan's GDP is equal to the economies of Germany, Mexico, and South Korea combined. Japan's economy was beginning to pull out of its decade long slump and is showing signs of recovery. In 2010, for instance, Japan's GDP increased 3.9 percent. However, the short term effects of the March 11, 2011 earthquake and tsunami have temporarily slowed economic activity, but long term growth suggests 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's nominal per capita GDP of \$43,000 dwarfs China's per capita GDP of \$4,400 and India's per capita GDP of \$1265. 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.

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.

2. Food is an important priority in 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 calories 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.

3. Demand should remain strong for imported food products

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), total agricultural output, after reaching a peak of ¥11.7 trillion (\$146 billion) in 1984, decreased to ¥8.5 trillion (\$106 billion) in 2008 due to both production and price factors. In addition, the number of commercial farm households, particularly business farm households, has decreased significantly by 60% from 820,000 in 1990 to 350,000 in 2009. This decrease was mainly caused by the cessation of farming and the transition from business farming to semi-business farming. In addition, the number of farmers mainly engaged in farming decreased by 30% from 1990 to 2007 to 2.02 million, while the average age of the core persons mainly engaged in farming rose by eight years to 65 years of age.

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.

4. The U.S. is a critical part of Japan's food security

Japanese domestic production only provides for 40 percent of Japan's food needs. In the wake of the Great Northeast Earthquake and Tsunami, Japan is even more dependent on outside sources of food and agricultural 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.

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.

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 75,000 trade only visitors from Japan and abroad. 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.

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. In the wake of the Great Eastern Earthquake and Tsunami, the U.S. Forces Japan launched "Operation Tomodachi", an effort entailing twenty U.S. naval ships, 140 aircraft, and more than 19,000 sailors, marines, soldiers and airmen were involved in humanitarian assistance and disaster relief efforts. The operation only strengthened a close relationship. A survey taken by the State Department before Operation Tomodachi showed that 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 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. The ATO's job is to convince consumers that American food is more than hamburgers, hotdogs, and french fries. There is potential to build awareness and acceptance of many more U.S. food products (blueberries, vegetables, fruits, cheesecake, 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 were 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 (\$1.62 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 similar demographic transitions will occur.

8. Japanese food preferences are becoming more diverse and consumers are early adopters

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 consumption of rice per person per year decreased by half from 118.3 kg in fiscal 1962 to 59.0 kg in fiscal 2008 due to diversification of the diet.

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

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 is 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. A recent study reported that 25 percent of single women who live alone don't own a kitchen knife. That's an indication of how much CVS stores have changed Japan's food market.

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.

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. It has been reported that up to 30 percent of Japan's food sales are done 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. GANBARO NIPPON – “You can do it, Japan”

The Great Northeast Japan Earthquake and Tsunami was Japan's greatest disaster in over 100 years, but the resilience and fortitude of the Japanese people has been an inspiration to the world. Japan will recover greater and stronger than ever. Japan is already working to rebuild Northeast Japan. Temporary housing is being created quickly, roads repaired, and trains are running at full speed. It's important for traders to come here and see for themselves the spirit of Japan.

BONUS REASON:

11. Japan's business climate is easing

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.

To help U.S. exporters make their way in the Japanese market, we suggest the following sources:

USDA/Japan reports

Japan Exporter Guide Update –

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Exporter%20Guide_Tokyo%20ATO_Japan_12-21-2010.pdf

Japanese Retail Food Sector Report -

<http://www.fas.usda.gov/gainfiles/200811/146306425.pdf>

Japanese Food Processing Sector Report –

http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Food%20Processing%20Ingredients_Tokyo%20ATO_Japan_11-19-2010.pdf

Japan HRI Food Service Sector Report -

<http://www.fas.usda.gov/gainfiles/200903/146327420.pdf>

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USDA/Japan Websites

USDA/Japan: <http://www.usdajapan.org/>

Myfood: <http://www.myfood.jp/>

US ATO Business: <http://www.us-ato.jp/>

ATO Trade Shows (*Endorsed by USDA)

*FOODEX – March 6-9, 2012 - <http://www.imexmgt.com/show/54/foodex-japan-2012/#>

*Health Ingredients Japan (HI)- October 17-19, 2011 - <http://www.hijapan.info/en/>

*Int'l Food Ingredients and Additives - May 23-25, 2012 - <http://www.ifiajapan.com/2011/en/index.html>

* NEW!! Supermarket Trade Show - February 1-3, 2012 - www.smts.jp/english/

NEW !! - Food Messe Niigata- November 17-19, 2011 - <http://foodmesse.jp/>